

FTI Catalytic Fund Strategy Committee

Meeting of May 23, 2007

Minutes

1. A meeting of the Catalytic Fund (CF) Strategy Committee (SC) was convened in Bonn, Germany, on May 23, 2007. It was chaired by Joy Phumaphi, Vice President, Human Development Network, World Bank. Members of the CF SC in attendance were: Kris Panneels, Philippe Gerard (Belgium); Nora Fyles, Tanya McGregor (Canada); Kristian Edinger (Denmark); Renata Russell, Marja Karjalainen, Anton Jensen (European Commission); Alain Dhersigny, Jean-Claudes Balmes (France); Maire Matthews (Ireland); Keiko Mizuno, Noriko Matsuda (Japan); Bernhard Kühn, Susanne Schroth, Temby Caprio, Wolfgang Bichmann (Germany); Ronald Siebes, Rebekka van Roenburg (Netherlands); Olav Seim, Vegard Pedersen (Norway); Valeria Sakharova, Roman Alexandrov (Russia); Mari Cruz del Saso (Spain); Kaviraj Appadu (Sweden); Peter Troy, Richard Arden, Halima Begum (UK); Khawla Shaheen, Mark Bray (UNESCO); Cream Wright, Dina Craissati (UNICEF); Ruth Kagia, Margret Thalwitz, Robin Horn, Manorama Gotur, Sophie Smyth, Eva Jarawan, Christopher Thomas, Jee-Peng Tan, Regina Bendokat, Peter Darvas, Paul M. Cadario, Paul Isenman, Cherif Diallo, William Experton, Oni-Lusk-Stover (World Bank).

2. Lead donor Representatives presenting the nine country cases were: Carrie Auer, Mirlinda Bushati (UNICEF, Albania); Rikke Damm (Denmark Embassy, Benin); Beng Simeth (World Bank Office, Cambodia); Rozanne Chorlton (UNICEF, Liberia); Cherif Diallo (World Bank; Mauritania); William Experton (World Bank HQ, Mali and Mauritania); Adrian Ruthenberg (Asian Development Bank, Mongolia); Jeannette Vogelaar (The Netherlands Embassy, Mozambique); and Geert Cappelaere (UNICEF, Sierra Leone).

3. Participants from the EFA-FTI Secretariat were: Desmond Bermingham, Robert Prouty, Kouassi Soman, Luc Gacougnolle, Angela Bekkers, Palak Mehra, Chantal Rigaud and Michelle Mesen.

4. Three background papers titled: (i) Expanded Catalytic Fund Status Report; May 2007; (ii) Expanded Catalytic Fund Concept Note, April 2007; and (iii) FTI Expanded Catalytic Fund Summary Documentation (including a Country Information Form for each country; and a Summary Decision Paper) dated May 23, 2007 had been circulated to members of the CF SC before the meeting.

5. In addition to a few introductory remarks by the Chair, the agenda items were:

- Status update and report on progress since the last Strategy Committee meeting in November 2006 in Cairo (Egypt);
- Discussion on CF allocation decisions for nine FTI-endorsed and CF-eligible countries (Albania, Benin, Cambodia, Liberia, Mali, Mauritania, Mongolia, Mozambique and Sierra Leone); and
- Outstanding Issues: (i) Crowding in/out issues; (ii) Links to IDA; and (iii) Strengthening the allocation mechanism

A. Introduction, status update and report on progress

6. In her brief introduction, the Chair highlighted the importance of the Catalytic Fund (CF) as a means to provide much needed funding for education. She also reiterated the need to focus on: (i) achieving concrete results as we scale up implementation; and (ii) strengthening quality assurance mechanisms with special attention to country-level processes which are the key features of the EFT-FTI Partnership.

7. Next, Desmond Bermingham (Head of the FTI Secretariat) presented a summary of CF fund financial status as well as implementation progress based on the May 2007 CF Status Report. A few highlights of his presentation are as follows:

- Since its inception, the ECF has received a cumulative amount of US\$571 million from donors. Out of the amount received, US\$534 million has been allocated to the 18 FTI-endorsed countries that are ECF-eligible.
- Grant agreements have been signed for US\$286 million, of which US\$158.4 million has been disbursed. The remaining balance will be disbursed over the next 12-18 months. An additional US\$ 186 million worth of Grant Agreements will be signed before March 2008, bringing total planned disbursements by that date to US\$ 401 million.
- With its emphasis on aid harmonization and the use of government systems to build capacity, FTI complements both government and donor funding to deliver results; a few examples were provided in Annex 2 of the background document.
- Overall, donors have pledged a total of US\$1.2 billion; of which US\$637 million represent financial pledges for the period 2007-09. Looking ahead, demand on the CF is likely to increase as more eligible countries join over the period 2007-08 with higher financial needs on average (see Annex 5 of the Status Report for country endorsement schedule) and longer term grant agreements. In response, donors will need to increase their predictable commitment; especially beyond 2009.

8. During the brief discussions that followed, Spain confirmed its financial pledge of 10 million euros for the calendar year 2007. Furthermore, the naming of the revised Catalytic Fund as “Expanded Catalytic Fund” was debated. At the end, it was agreed that the word “Expanded” should be dropped. Henceforth, this FTI TF funding instrument at the global level will be simple called the “Catalytic Fund.”

9. Furthermore, members of the Committee expressed thanks and appreciation for the quality and timeliness of the background documents received two weeks before the meeting. Donors requested that reporting on progress be done for all countries and with a system-wide rather than a specific CF focus. They also appreciated the opportunity (for the first time) to discuss country cases directly with lead donor representatives. Finally, they reiterated their wish to ensure that CF funding remains the last resort; and additional to those provided through regular bilateral and multilateral channels. Such approach would also ensure that the CF funding crowds in these predictable and longer-term funding at the country level.

10. The representative of The Netherlands, which provides well over half of all resources of the CF and almost all of the pledges beyond 2007, sounded the alarm bell regarding the low level of donor pledges for that period. The Netherlands continues to be committed to the FTI but he stressed that there are competing demands for resources, also in The Netherlands. Serious

questions were being asked by senior management prior to approval of the contributions for 2008 (and beyond) about the extent to which other donors are preparing to contribute to the Fund. He called on all donors to increase their future financial support so as to ensure that the CF remains viable.

B. Discussion and summary of country allocation decisions. Country allocation decisions were made by the CF SC for a total amount of US\$265.7 million for seven countries (of which 6 new beneficiaries). These allocations covered either 2 or 3 years based on country-specific needs and circumstances. This brought the cumulative CF allocations to \$800 million for 24 countries to date. A summary of the presentation, discussion and amount allocated by country is provided below.

11. **Albania.** UNICEF (Lead Donor in Albania) made a presentation on the progress and results achieved over the past few years; which the CF Strategy Committee welcomed warmly. Nonetheless and after debating at length, the Committee did not approve the request for funding from the Catalytic Fund. This decision reflected the Committee's concern in two areas: (i) Albania's share of budgetary resources devoted to the Education Sector is low particularly when compared to that observed in other countries requesting FTI Catalytic Fund support; and (ii) the donors felt that CF funding would not be "catalytic" in the sense that Albania could meet its education funding needs identified over the next three years by raising slightly its domestic contribution to the sector.

12. **Benin.** Denmark (Lead Donor in Benin) made a presentation on the progress and results achieved over the past few years. The Strategy Committee commended the country for the excellent coordination among the local donor group and the government in a difficult context. They asked whether a CF allocation for 2007 could be absorbed considering that the 2007 budget was already approved. The lead donor and World Bank TTL responded that if granted additional resources, the country will most likely find ways to use them fast, including for example for hiring additional teachers. They added that the use of national systems for procurement and reporting in Benin helped to improve the national capacity and strengthen ownership, and that additional resources for education could be mobilized locally as the needs are high. The CF Strategy Committee approved an allocation of US\$76.1 million to Benin for the three-year period 2007-09.

13. **Cambodia.** On behalf of UNESCO (Lead Donor in Cambodia) the World Bank made a presentation on the progress and results achieved over the past few years; which the CF Strategy Committee welcomed warmly. The Strategy Committee asked clarification on the external support to education and questioned which funding modality would be used if CF resources were granted. The World Bank responded that the tables presented in the CF report did not include multilateral support from the ADB, the EC and the World Bank. The preferred funding modality would need to be further discussed in country, but the capacity of the government and its ownership of the process was clear. The CF Strategy Committee approved an allocation of US\$57.4 million to Cambodia for the three-year period 2007-09.

14. **Liberia.** UNICEF (Lead Donor in Liberia) made a presentation on the progress and results achieved over the past year. In addition to these concrete results, the CF Strategy Committee warmly welcomed the progress made in preparing the Primary Education Recovery Program (LPERP); and the next steps the Government is taking to prepare the full Education Sector Plan for implementation.

15. **Alternative sources of funding for Liberia.** The Committee welcomed the offer by the Netherlands and UNICEF to try to identify alternative sources of funding through the UNICEF-Netherlands education fund for education in emergencies, post-crisis and transition countries. Donors asked the FTI Secretariat to work with the Lead Donor and the Netherlands to try to mobilize these resources at the earliest opportunity. Note: Agreement on this was reached a few days after the meeting.

16. **Mali.** On behalf of France (Lead Donor in Mali) the World Bank made a presentation on the progress and results achieved over the past few years. The Strategy Committee asked what the impact of a CF grant to Mali would be, considering that the country did not seem to face “exceptional limitations” in funding for the education sector thanks to the presence of many donors. The World Bank responded that a CF grant would have a direct impact on access to school, as it would allow hiring more contractual teachers and building new schools. The Strategy Committee also asked which funding modality would be used in Mali, and how resources for primary education could be protected if general budget support was used. The World Bank said that the final modality would still need to be agreed at the country level, as donors are using various modalities currently. The World Bank also assured that the share of primary education in the budget would continue growing but cautioned against imposing a fast pace to the country which could lead to student unrest. The CF Strategy Committee approved an allocation to Mali for US\$8.7 million for the two-year period 2007-08.

17. **Mauritania.** The World Bank (Lead Donor in Mauritania) made a presentation on the progress and results achieved over the past few years. As the first country that has gone through a full first cycle of Catalytic Fund grants, the Strategy Committee commended the country team for its success in implementing the past CF allocations. The country could serve as a best practice model for other CF recipients. The Strategy Committee asked an explanation on the current funding modality, which is a sector budget support. For future CF funding, the local donors have agreed to set up a pooled fund mechanism in 2008 for which an MOU will be signed. The CF Strategy Committee approved an allocation to Mauritania for US\$14.0 million for the two-year period 2007-08.

18. **Mongolia.** The Asian Development Bank (Co-Lead Donor in Mongolia) made a presentation on the progress and results achieved over the past few years. The Strategy Committee asked the reason for the apparent decrease in external support in 2007-2008, as well as clarification on the financing gap and the way the grant would be implemented. The lead agency responded that the external support peaked in 2007, but that the figures for other years were not yet known. External funding was expected to increase. The funding gap in the country was based on the master plan and assessed capacity of the PIU, which was an integral part of the ministry. The capacity of the ministry needed strengthening and there were capacity building programs under way. The CF Strategy Committee approved an allocation to Mongolia for US\$16.6 million as follows: (a) US\$4.3 million supplemental for 2008; and (b) US\$12.3 million for 2009.

19. **Mozambique.** The Netherlands (Lead Donor in Mozambique) made a presentation on the progress and results achieved over the past few years. The Strategy Committee commended the country for a comprehensive process. Questions on the absorptive capacity from the pooled fund and the quality aspects of the sector plan were raised. The Strategy Committee also asked how the large number of donors in Mozambique could be used to rationalize the complementarity of their programs. The lead donor explained that the budget situation was very complex and that more discipline in donor disbursements throughout the year was needed rather than bunching in the last trimester. There were important needs and implementation capacity could be

strengthened. An MOU had been signed which would help resolve some of these issues. The CF Strategy Committee approved an allocation to Mozambique for US\$79 million for the two-year period 2008-09.

20. **Sierra Leone.** UNICEF (Lead Donor in Sierra Leone) made a presentation on the progress and results achieved over the past few years. The Strategy Committee was pleased at the quality of the sector plan considering the difficult country context. The inclusion of HIV/AIDS and gender issues was welcomed, even though more emphasis on these will be needed. The question on preferred financial modality for a CF grant will need further discussion at the country level. If sector budget support seems to be the preferred modality, including in terms of building local capacity, some weaknesses in the government systems will require cautious monitoring. The CF Strategy Committee approved an allocation to Sierra Leone for US\$13.9 million for the three-year period 2007-09.

C. Other business and next steps

21. Regarding the outstanding issues mentioned in the agenda, the following points were raised at the end of the CF Strategy Committee meeting for further follow up:

- a. *Need for quality assurance and strengthening the country-level process:* FTI should pursue discussions with the objectives of conducting rigorous up front assessment (such as required by IDA) for all countries during the endorsement process; while keeping the flexibility and country leadership of FTI processes.
- b. *Capacity building:* Issues of capacity building for EFA-FTI being handled by the Task Team led by Germany are important; these need to be incorporated into FTI Processes.
- c. *Financing gaps:* Estimating what is a credible financing gap for each country remains a challenge to be addressed. In that regard, the design of a clear and standard methodological approach would be helpful. It was also agreed that a revised allocation mechanism would be presented at the next Strategy Committee meeting.
- d. *Experience on presentation by Lead donors:* This was a welcome change and there is a need to share lessons and good practices across countries. The Chair used the opportunity to thank all lead donor representatives wholeheartedly for their excellent contribution.
- e. *UNESCO and UNICEF as Technical Advisers to the CF Strategy Committee:* Given the expertise and operational knowledge in these two agencies, it was proposed that they should be invited as technical advisers to CF Strategy Committee meetings. This was approved.
- f. *Need to improve communication with countries ahead of future meetings:* This was particularly important if donors had significant concerns about the quality of plans which could result in allocation not being made at the meeting.

Cleared with and cc: Joy Phumaphi, Chair; and CF Strategy Committee Members.