

Catalytic Fund Committee

Meeting of September 19, 2007

Minutes

1. A meeting of the Catalytic Fund (CF) Committee was held in Washington, DC, on September 19, 2007. It was chaired by Joy Phumaphi, Vice President, Human Development Network, World Bank. Members of the CF Committee in attendance were: Harold Vandermeulen (Belgium), Nora Fyles (Canada); Kristian Edinger (Denmark); Felicity Townsend, Jose Valente, Marja Karjalainen, Renata Russell (European Commission); Alain Dhersigny (France); Bernhard Kühn, Temby Caprio (Germany); Eiji Kosuka, Yusuke Kanazawa, Takeshi Osuga, Naoki Hikota (Japan); Ronald Siebes, Rebekka van Roemburg (Netherlands); Olav Seim, Linken Berryman (Norway); Roman Aleksandrov (Russia); Rafael Garanzo (Spain); Kaviraj Appadu (Sweden); Andrew Rogerson, Phil Rose (UK); Cream Wright (UNICEF); Nick Burnett, Mark Richmond, Ana-Luiza Machado, Khawla Shaheen (UNESCO); Robin Horn, Manorama Gotur, Franke Hendrik Toomstra, Jane Kirby Zaki, Andrea Stumpf, Atsuko Okubo, Galina J. Mikhlin-Oliver, Atou Seck, Stephen Lintner, T. K. Balakrishnan, Nancy Pinto, Astrid Helgeland-Lawson, Hiba Tahboub (World Bank).
2. Participants from the EFA-FTI Secretariat were Desmond Bermingham, Robert Prouty, Catherine Russell, Kouassi Soman, Palak Mehra, Luc-Charles Gacougnolle, Chantal Rigaud, Koli Banik, Sean Tate and Michelle Mesen.
3. Observers included: Mark Waltham, Melissa Kamp (Australia); James Oppong Afrani, Kwame Agyapong Apiadu-Agyen (Ghana); Lucia Fry (GCE – UK); Abdou Mamane Lokoko, Amina Maiga H. Chaibou Abou (GCE – Niger).
4. A binder containing background papers circulated to members of the Committee before the meeting was made available to participants. The main background documents were: (i) an update on strengthening country-level processes; (ii) a note describing the World Bank's roles and responsibilities as trustee of the CF; (iii) a draft CF Program Document; (iv) projected CF liquidity statement; (v) a technical note on strengthening the CF allocation mechanism; (vi) a technical note on CF and middle income countries; and (vii) the Lesotho case study.
5. The agenda items were:
 - Introduction and objectives of the meeting
 - Status update since the last CF Committee in May 2007
 - Strengthening Country Level Processes
 - Strengthening CF Operations
 - Options for Improving the CF Allocation Mechanism
 - Catalytic Fund and Middle-Income Countries
 - Any other business and Next Steps

A. Introduction, objectives and status update

6. As a brief introduction, the Chair highlighted the innovative nature of the FTI Partnership and noted that in order to do things differently, the thinking would have to be different. This would have implications for the management and administrative arrangements for the FTI Secretariat to ensure that it was able to fulfill its obligations to the Partnership. In that regard, she indicated that guidance was being sought from the two co-chairs.

7. Next, Ronald Siebes (the Netherlands, FTI Co-Chair) outlined the main objectives of the meeting. At the last CF Committee meeting in Bonn (May 2007), a decision was made to hold this special meeting in Washington DC on ways to strengthen quality assurance in the FTI Partnership and in particular in CF Program preparation and joint reviews. This was meant to be a special meeting in which no allocation decisions would be made. The objective was to agree on key principles for strengthening both the country level and the CF processes that are closely linked together. In that context, the meeting built on discussions of the Steering Committee held the previous day. Given the importance of these discussions for the FTI partnership, the CF Committee invited members of the broader FTI Partnership to attend the meeting.

8. The Secretariat provided a brief summary of both the status of the trust fund and on processing progress of CF allocations made to six new recipients in Bonn. Financial projections were also provided on the financial needs for the countries that are expected to request funding at the next Committee meeting in December 2007. In particular, the Committee was warned about the deteriorating financial picture of the CF in the next twelve months. For instance, unless additional pledges are made, the projected shortfalls will amount to more than US\$400 million by the spring 2008 meeting.

9. During the discussion that followed, some CF Committee members raised a concern about the absorptive capacity of some of the countries that had been allocated funds in Bonn. The Secretariat reported that subsequent analysis indicated that several countries may lack the capacity to immediately utilize the funding already allocated. It was reiterated that the CF Committee relies on the local donor groups' assessment of absorptive and implementation capacity in making its allocation decisions. At the same time, participants recalled the studies presented in Bonn indicating that in some cases, local donor groups may not fully follow the FTI Appraisal Guidelines. Committee members stressed the importance of a rigorous country-level process featuring full participation and broad consultation. The Secretariat explained that the Committee has the flexibility to reduce previous allocations that are not yet contractually committed if the local donor group and government believe that the original allocation could not be used in a timely manner.

B. Report on Strengthening Country Level Processes (SCLP)

10. The FTI task team on SCLP made a brief presentation on its progress to date. Some of the key issues identified included: (i) problems with some endorsed national sector plans including insufficient coverage of key EFA-FTI areas, weak linkages with the poverty reduction

strategy and the macro-economic framework; and insufficient attention to financial and accountability issues; (ii) FTI appraisal reports lacking thoroughness and depth with inadequate use of the Appraisal Guidelines, suggesting uneven expertise and capacity of local donor groups across countries; (iii) CF Operations needing stronger quality assurance mechanisms; and (iv) lack of a systematic approach to Joint Annual Reviews (JARs).

11. Some of the actions to improve the country level processes suggested by the SCLP are as follows: partners would (i) seek to apply the Paris principles of country ownership, harmonization, alignment, results, and accountability, (ii) accept joint responsibility for quality; (iii) agree on division of labor while working together; and (iv) communicate clearly about FTI compact and manage expectations to avoid surprises and disappointments.

12. The SCLP task team reiterated the importance of providing more active support at the country level and developing capacity to use the Appraisal Guidelines. Endorsement should signal the need, and provide the basis, for common action at country level. The endorsement discussions should be linked to implementation, monitoring and evaluation including potential CF operations. Strengthening Joint Annual Reviews and sharing of best practices were also identified as important issues to ensure successful implementation.

13. Key recommendations of the SCLP task team are the following: (i) focus on urgent priorities; (ii) mandate Secretariat to support and review the use of Appraisal Guidelines; (iii) agree on requirements for CF funding; (iv) clarify the CF application process; (v) seek agreement on division of labor among donors and multilateral agencies; (vi) support sector planning that links with macro economic and fiduciary assessments to be done upstream (such as poverty reduction, procurement, financial management), in addition to overall implementation capacity, monitoring and evaluation; (vii) implement a substantive communications strategy with operational tools and guidelines; and (viii) commission further work on key FTI documents such as the Indicative Framework.

14. Suggested further work to be done by the SCLP include (i) strengthen quality assurance for Joint Annual Reviews, monitoring and evaluation and reporting; (ii) harmonize further and align CF processes; (iii) streamline the use of capacity development tools and guidelines; (iv) analyze needs and prepare workshops for up-streaming capacity development and support; (v) improve Appraisal Guidelines; (vi) consider revision of the Indicative Framework; (vii) and make proposals for strengthening donors' internal incentives and resource procedures for added FTI Quality Assurance with regard to financial resources and Human Development policies.

15. Recommendations made by the SCLP were discussed fully. The Committee welcomed the work of the task team and broadly endorsed their proposed next steps. However, it was noted that a special effort should continue to be made for an expeditious implementation of all grant allocations made in Bonn. These beneficiary countries should proceed with the piloting of the fiduciary work, to the extent possible, without undue delay in the signing of grant agreements. Furthermore, the Committee advised that the countries expected to apply for CF funding in December 2007 should be allowed to continue with existing procedures, i.e. funding requests to proceed; with any additional fiduciary to be done after allocations have been made. This would help avoid undue delay in approving additional funding for some countries that had been

endorsed a few years back (for instance Ethiopia, Guinea and Senegal). Looking forward it is anticipated that the strengthened processes in terms of fiduciary work upstream and before endorsement would be in place by the time of the CF Committee meeting in spring 2008.

C. Strengthening of Catalytic Fund Operations

16. In his brief introduction, Robin Horn (Sector Manager, HDNED) introduced the World Bank team working on strengthening CF operations. They included colleagues from the Legal Department, Global Programs and Partnerships, Operations Policies and Core Services, Financial Management, Safeguards, the Human Development Network and the Task Team Leader from Mali who joined via video-conference. A special emphasis was placed on key messages from the FTI Steering Committee meeting held the previous day. It was reiterated that: (i) FTI is a unique ‘break the mold’ partnership; (ii) the Bank is one of many partners in FTI and also serves as Trustee of the Catalytic Fund and the Education Program Development Fund; and (iii) a significant challenge for the Bank is to put in place stronger incentives to its staff to support new ways of working effectively in partnerships, at the country level. The Bank team emphasized that one of the Bank's goals is to contribute to FTI's success, helping to increase the effectiveness of external assistance to countries, including the Catalytic Fund.

17. As an example of the challenges in harmonizing approaches, the Lesotho case study was presented and discussed. CF donors agreed that the World Bank should apply its fiduciary and safeguard assessment tools and policies in CF operations. Nonetheless, the Committee recognized that challenges remain where other partners have already agreed on different implementation standards.

18. In the Lesotho case study, which was prepared by the World Bank Task Team Leader and the Coordinating Agency (Irish Aid), the World Bank country team had indicated that it was unable to join the other donors in the pooled funding arrangements due to concerns about procurement and financial management that had arisen in a separate IDA operation. The main issues that emerged from the case study were: (i) the selection of work to be financed under the grant was determined by a series of operational constraints rather than country priorities; (ii) projects involving time consuming contracts are difficult to manage within a one-year funding cycle; and delays get introduced when prior review of all contracts are required; and (iii) the role of the Coordinating Agency was unclear. Questions arising from this case study are: (i) how can the FTI CF Committee ensure that the most harmonized instrument is used? (ii) how can procurement be most effectively planned? and (iii) should CF operational parameters, rather than country sector priorities, influence design and implementation? The Committee agreed to consider the lessons learned from the case study in its consideration of measures to strengthen CF operations.

19. **World Bank Presentations on strengthening CF Operations:** The focus of the presentations was on clarifying: (i) FTI Partnership's relationship to and role in the CF; (ii) World Bank's roles, responsibilities, and competencies in supporting the FTI Partnership; (iii) World Bank's responsibilities as Trustee and Supervising Entity of the Catalytic Fund; and (iv)

World Bank’s fulfillment of these roles while adhering to the underlying FTI principles in the spirit of “one among equals” in the Partnership. Some of the important issues discussed were:

- **Partnership and TF Governance:** The World Bank Legal Department representative explained that the FTI had two principal decision-making bodies: the Steering Committee and the Trust Fund Committees. The CF and the Education Program Development Fund (EPDF) Committees have specific purview over the CF and EPDF and are responsible for making financial allocation decisions for their respective trust funds. The Trust Fund Administrative Agreements do not currently refer to the FTI partnership documents (Framework or draft Governance Annex) or to the Steering Committee. However the draft FTI Governance Annex does make reference to the FTI trust funds thereby giving the Steering Committee a purview over the FTI trust funds. These parallel structures mean that trustees and CF and EPDF donors may be faced with potentially conflicting documents. The questions that emerge out of this study are: Should the trust fund committees continue to have only a reporting link to the Steering Committee on behalf of the whole Partnership? How can we ensure consistency between the FTI governance document and the Trust Fund Administrative Agreements?
- **Proposed changes to the AA of the Catalytic Fund:** A draft of the Administrative Agreement (AA) of the CF was presented, which reflected the newly proposed understanding that it (the AA) would define the governance of the Catalytic Fund and the roles and responsibilities of the parties—including the Bank as Trustee—while maintaining flexibility to accommodate evolution of the CF operations. The main changes anticipated were in the following areas: (i) role of the Catalytic Fund Committee to approve a Direct Recipient, a Supervising Entity (SE), and duration of funding as part of the allocation process; (ii) semiannual (rather than annual) allocations; (iii) process for selecting grant implementation modality; (iv) consultation with the Local Donor Group and the Eligible Country, as applicable, during the processes of submission and review of proposals; and (v) processes and arrangements applied when entities other than the World Bank are acting as Supervising Entity.
- **Trustee role and responsibility of the World Bank:** It was clarified that the World Bank is responsible for financial administration, as well as for program administration where it is the Supervising Entity. As the Trustee, the World Bank is responsible for those functions specifically set out in the AA, including all aspects of upstream financial administration and management including calling, holding and managing funds from donors, disbursing or transferring funds and providing regular financial reports through the Secretariat to the donors. When the World Bank acts as the SE, the World Bank is also responsible for program administration. Accordingly, it seeks to ensure that these funds are fully accounted for at the country level and used only for the purposes specified in the Grant Agreement. All CF funds for which the Bank is SE are administered under applicable Bank policies and procedures or other policies and procedures acceptable to the Bank. Funds disbursed to other Supervising Entities are under their respective responsibility and policies. Delivering the World Bank’s Trustee role involves a number of World Bank Units, and the World Bank restated its commitment to deliver fully on its obligations and to support the objectives of the Partnership.

- **Balancing quality and efficiency to maximize results:** The main message was that, in the Bank's present context of institutional reform to better respond to clients' needs together with partners, including to strengthen results and to build capacity particularly in fiduciary areas, the Catalytic Fund is an example of cutting edge collaboration and harmonization between partners. It builds on the key principles of the Paris Declaration on Aid Effectiveness. The World Bank's experience and recent policy changes (i.e. Rapid Response Policy, Development Policy Lending and Grant; and Additional Financing) are consistent with the objectives of further mainstreaming and strengthening CF Operations.
- **Catalytic Fund Program Document – Template and Processing:** To strengthen quality assurance, the Bank has worked since the Bonn meetings to develop a draft template for the CF Program document and associated processing guidelines to ensure systematization of documentation and processes in relation to CF funding—to respond to the challenges raised by the Secretariat's and the Bank's quality assurance reviews discussed in Bonn. A brief presentation was made on the new CF Program Document. A two-part document was proposed: Part I owned and prepared by countries and containing program description, key objectives, and implementation arrangements; and Part II prepared by members of the local donor group including the World Bank, constituting the appraisal of the program with respect to linkages of the CF program to the sector plan; the choice of modality; risks; readiness for implementation; monitoring arrangements and indicators; and assurances regarding financial management, procurement, and safeguards.
- **Catalytic Fund Program Document – Country experience:** The Mali Country team presented its experience with piloting the proposed Program Document template. It made the following suggestions for improvement: (i) use harmonized and participatory procedures wherever possible; (ii) identify CF program objectives that are the same as those in the sector plan and use the agreed indicators to avoid duplication; and (iii) drop the request to have governments prepare and resubmit Part I because this should have already been done in the preparation of the Education Sector Plan. Governments should be asked only to adjust previous documents to take into account more recent information, such as approved allocations and to specify an implementation plan at least for the first year of CF funding. Depending upon the grant modality, a list of expenditures may be required to finalize the program document. Capacity and system assessments may be needed from financial management and procurement specialists if the required assessments had not been done previously. The overall objective is to avoid parallel processes and to maximize efficiency by not repeating what has already been done.
- **Environmental and social safeguards.** All World Bank-managed funds are subject to the Bank's Environmental and Social Safeguard Policies. Teams involved in these are also fully engaged on issues related to the Paris Declaration. In most country cases, analysis of these issues would build on previous work by the World Bank or other FTI partners and should be done during the appraisal of the Education Sector Plan.
- **Financial Management Assessments and Capacity Enhancement:** The focus of the Financial Management team is to ensure the integrity of financial management

arrangements and improve the capacity of country systems with a more substantive analysis of risks—moving the work upstream as much as possible, to the Plan stage (rather than the CF program stage) where benefits would accrue to all sector activities beyond the CF program alone. Trust and consensus should be built around donor coordination and harmonization so as to avoid overlapping and duplicative analytic work, while providing consistent advice, procedures and reporting requirements.

20. **Strengthening joint country-level processes and CF Operations.** The Committee discussed the recommendations made by the World Bank team as well as those made by the SCLP task team. The main conclusions from the Committee were:

- An important agreement reached was the merging and consolidation of the Country Level Processes with those of CF Operations into a single/strengthened FTI Process Chart.
- Specifically, the World Bank team and the SCLP task team will work together to prepare a single process chart to describe FTI processes at the Country Level from initial expression of interest, through appraisal and endorsement, to implementation and joint reviews. The chart should include the proposed additional steps for CF operations where appropriate. Each organization, including the Bank, would have its own internal processes in a separate column to ensure wherever possible that all donors and multilateral agencies were harmonizing their procedures around the national education sector plan.
- Safeguard reviews and assessments of financial management and procurement systems should be done upstream, i.e. pre-endorsement, to the extent possible. Concerns with regard to financial management and establishing financing modality should be addressed during the endorsement discussions in consultation with the partner country and local donor group.
- On governance, the Committee felt that the reporting link to the Steering Committee should be retained to ensure communication between the Trust Funds and the FTI Partnership overall. The Committee agreed, however, with the Bank's proposal that the level of detail on trust fund operations in the Partnership governance document should be reduced to avoid redundancy with the CF governance arrangements specified in the CF Administrative Agreement. The Trust Fund Committees' relationship to the whole Partnership through the Steering Committee should be included in the TF Administrative Agreement.
- Lessons learned from the Lesotho country case study: The World Bank Procurement Unit responded that, as per the service standards, the response time on procurement matters is between 5-15 days depending on the size and nature of the contract. The team will examine the country case more closely with the objective of drawing relevant lessons.
- The Committee emphasized that joint decision-making on FTI operations at the country level will be essential to prevent multiple processes. The World Bank task team should collaborate with the local donor groups and provide assistance on financial management and procurement issues during the CF program appraisal and education sector plan endorsement process wherever possible.

- A question was raised on the Administrative Agreement with regard to a possible reference to a replenishment mechanism for the CF. The Trustee confirmed that they would insert language in the Administrative Agreement that would allow for replenishment discussions, if this was acceptable to CF donors.

D. Presentation on options for Allocation Mechanism

21. A presentation was made on a new way to improve the Resource Allocation Framework for the CF. The mandate from the May 2007 Committee meeting was to explore ways to take account of country performance as well as need in the allocation recommendation which the Secretariat presented to the CF Committee. The proposed formula drew on the experience of IDA over the past 30 years and took into account the particular requirements of the FTI. The proposed allocation mechanism combines an EFA-FTI Needs Index (ENI) and an EFA-FTI Performance Index (EPI). The presentation emphasized that the allocation mechanism would produce a recommendation that was based on transparent criteria. However, the CF Committee will still need to take account of other country-specific parameters and make their final judgment in line with the country-based approach of FTI.

22. Proposed next steps: The Committee broadly welcomed the progress on developing an allocation mechanism and considered the effort a promising “work in progress.” It was agreed that allocations based on the application of this proposed mechanism will be presented for the next CF Committee meeting in December 2007 in Dakar in order to inform the Committee’s decision-making discussion. The CF Committee will take up the topic of an allocation formula again in Dakar.

E. Catalytic Fund and Middle Income countries (MICs)

23. The Secretariat presented a paper on Government’s financial commitment to education for all 32 FTI-endorsed Plans and, as a comparison, a set of about 80 IDA-Eligible countries. The objective of such paper was to seek guidance from the CF Committee regarding CF eligibility for several lower-middle income countries which have joined FTI. The number of such countries joining FTI is expected to increase in the coming years. The Secretariat requested guidance from the CF Committee on a clear communication for such countries regarding their eligibility for CF funding.

24. At the end of the discussions, it was agreed that: (i) the focus and eligibility for the CF funding should be the IDA-only low-income countries¹. However, FTI should continue its engagement in the lower middle income countries and efforts should be made to explain FTI value added for these countries even apart from the CF, which is small in relation to the funding of the whole sector. This message should be communicated as clearly as possible to any low-middle income country that is considering an application for CF funding. The objective is to manage CF funding expectations from the start and to see how best to support a country, through whichever channel that is appropriate. Finally, the challenge remains in terms of mobilizing

¹ The Secretariat will contact the CF Committee members to clarify the precise categories (Level I, II and / or III) of IDA eligible countries to be used for CF allocations.

needed support for implementation for all FTI-endorsed countries beyond possible technical assistance from the Education Program Development Fund. Taking into account the discussions at the meeting as well as any other comments, which may be received by the donors on the draft circulated, the Trustee will examine if any further changes would be necessary in the Administrative Agreement being finalized for immediate signature by all CF donors.

F. Any other business and next steps

25. **Clarification on criteria for membership in CF Committee:** The CF Committee was asked to respond to a proposal that had been received from several FTI partners to revisit the criteria for membership in the CF Committee. As it stands currently a one-time contribution of a minimum of US\$1 million to the CF fund allows permanent membership in the CF Committee. The other clarification required was whether the CF Committee or the entire FTI Partnership should decide on changing the membership criteria. The Committee decided to keep the current situation of a one-time contribution of US\$1 million for permanent seat until 2016; although this should be subject to periodic review. It was proposed that this issue along with the long term financing needs for the CF be addressed as part of the evaluation planned for 2008. It was also agreed that it is the CF Committee's decision (and not that of the FTI Partnership) to change its membership criteria as necessary. A decision was taken to remove this clause on membership of CF Committee from the FTI Governance Annex.

26. **New Pledges:** Denmark confirmed its pledges to the Catalytic fund of US\$15 million for 2008 and US\$ 25 million for 2009.

27. **Next CF Committee meeting:** It was agreed that the next CF Committee meeting will take place in December 2007 in Dakar, Senegal.

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