TASK TEAM ON FTI REPLENISHMENT: EXECUTIVE SUMMARY OF REPORT TO STEERING COMMITTEE

Introduction

During the December 2008 Oslo meetings of FTI, a Task Team was constituted to recommend a detailed replenishment mechanism to the Steering Committee.

The Task Team is able to make firm policy recommendations on some aspects of the replenishment now, but on other aspects there are too many uncertainties and further work is required or is already ongoing but not complete.

This Executive Summary and the fuller report therefore capture 3 types of issues:

a) issues integral to the replenishment on which the Steering Committee should make definite policy decisions now:

b) issues integral to the replenishment on which the Steering Committee/Board will need to make definite policy decisions before the main replenishment campaign starts

c) other issues which are not in themselves integral to the replenishment process, but on which progress is highly desirable to build the credibility of FTI and thus maximize the chances of a successful replenishment. These have not been discussed in detail by the Task Team and recommendations are not made, but it is suggested that the Steering Committee/Board should ask the new Chair to review the position and make recommendations before Phase 2 of the Replenishment

An Action Plan including an outline table of milestones towards FTI replenishment is at Annex 1

SECTION A: ISSUES ON WHICH THE STEERING COMMITTEE SHOULD MAKE DEFINITE POLICY DECISIONS NOW

ISSUE 1: Whether and when the replenishment should go ahead
RECOMMENDATIONS: The replenishment process should be announced at the Copenhagen FTI meetings and should be launched immediately afterwards. The independent Chair should be mandated to play a leading role in the replenishment as soon as s/he is appointed.
SUMMARY RATIONALE: Successful replenishments take a long time and as this is a new process for FTI, there is a great deal of work to do. Moreover, the Trust Funds are running short of money. Whilst all FTI partners will need to play a role in the replenishment, most of the individuals involved have busy jobs and do not have the capacity to take forward the detailed process. The independent Chair will therefore need to get involved as soon as possible

ISSUE 2: The phasing of the replenishment
RECOMMENDATION: The replenishment should have 2 phases: • Phase 1 covering the financing needs of the 18 months or so from the Copenhagen meeting, focusing on replenishing the Trust Funds • Phase 2 covering a longer term, larger and broader based replenishment from 2010 onwards
SUMMARY RATIONALE: A single phase replenishment in 2009 will not allow time to build up political momentum, engage the new US Administration and new public and private donors, or co-ordinate with the replenishment of IDA and other Funds in 2010. On the other hand, waiting until 2010 risks the FTI Trust Funds running out of money. So whilst a 2 phase replenishment is not ideal, it is the best option in the circumstances

ISSUE 3: Whether the replenishment should cover only the FTI Trust Funds or also bilateral aid which is relevant to FTI objectives
RECOMMENDATION: Phase 2 of the replenishment should cover relevant bilateral aid as well as the Trust Funds. Further work should be

commissioned to establish a framework for this
SUMMARY RATIONALE: The original objective of FTI to catalyse bilateral funding has not been achieved and is now largely overlooked as the Trust Funds have grown. A replenishment covering bilateral aid would allow an increase in the resources available for FTI objectives, more effective and co-ordinated aid at country level and draw in FTI donor partners who have limited capacity to contribute to multilateral funds. The definition of bilateral aid should be drawn widely to attract contributions from non-traditional donors, e.g. emerging donors such as Gulf States, Foundations, larger CSOs and the private sector But a transparent framework will need to be developed to determine what bilateral aid is relevant to FTI objectives (See Section B, Issue 15) and within which bilateral pledges to FTI are made. Bilateral contributions should not be regarded as a substitute for or of equal value to pooled funds via the Trust Funds as the latter are clearly preferred under Paris/Accra aid effectiveness criteria

ISSUE 4: The duration of the replenishment
RECOMMENDATIONS: Phase 1 of the replenishment should cover the financing needs of the 18 months following the Copenhagen meetings Phase 2 of the replenishment should cover a three year period from 2010
SUMMARY RATIONALE: Phase 1 needs to provide adequate funding for the Trust Funds to allow the fuller replenishment of Phase 2 to be developed. Phase 2 should cover 3 years which is the standard period for most other comparable initiatives. Less than this does not meet developing countries' need for more predictable aid and would not justify the replenishment effort. More than this and only a few donors would be able to make commitments.

ISSUE 5: Approach to commitments and dealing with non-standard commitments
RECOMMENDATIONS: All donors should be strongly urged to pledge resources (through signed agreements) to cover the full 18 months of allocations expected in Phase 1 and the full 3 years of Phase 2, accepting that for Phase 2 there needs to be some flexibility about how the commitment

is made based on the laws and financial procedures of each donor

However, significant commitments by new donors or significant additional commitments by existing donors which do not meet these standards should not be refused.

Further work should be commissioned by the World Bank and Secretariat to develop detailed guidance on these issues and alternative technical commitment methodologies (eg promissory notes)

SUMMARY RATIONALE: If donors are not prepared to make longer term commitments than they do at present, there is limited added value in a replenishment. It is noted that most donors to the Global Fund do make 3 years commitments, even if the exact way they do this varies.

Nonetheless, as it is hoped that a replenishment will attract new donors and additional commitments from current donors, non-compliant commitments should not be refused providing they are significant in size.

More detailed guidance will help donors find a way to commit longer term funds

ISSUE 6: The targets for the volume of funds to be raised

RECOMMENDATIONS: The target for Phase 1 should be to raise $1.2 billion for the Trust Funds

The targets for phase 2 will depend on a number of variables on which more information is required and should be specified nearer the time, but for the Trust Funds the choice should be between 3 broad, illustrative scenarios:

- A pessimistic scenario in which the target is to raise enough funds to maintain existing levels of support to current recipients and extend comparable support to new recipients
- A middle scenario in which the target is to raise enough funds significantly to increase levels of support to current and new recipients in relation to their financing gaps
- An optimistic scenario in which the target is to expand as per the middle scenario and to expand the sectoral objectives covered, eg from basic education to all EFA objectives

A separate target for relevant bilateral support should also be established for Phase 2.

Further work should be commissioned by the World Bank and Secretariat to develop detailed figures for Phase 2 targets in 2010
SUMMARY RATIONALE: Having targets for each stage of the replenishment will help focus donors on meeting the funding requirements. For Phase 1, the Secretariat has produced a solid estimate, although this may be modified depending on the outcome of the Task Team on Prioritisation and decisions on how to fund fragile states. For Phase 2, there are too many uncertainties at this stage, but detailed figures will need to be developed and a policy decision taken by the Board as to what scenario to campaign for in 2010.

ISSUE 7: The structure of the Trust Funds
RECOMMENDATIONS: The longer term objective should be to merge the various FTI Trust Funds, including the Transition Fund if agreed, into a single facility. The Secretariat and Bank should develop a proposal with a process and timetable for this as part of the preparations for Phase 2 of the replenishment. In the medium term and starting with Phase 1, donors should be urged to make commitments to a "virtual" single Trust Fund by not earmarking their funding to any Trust Fund. The Board should then provide strategic guidance at least annually as to how to allocate funds among the Trust Funds depending on evolving need.
SUMMARY RATIONALE: In order to reduce transaction costs and provide a one-stop-shop for developing countries, merging the Trust Funds is desirable in the long term. But this will be legally complicated and take time, especially for the proposed Education Transition Fund which will have a different trustee (UNICEF). In the medium term, an approach involving urging donors to be flexible about which Trust Fund their commitment is allocated to will be a helpful step.

ISSUE 8: Funding the Secretariat , office of the Chair and associated expenses
RECOMMENDATIONS: For Phase 2 of the replenishment, the Secretariat, including the costs of the independent Chair, should be funded by a set-aside arrangement. For example, a percentage "tax" on the other Trust Funds

could be held pending agreement on say, a three year Secretariat budget and work program. The amount needed to cover the budget and work program could be released for those costs and any balance would be available for reallocation to the other purposes (CF or EPDF or the Transition Fund). The Secretariat should prepare a detailed proposal which will, inter alia, need to cover how donations in kind (eg secondees) are counted.

For Phase 1, the full costs of running the Secretariat and Chair, including the costs of the Phase 2 replenishment exercise, would continue to be covered on an ad hoc basis with extra effort from the Steering Committee/Board to mobilize the additional resources on the basis of more equitable burden sharing than previously

SUMMARY RATIONALE: Funding the Secretariat via ad hoc, voluntary donations by donors is not sustainable and does not result in fair burden sharing. A variable membership contribution by all FTI partners, whilst desirable in theory, would be very burdensome. The most plausible option based on experience elsewhere is a percentage management fee based on the value of the other Trust Funds. But without knowing in advance what this value will be, this is not simple, so will require further work by the Secretariat.

Funding the Chair via the Secretariat is the best approach to maintain independence and security of funding.

Experience of other replenishments is that the costs can be significant, so they need to be specifically allowed for in the Secretariat budget.

ISSUE 9: Replenishment events

RECOMMENDATIONS: Phase 1 of the replenishment should be implemented without any one-off, dedicated events, but existing events should be used to build momentum.

- The Copenhagen FTI meetings should be the formal start of the process and the SC and biggest donors should be seen as endorsing the replenishment targets
- The proposed side event at the IMF/IBRD Spring Meetings would also be useful in launching the replenishment at political level
- The IMF/IBRD Annual Meetings provide an opportunity to build on these, but this would be too late to generate commitments sufficient to allocate funds to the CF proposals lined up for the second FTI meeting

of the year (dates tbc, but assumed October) Phase 2 should involve a launch event, some intermediate events and roadshows and a final Replenishment Conference in mid to late 2010. This will involve careful, detailed planning and the new Chair should be asked to prepare a detailed proposal as soon as s/he is appointed GCE and other civil society organizations should be invited to help campaign.
SUMMARY RATIONALE: Phase 1 should be manageable without a dedicated major event as the sums involved are not a huge expansion over current level, although given the current economic climate, the political effort required should not be under-estimated Experience from other initiatives indicates that Phase 2 will require a carefully orchestrated campaign involving a series of events culminating in a major conference. Given the lead times involved, the Chair should start work as soon as possible.

ISSUE 10: Roles and other actions
RECOMMENDATION: The Secretariat should be asked to develop the preliminary table of roles, other actions and milestones at Annex 1 in more detail and then update at regular intervals as the replenishment progresses
SUMMARY RATIONALE: The roles, actions and milestones are complex and will rapidly evolve and change as the process gets under way

SECTION B: ISSUES ON WHICH THE STEERING COMMITTEE/BOARD WILL NEED TO MAKE DEFINITE POLICY DECISIONS BEFORE THE MAIN REPLENISHMENT CAMPAIGN STARTS

ISSUE 11: Continuation of FTI beyond 2015
RECOMMENDATION: The future of FTI should be reviewed as part of the overall MDG review. The replenishment should focus on the period up to 2015.
SUMMARY RATIONALE: FTI does not have en end date. FTI's mandate could be considered to expire in 2015 when the MDGs reach their end date. But most donors think that initiatives like FTI will continue after 2015, even if their focus is adjusted. There is no need for a special review beyond the general MDG reviews.

ISSUE 12: Level of Education covered
RECOMMENDATION: The proposed discussion at the Copenhagen meetings, report of the Task Team on prioritization and evaluation of FTI should be used to clarify the situation beyond doubt
SUMMARY RATIONALE: Donors and recipients have different perceptions of whether FTI covers primary, basic, MDGs 2 and 3 or all EFA. The focus needs to be agreed before Phase 2 of the replenishment can be launched

ISSUE 13: Eligibility and geographical focus of funding allocations
RECOMMENDATION: The report of the Task Teams on prioritization and the EPDF successor should be used to clarify these issues as soon as possible
SUMMARY RATIONALE: The rules on country eligibility and geographical focus of FTI have evolved by case law and are now confusing. These issues need to be clarified as soon as possible to allow effective allocations to be made and to facilitate the replenishment. In due course, this will need to be extended to bilateral aid

ISSUE 14: The name and branding of FTI and the Catalytic Fund
RECOMMENDATION: The name and branding of FTI should be reviewed before Phase 2 of the replenishment. This needs to take account of the

evolving debate in the US.
SUMMARY RATIONALE: Many FTI partners feel FTI lacks visibility and brand recognition. Moreover, there is a campaign in the US for a Global Education Fund. An improved name or branding could potentially assist the replenishment.

ISSUE 15: Methodology for counting bilateral aid towards FTI
RECOMMENDATION: The Steering Committee should ask the Secretariat in conjunction with the GMR and DAC, to develop a methodology for counting bilateral support towards FTI (see also Issue 8 above)
SUMMARY RATIONALE: The case for counting bilateral aid is set out under Issue 3. A group of independent experts will be required to develop an agreed methodology with incentivises bilateral funding, whilst ensuring is it legitimately directed at FTI objectives.

SECTION C: OTHER ISSUES ON WHICH PROGRESS IS HIGHLY DESIRABLE TO BUILD THE CREDIBILITY OF FTI AND THUS MAXIMIZE THE CHANCES OF A SUCCESSFUL REPLENISHMENT

The Task Team has no specific recommendations in this Section, but it is suggested that the new Chair be invited to review these issues and make recommendations to the Board as appropriate before Phase 2 of the Replenishment

ISSUE 16: Financial governance and Committees
SUMMARY RATIONALE: Many FTI donor partners are dissatisfied with aspects of the financial governance and Committee structures. These include: • Lack of coherence between the Trust Fund Committees/move to a single Finance Committee • Committees too large and procedures too cumbersome • CSOs and recipient governments not represented • Allocation discussions not well enough prepared Progress on many of these issues would help the credibility of the replenishment

ISSUE 17: Interface with IDA
SUMMARY RATIONALE: A number of challenges arise from the interface between FTI and IDA, including: • The view that FTI is "crowding out" IDA from basic education, partly due to the reluctance of governments to use scarce IDA resources for the social sectors • IDA appraisal procedures, which are rather projectised, being extended to the FTI Catalytic Fund (see Issue 18) • Internal World Bank accounting and incentives which make it difficult for Bank staff to work on FTI proposals in country where IDA does not focus on basic education • Two different funding streams for which the Bank is accountable sending mixed policy signals to governments These are big policy issues which go much wider than FTI or education, so cannot be tackled via FTI alone. Solutions will need to involve the Bank

management and Board.

ISSUE 18: Harmonisation and alignment of FTI allocations at country level
SUMMARY RATIONALE: A number of difficult issues have arisen at country level over the harmonization and alignment of FTI allocations, usually with governments and local donor groups arguing for greater harmonization and alignment than the Bank are comfortable to support. This causes disbursement delays and leads to FTI funding potentially undermining Paris/Accra principles. Appointing an alternative supervising entity as in Zambia may sometimes be a solution, but will not be possible in every case.

ISSUE 19: Speed of disbursement
SUMMARY RATIONALE: The time lag between allocation decision and disbursement, especially for the Catalytic Fund, has been much too long, undermining the original FTI promise of being a “fast” track. This causes problems for governments who have to delay progress on sectoral investments and donors who have rules about not committing more funding until previous tranches have been disbursed. The Bank has already reviewed the position and initiated some improvements, but more are needed. Developing a process for focusing FTI allocations on fast disbursing items may help. **This is probably the single biggest obstacle to donors confidently committing increased sums to FTI in the replenishment, so demonstrable progress in this area is critical**

ISSUE 20: Liquidity of Trust Funds
SUMMARY RATIONALE: Related to Issue 19 is the issue of the appropriate level of liquidity in the Trust Funds. Too low, and further allocations cannot confidently be made. Too high and many donors’ rules preclude further transfers of funds. Clearly, the disbursement delays are part of this picture, but the expanding customer base is also an issue. More work is needed.

ANNEX 1: PRELIMINARY LIST OF KEY ACTION POINTS, DATES AND LEAD RESPONSIBILITY

Action	Lead	Start Date	End Date
Begin analysis of financing needs and case for replenishment, substantiating track record, before Copenhagen	SEC	FEB 2009	Ongoing
Informal consultation with key donors and partners	Task Team, Co-Chairs	MAR 2009	Ongoing
Get FTI replenishment on agenda of key international fora, starting with Development Committee or side meeting at WB's Spring Meetings	Co-Chairs, Bank	MAR 2009	Ongoing
Decisions on recommendation of TTR at Copenhagen	SC, CFC	APR 2009	Same
Follow-up on interim basis before arrival of Chair, including preparation of detailed implementation plan for Phases 1 and 2.	Co-Chairs, SEC	APR 2009	Until arrival of Chair
Fix Autumn meeting to end Phase 1 and start Phase 2 – planning, including location and getting on agendas.	Co-Chairs, SEC	APR 2009	Autumn 2009
Begin discussion/Commission work	Co-Chairs, Secretariat,	MAR	Ongoing

on range of issues identified in TTR report	and Chair (o/a)	2009	
Arrival of Chair to take lead on replenishment	SC	Early Summer 2009	Same
Decisions on additional support to Chair for replenishment	Chair	SUMMER 2009	OCT 2009
Technical and legal work on trust funds, donor modalities, etc.	SEC, World Bank	MAY 2009	Sep 2009
Plan (with GMR and DAC Secretariat) and first year implementation of scoring of bilateral aid and of steps to increase compliance and crowding in.	SEC	MAY 2009	MAY 2010
Active solicitation of pledges for Stage 1 including selective “Road Shows”	Chair	MAY 2009	NOV 2009
Remaining decisions on scope for Stage II	Board	OCT 2009	Same
Reaching out to foundations and non-traditional donors for Stage 2	Chair	JUN 2009	NOV 2009
Review FTI Name and Branding	Board	OCT 2009	MID 2010
Selective road shows – including to foundations and selected non-traditional donors	Chair	OCT 2009	JAN 2010

Integration of final results of evaluation and follow-up into replenishment	Chair, Board, SEC	APR 2009	MAR 2010
Interim meeting of Stage 2, including planning	Chair, SEC	FEB 2010	JUN 2010
Final pledging meeting Stage 2, including planning	Chair, SEC	JUN 2010	NOV 2010
Implement programme and achieve better educational access and results	All	Ongoing	Same