

FTI Catalytic Fund Strategy Committee

Minutes of the Meeting of November 12, 2006

1. A meeting of the Catalytic Fund (CF) Strategy Committee (SC) was convened in Cairo, Egypt, on November 12, 2006. It was chaired by Nicholas Krafft, Acting Vice President, Human Development Network, World Bank. Members of the CF SC in attendance were: Nadine Dusepulchre (Belgium); Nora Fyles (Canada); Renata Russell, Marja Karjalainen (European Commission); Maire Matthews, Keratile Thabana (Ireland); Teresa Savanella (Italy); Ronald Siebes, Rebekka van Roemburg, Arjan Schuthof (Netherlands); Olav Seim, Vegard Pedersen (Norway); Valeria Sakharova, Roman Alexandrov (Russia); Mari Cruz del Saso (Spain); Kaviraj Appadu, Maria Tegborg (Sweden); Halima Begum (UK). Ruth Kagia, Donald Bundy, Mercy Tembon, Christopher Thomas, Jee-Peng Tan, Olivia Elee, Keiko Inoue (World Bank).

2. Observers included: Anton Jensen (European Commission); Dina Craissati (UNICEF); Poul Erik Rasmussen (Denmark); Alain Dhersigny, Andre Pouilles-Duplaix, Jean-Claudes Balmes (France); Bernhard Kühn, Susanne Schroth, Herbert Bergmann, Temby Caprio, Wolfgang Bichmann (Germany); Keiko Mizuno, Noriko Matsuda (Japan). Participants from the FTI Secretariat were: Desmond Bermingham, Robert Prouty, Kouassi Soman, Luc Gacougnolle, Palak Mehra, Anna Triponel and Michelle Mesen.

3. Three background papers titled: (i) Catalytic Fund Status Report; November 12, 2006; (ii) Expanded Catalytic Fund Concept Note, November 2006; and (iii) FTI Catalytic Fund Country Information Forms, November 12, 2006, had been circulated to members of the CF SC before the meeting.

4. 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 in October 2006;
- Discussion on CF allocation decisions for: (1) the four newly endorsed and CF-eligible countries (Mongolia, Cameroon, Kyrgyzstan and Rwanda); and (2) topping up for six existing beneficiary countries (Ghana, The Gambia, Yemen, Kenya, Nicaragua and Timor Leste);
- Decision on the Expanded Catalytic Fund based on its Revised Concept Note; and
- Other business and next steps.

A. Status update and report on progress

5. Desmond Bermingham, Head of the FTI Secretariat, presented a summary of progress based on the November 2006 Status Report. Since the last CF SC meeting held in Brussels, two FTI Partners have expressed strong interest in becoming donors to the Catalytic Fund. France announced its intention to contribute to the CF shortly. Japan is expected to do the same in the next few weeks. Both of these verbal commitments were not included in the CF Status Report since they were received after it had already been prepared and circulated. In addition, Norway increased its financial commitments by US\$15 million; and grant disbursements into Ghana's country program increased by US\$6 million.

6. Next, Mr. Bermingham addressed the CF SC request for more information on which to base its allocation decisions when it met in October 2006 in Brussels. In particular, members of the Committee asked for information on key education indicators, financial commitments from donors and government, and the grant modality being used or being considered for the CF. As a response, the “Country Information Forms” have been designed and completed expeditiously by all CF applicants. Because of time constraint, these forms were not fully completed. They were presented as work in progress to be adjusted and adopted by all FTI-endorsed countries for monitoring and evaluation purposes.

B. Discussion of CF allocation decisions

7. General comments. Before proceeding with allocation recommendations made by FTI Secretariat, the CF SC members expressed thanks and appreciation for the speedy response to its request for further information on education and financing indicators in CF countries. They acknowledged that this is work in progress and asked the FTI Secretariat to follow up on a series of detailed questions on the Country Information Forms. Rwanda’s form was cited as a good example that other teams could use for reference. Annex 1 of this document contains a summary of information points raised. The CF SC decisions on 2007 allocations are not contingent upon receiving this information. Allocations for 2008, as usual, are contingent upon two conditions: (i) a satisfactory implementation for the previous year’s allocation; and (ii) the availability of adequate resource in the CF Trust Fund.

8. Donors wished to ensure that CF funding remains additional and not crowding out donor financing at the country level. The CF SC therefore made decisions that would encourage in-country donors to increase the levels of their long term predictable financing for education. The Committee asked the Secretariat to monitor the situation and keep them informed. Annex 1 contains details of the additional information requested by members of the CF SC.

9. **Decision 1** (summarized in Table 1 below):

- **Mongolia.** The CF SC made the decision to allocate the full amount requested in 2007, i.e. US\$8.2 million. Members of the Committee noted the apparent decline in external financing in 2008. They therefore decided to reduce the CF allocation for that year to US\$4.6 million to encourage local donors to increase their funding. This decision will be reviewed at the next CF SC meeting in March/April 2008.
- **Cameroon.** The CF SC made the decision to allocate the full amounts requested by Cameroon for the next two years, i.e. US\$22.5 million in 2007 and US\$24.8 million in 2008. These allocations are to be drawn from the EC’s Window for ACP countries.
- **Kyrgyzstan.** The CF SC made the decision to allocate the full amounts requested by Kyrgyzstan for the next two years, i.e. US\$9 million in 2007 and US\$6 million in 2008.
- **Rwanda.** The CF SC made the decision to allocate the full amount requested by Rwanda in 2007, i.e. US\$26 million. Members of the Committee noted the apparent decline in both domestic and external financing in 2008. They therefore decided to approve a CF allocation of US\$44 million for that year, instead of the requested amount of US\$61 million, so as to encourage local donors to increase their funding.

Table 1: Approved allocations for newly endorsed countries (in US\$ millions)

Country	2007/08	2008/09	TOTAL
1. Mongolia	8.2	4.6	12.8
2. Cameroon	22.5	24.8	47.3
3. Kyrgyzstan	9.0	6.0	15.0
4. Rwanda	26.0	44.0	70.0
TOTAL	65.7	79.4	145.1

10. **Decisions 2 and 3:** (summarized in Table 2 below):

- **Ghana.** The CF SC made the decision to top up Ghana's Year 3 allocation as requested to reach US\$14.2 million, i.e. an increase of US\$3.2 million.
- **The Gambia.** The CF SC made the decision to top up The Gambia's Year 3 allocation as requested to reach US\$5.4 million, i.e. an increase of US\$1.4 million.
- **Yemen.** The CF SC made the decision to top up Yemen's Year 3 allocation as requested to reach US\$20.0 million, i.e. an increase of US\$10 million.
- **Kenya.** The CF SC discussed the allocation recommendations for Kenya at length. The FTI Secretariat informed the Committee that agreement had not yet been reached between the Lead Donor (DFID) and the World Bank on the funding gap for 2006 (year 2). The Committee requested that the World Bank and the Lead Donor in Kenya discuss and resolve this issue. The final decision on the country's Year 2 allocation was therefore deferred pending further information from the Kenya donor group. The CF SC made the decision to top up Kenya's Year 3 allocation as requested to reach US\$48.4 million, i.e. an increase of US\$24.2 million.
- **Nicaragua.** The CF SC made the decision to top up Nicaragua's Year 3 allocation as requested to reach US\$10 million, i.e. an increase of US\$3 million.
- **Timor Leste.** The CF SC made the decision to top up Timor Leste's Year 2 allocation as requested to reach US\$5.2 million, i.e. an increase of US\$2.2 million.

Table 2: Top up allocations for existing countries (in US\$ millions)

Country	Year 2 Allocations	Year 3 Allocations	Memo item: Additional Year 2 & 3 Allocations 1/
1. Ghana	--	14.2	3.2
2. The Gambia	--	5.4	1.4
3. Yemen	--	20.0	10.0
4. Kenya	--	48.4	24.2
5. Nicaragua	--	10.0	3.0
6. Timor Leste	5.2	--	2.2
TOTAL	5.2	98.0	44.0

1/ Total additional allocations approved were US\$41.8 million in Year 3 and US\$2.2 million in Year 2.

C. Decision on the Expanded Catalytic Fund (ECF)

11. This was a follow on discussion from the CF SC meeting in Brussels in October 2006. The Netherlands presented a revised version of the ECF Concept Note. The ECF requires two substantive changes to the operation of the Catalytic Fund: (i) Extension of the period of financial support from 2-3 years to increase the predictability and the length of term of CF funding. The extended period will be in three-year phases up to 2015. And (ii) Replacement of the current “Donor Orphan” eligibility criteria with a new criterion based on the size the funding gap as a proportion of existing donor funding. The FTI Secretariat prepared a set of three simulation scenarios that were circulated to members of the CF SC as an attachment of the Revised Concept Note. These simulations represent three variants of the proposal made by the Netherlands with three thresholds at 30 percent, 50 percent and 100 percent.

12. On the basis of this work and after further discussions, the CF SC agreed on the two proposed substantive changes to the operation of the Catalytic Fund. The FTI Secretariat was asked to do further work on the allocation mechanism for the ECF with a view to finalizing the Concept Note by early 2007 and making the necessary adjustments to the legal and operational documents. The next CF SC meeting will use the revised procedures for the Expanded Catalytic Fund. Members of the Committee emphasized: (i) the importance of clear communication at the country level to avoid the risk of raising unrealistic expectations; and (ii) that the CF should continue to be a supplement to and not a replacement for in-country donor and domestic funding.

13. The Netherlands registered a reservation about the third bullet point under administrative matters related to maintaining the status quo on donor payment modalities. They indicated that in order to truly enhance the level of predictability towards partner countries and to enable the Bank to enter into three-year grant agreements, some modifications would need to be made to current practices. While this should by no means stop the Expanded Catalytic Fund from becoming operational, the Netherlands intends to explore several administrative options, including that of using Promissory Notes, in advance of entering into a new agreement with the Bank.

D. Other business and next steps

14. **Albania:** In other business, the CF SC was informed that Albania’s program was not presented to donors for additional funding under the CF in this meeting due to late information received regarding the country’s status. Albania was advised to prepare itself and apply for ECF funding next spring. A side meeting was arranged in Cairo with the Country Delegation, the Lead Donor Representative (UNICEF), Italy and the FTI Secretariat to clarify future steps and procedures.

15. **Country team participation in CF SC meetings.** The Committee discussed briefly the opportunity for country participation/representation in CF SC meetings. The benefit of this approach was demonstrated for countries such as Mongolia and Rwanda for which some specific questions were answered by participants in Cairo. However, several members of the Committee recommended caution for two reasons: (i) the sharp increase in the number of participants if country authorities, lead donor representatives, and/or World Bank team leaders were to be invited for all country countries applying for funding; and (ii) the difficulty and uneasiness that may arise for the Committee in discussing and making tough decisions in the presence of country authorities. No agreement was reached on this matter; and therefore, the Committee may want to reopen such discussions with the objective of arriving at a firm decision.

16. **In terms of next steps**, the Secretariat will: (i) prepare and send details comments on the Country Information Forms for teams which have already prepared one for the Cairo meeting; (ii) send a revised blank Information Form to all remaining FTI-endorsed countries; and (iii) ensure that these Country Information Forms for ECF-eligible countries are duly completed before the next CF SC meeting in March/April 2007.

Cleared with and cc: Nicholas Krafft, Chair; and CF Strategy Committee Members.

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Annex 1: Summary Questions and Clarifications on Country Information Forms

- 1. Mongolia.** The CF SC requested more information on education indicators, especially for the future and with regard to gender. They also noted that the share of primary education in the government budget was low. With regard to the financing framework, they pointed to an apparent substitution between CF and external funding in 2008 and 2009. In that regard, however, it was reported that several donors in the education sector are providing direct budget support which cannot be readily isolated. Thus, the figures as presented may give the wrong impression of such substitution. In light of that information, donors agreed to consider the case for topping up Mongolia's CF allocation for 2008 when the CF SC meets next spring.
- 2. Cameroon.** The CF SC requested more information on identified risks and assumptions. They indicated that the sections on monitoring, evaluation and fiduciary assessments could be expanded and made a bit more informative. Finally, issues related to long term sustainability for teacher pay and remuneration (expected bulk of CF funding) were not explicitly spelled out and assessed in relation to proposed grant modality.
- 3. Kyrgyzstan.** The CF SC requested clarification on some education indicators such as budget share for primary education and private sector (ratios or percent?). They noted that no indication was given for the coverage for the financing framework (entire education sector, basic or primary sub-sector?). They requested that the fluctuations in external support be adequately explained.
- 4. Rwanda.** The CF SC requested more information on education indicators, especially with regard to gender and service delivery. They requested some clarifications on levels, variations and targets for several indicators, including share of non-salary recurrent cost and gross intake rate. Moreover, there were no indications of the coverage for the financing framework (entire education sector, basic or primary sub-sector?). Finally, they indicated that the declining level of external funding and thus high unmet funding needs may reveal a substitution or crowding out effect of CF funding relative to existing or potential donor funding.
- 5. Ghana.** The CF SC requested more information on education indicators, especially with regard to actual data for year 2002/03, projected education budget and service delivery. Moreover, there were no indications of the coverage for the financing framework (entire education sector, basic or primary sub-sector?). Finally, donors indicated that the projected large and fluctuating levels of unmet funding needs should be explained.
- 6. The Gambia.** The CF SC requested more information on education indicators, especially with regard to primary completion rate and gender-specific data. Moreover, there were no indications of the coverage for the financing framework (entire education sector, basic or primary sub-sector?). Finally, they indicated that the projected large and fluctuating levels of unmet funding needs should be explained.
- 7. Yemen.** The CF SC requested more information on education indicators, especially with regard to projected education indicators and financing framework data. In addition, donors requested clarifications on levels, variations and targets for several indicators, including gross intake rate and primary completion rate. Next, there were no indications of the coverage for the

financing framework (entire education sector, basic or primary sub-sector?). Finally, the Committee indicated that the projected large and fluctuating levels of unmet funding needs should be explained.

8. Kenya. The CF SC requested more information on education indicators, especially with regard to actual data (2002/03) and projections; gender-specific information and service delivery targets. Committee members requested clarifications on levels, variations and targets for some indicators such as gross intake rate which had remained well above 100 percent for many years. Moreover, there were no indications of the coverage for the financing framework (entire education sector, basic or primary sub-sector?). Finally, donors indicated that the projected large and fluctuating levels of unmet funding needs should be explained.

9. Nicaragua. The CF SC requested more information on education indicators, especially with regard to gender and service delivery for future years. In addition, donors requested clarifications on levels, variations and targets for several indicators, including the low share of the education budget, the continuously high level of gross intake rate over a long period of time. Furthermore, there was no clear explanation of the nature and extent of the implementation capacity constraints identified; nor a strategic plan to remove them going forward.

10. Timor Leste. The CF SC requested more information on education indicators for both actual data as well as projections, especially with regard to student flows, gender and service delivery. In addition, Committee members asked for clarifications on levels and variations in the financing framework, including the apparent low share of government funding, declining external support which may imply a substitution or crowding out effect of CF funding.