TASK TEAM ON REPLENISHMENT OF THE EFA FAST TRACK INITIATIVE: REPORT TO STEERING COMMITTEE SETTING OUT A PROPOSAL ON REPLENISHMENT

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 has met twice and had a teleconference and e-mail exchanges. It has been supported by a detailed report from Paul Isenman, the same consultant who worked on the FTI governance issues. It has also built on the work of others.

Replenishment is not a mechanical process for which a blueprint design can be written and then the process will follow. It is a complex and very political process which needs to go through some iteration and be sufficiently flexible to adapt to a rapidly changing political environment, including the evolving global economic downturn and, in the case of the FTI, policies of the new US Administration particularly with respect to education funding. This report should be seen as kicking off the process, not defining it from start to finish. The new Chair of FTI will play a critical role as we go forward. And until the Chair is in place, the Steering Committee/Board and its current Co-Chairs will need to take leadership roles.

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 substantial further work is required or is already ongoing but not complete.

This 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

The issues are broken down into manageable individual decisions to assist the Steering Committee, but many are inter-dependent and at least Sections A and B should be seen as a package.

An Action Plan and timetable including an outline table of milestones towards FTI replenishment is at Annex 2. A list of further work to be commissioned is at Annex 2. A summary of replenishment arrangements for other comparable funds and partnerships is at Annex 3.

Background

The Fast Track Initiative has been widely recognized as a leader among global programmes providing large-scale financing at the country level. It has been so recognised because of its focus on country-owned national strategies and on mutual commitments by partner countries and donors on effective implementation and financing of those strategies, with harmonized donor funding coming both through a combination of dedicated pooled funds and other bilateral and multilateral support. In so doing it has from the start anticipated the concern expressed in the Paris Declaration of "Insufficient integration of global programmes and initiatives into partner countries' broader development agendas". FTI is far more than just a funding mechanism, though. It seeks to help partner countries address the "four gaps": policy, data, capacity and finance. On finance, it seeks increases in the volume, effectiveness and predictability of all donor assistance, so as to help partner countries achieve better educational outcomes. It continues to fine-tune its business model as it evolves, including on-going changes in its governance and in strengthening country processes, as well as through an in-depth independent evaluation.

Donors to FTI's Catalytic Fund and EPDF have now pledged or paid in almost $1.5 billion and allocations against these funds total approximately $nnn. An Education Transition Fund for fragile states is under discussion[1]. Financing of FTI trust funds, including the Secretariat TF, has up to now depended on voluntary contributions, from interested donors, some multi-year and some annual. Demand for financing has now outstripped supply, with an estimated need of $1.2 billion for 2009-2010 alone with a likely shortfall in funding pledges to cover demand for the Catalytic Fund in 2009. And there is strong anecdotal evidence that the known shortage of funding has already lowered the number and size of requests from partner countries for financing.

In recognition of this challenge, which is a sign of success, and to put FTI finances on a longer term more sustainable footing, at the last two rounds of FTI meetings, the Partnership agreed to consider an organised replenishment process as practised by most other comparable global Funds/Partnerships.

[1] At the time of finalizing this report, it was still not clear if FTI partners and UNICEF would be able to reach agreement on a TF acceptable to both sides

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

Issue 1 : Replenishment – whether and when

OPTION	RELATIVE PROS AND CONS
Move ahead immediately on basis of Copenhagen decisions	There is need to move to a replenishment basis for financing, and there is little time to lose.
Wait until new Chair is involved	Reduces uncertainties to wait. Could do temporary fund-raising while deciding what next to do.

RECOMMENDATIONS: The replenishment process should be announced at the Copenhagen FTI meetings and should be launched immediately after. The independent Chair should be mandated to play a leading role in the replenishment as soon as s/he is appointed.

RATIONALE: There is no time to lose. The need for funding is urgent and lead times to build political momentum long. Experience of other global funds suggests that as they mature, formal replenishments make more sense than merely ad hoc contacts donor by donor. The main reasons given by other global programmes are that getting donors sitting around the same table encourages them, through peer pressure, to contribute more and to agree to abide by common ground rules in doing so. The multi-year framework leads to more predictability as well – a real necessity in support of ongoing programmes with high recurrent costs like those of the FTI.

Whilst all partners need to play a significant role in replenishment, most partners are represented by very busy people and do not have the capacity to take forward such a detailed and time consuming process. It is essential that replenishment is recognized as the first priority of the new Chair and the new Head of the Secretariat, who would be expected to lead the replenishment exercise as soon as they are appointed and through its conclusion. The Secretariat and would support both.

Issue 2 : The Phasing of the Replenishment

OPTION	+-
Immediate replenishment before the end of 2009.	Desirable but infeasible: not enough time; Chair and Head of Secretariat not in place; evaluation not ready in time; and US not ready to commit.
Two phases – meeting immediate needs for 2009-10 in Phase 1 and starting Phase 2 in late fall for 2010 onwards	Cumbersome but balances immediate needs against needs for more time for preparation and to settle issues, including US participation. Gets an early claim in for highly competitive replenishments in 2010.

Put off replenishment until 2010.	Would probably have to defer 2009 round, losing credibility and momentum. Miss chance to get attention now for Stage 2 in 2010 – which will be a tough year.

RECOMMENDATION: The replenishment should have 2 phases:

- Phase 1 covering 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

RATIONALE: It would have been preferable, if feasible, to do the whole replenishment, at least for the period through 2011, immediately, finishing by the end of the year. However, judging from the experience of other global funds, the normal time it takes to build sufficient donor commitment and arrive at the pledging stage is over 12 months. In addition, experience of these other funds (e.g. GEF, Global Fund) is that it is important to have an in-depth, independent evaluation (which is due for the FTI in about a year, although with an early interim report in April 2009 that will be helpful although focussing mainly on process) and to have a convincing case on results and disbursements (in process, but with more to be done.) Also, the new Chair and Head of the Secretariat are not yet in place. And it is vital to be able to involve the new U.S. Administration, which has given early indications, not yet concretised, of a strong interest in a global programme of financing for education.

Furthermore, initial estimates of funding requirements by the Secretariat indicate needs for all three trust funds (Secretariat TF, CF and EPDF) of $1.2 billion for just 2009 and 2010 which is the equivalent of raising almost immediately about 75% of the amount raised to date. . And these needs are imminent, both for the fall round of 2009 and to provide a basis for preparation for submissions for 2010.

So it is more reasonable to address the replenishment in two phases. Phase one would aim to raise the initial $1.2 billion for 2009 and 2010. Funding would be on a basis of new three year commitments, starting in 2010. The second phase would begin as the first winds down, as discussed below. It is important that the two phases be seen as part of a single process so that donor attention is called at the start to Phase 2. Otherwise, there is a real danger that donors would take a wait and see attitude and, given the difficult situation coming up in 2010, not be willing to commit then for 2011 and 2012.

2010 will be a major year for replenishments. There will be other major replenishments under way – from IDA, the Global Fund, the GEF and the African Development Fund. And the effect of the world economic downturn will be negatively affecting government revenues, even though DAC donors have recommitted to keeping to previously agreed targets. However, there is

little choice. And it may be an advantage to have the FTI replenishment come up with the others, to the extent that it encourages donors to take a consistent look at their allocations across funds and sectors. In addition, the UN Summit on MDGs in 2010 could, particularly with appropriate political support, be used to give a boost to FTI replenishment.

A variant of this approach is simply to raise funds in an ad hoc manner in 2009 and then have a three year replenishment starting at the end of 2009 for 2010-2012. However, this is very similar to the two-phase approach, makes planning much harder and riskier for 2010, and does not put the FTI replenishment solidly on the donor map before the other major 2010 replenishments start in late 2009. The remainder of this report is drawn up as if the two-phase option would be chosen. But other plausible options would not result in major changes to the policy options and only somewhat to the timetable in Annex 2.

For these reasons, the rest of this report is based on the assumption that the two phase model or some variant of it (eg seeking short-term funding for 2009 and then having a one-stage replenishment in 2010) would be adopted.

Issue 3: Whether the replenishment should cover only the FTI Trust Funds or also bilateral aid which is relevant to FTI objectives

OPTIONS	+-
Count bilateral aid to FTI eligible countries for basic education as part of the replenishment process, including that from non-traditional donors.	Consistent with broad spirit of improving volume and effectiveness of all aid for basic education, but waters down focus on pooled (more harmonised and aligned) funds. Also not time to get agreement on scoring compliant bilateral aid.
Focus on Trust Funds in the replenishment but have a separate process to focus on volume and aid effectiveness of other aid for basic education as a key aspect of mutual accountability.	Keeps a sharp focus on multi-year replenishment of the Trust Funds. Separate focus on other aid for education (beyond FTI TFs) addresses commitments in Accra Action Agenda on transparency and mutual accountability.

<u>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 (See Section B, Issue 15)</u>

RATIONALE: The FTI rightly aimed from the start to have an impact on the volume and effectiveness of aid for basic education as a whole, including by reducing fragmentation and incoherence. It provides an important forum for consultation and mutual accountability for doing so. Initially it was a “virtual fund”, with no pooled (trust) fund. There is broad awareness, however, that emphasis on the Catalytic Fund (or FTI trust funds in general) has resulted in relatively less energy being given by all parties, including the Secretariat, to pursuing this broader objective. This needs to be redressed, including through a process of monitoring and then of consultation, with transparency on donor

commitments and disbursements being part of a broader framework of mutual accountability, as called for in the Accra Agenda for Action. However, that process should be seen as a separate and complementary part of the replenishment.

There is not time to develop and get agreement on scoring bilateral aid that follows FTI principles until at least Phase 2. Much of current donor aid to basic education does not do so, whether because of non-compliance or of addressing other objectives than harmonised and aligned support of country programmes. Giving "credit" too liberally for bilateral funding in the replenishment process risks reducing the incentive to pool funding through the FTI trust funds, thereby missing the opportunity for increased harmonisation and reduced fragmentation.

It would theoretically be possible to apply a similar approach to relevant multilateral aid, but as IDA is the main multilateral instrument in most FTI countries and there are already complex interface problems (see Issue 17) this is not recommended at this time. On the other hand, the definition of bilateral aid should be drawn widely to attract contributions from non-traditional donors, eg emerging donors such as Gulf States, Foundations, larger CSOs and the private sector

Issue 4: Duration of the Replenishment

OPTIONS (for Phase 2)	+-
Encourage 3 years but accept whatever donors offer.	Appears easier to get pledges, but, because of lack of peer pressure to meet agreed standard, likely to produce less. Doesn't address need for predictability.
3 years minimum and encouragement of longer-term and innovative financing.	"Industry standard" of balance between desirable – longer-term financing – and what donors are able to provide.
5 years.	Better on predictability. But very few donors now willing to do so for any global fund.

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

RATIONALE: Phase 1 should in any case cover a sufficient period to allow breathing space for Phase 2, ie about 18 months.

For Phase 2, there is an emerging "industry standard" of replenishments of three years (e.g. IDA and its regional counterparts and GFATM). This has come about because of a process of balancing the need for long-term financing and predictability against the reality of donor cycles. Needs in education for sustained and predictable financing are at least as great as those in other sectors, including health. Given the educational and political

risks of high volatility of aid mentioned above, it is important to reduce that volatility with commitments of three years – or preferably longer.

There should also ideally be efforts to facilitate longer term commitments by developing innovative longer-term financing for basic education as has been started in health. But as this is a complex, political process, it is considered to be beyond the scope of this report.

Issue 5: Approach to commitments and dealing with non-standard commitments

OPTIONS	+-
3 year Letters of Commitment	This should be the objective. Although donors have real and individual problems. But clear policies in replenishments have succeeded in getting more of them to make longer-term commitments.
Whatever donors are able to do.	This will provide counter-productive incentives to all donors except those firmly committed to multi-year funding.

RECOMMENDATIONS: All donors should be strongly urged to pledge resources (through signed agreements) to cover the the financing needs of 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)

RATIONALE: Experience of other replenishments suggests the value of discipline in not accepting commitments of less than the full replenishment period. Peer pressure encourages each donor to explore the limits of obstacles to multi-year commitments. Thus, the benefits outweigh the cost of contributions foregone of less than the replenishment period. This would not stand in the way of mid-term contributions from donors unable to commit at the start. As an exception, one year financing could be accepted if absolutely necessary to get funding in time for 2009 needs, but these funds would not provide “credit” for the replenishment period.

The manner and extent to which each donor can provide multi-year commitments is highly complex. For example, “Letters of Commitment” that are in effect post-dated annual checks covering at least the three year period

are highly desirable to provide predictability without advance cash outlays by donors. Donors have real and varying limits on flexibility. Even the Global Fund has had great difficulty in getting Letters of Commitment, although IDA has done so – but with varying degrees of firmness of commitment. The World Bank's expertise would be vital in finding the best feasible modalities for each donor. More detailed work is required to provide guidance on this

The question of whether there should be minimum levels of contributions is contentious. The objective is to encourage larger contributions from those who have given small amounts, or nothing, to date. There is a risk, though, of a counterproductive reaction from donors who might otherwise contribute at least the minimum amount. It might also deter new donors. On balance a minimum contribution is probably not advisable, but clearly the transaction costs of very small contributions cannot be overlooked. Moreover, small AND non-compliant contributions should be strongly discouraged.

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

OPTIONS	+-
Be cautious, fixing the total for 2009-2012 at about $3 billion, based on no change in coverage of countries or levels.	Safe, credible, and feasible. But will be a self-producing prophecy and not permit desirable expansion to most populous countries or consistent coverage of basic education.
Be bolder, aiming now for about $5 billion, which would permit funding for some combination of the most populous poor countries and broader coverage of levels	Desirable but would reduce credibility to little purpose before convincing case can be made and uncertainties reduced.
Go for $1.2 billion for Stage 1 and aim to be bold in Stage 2 (for about $5 billion total), but fix the amount in the fall, as more is known.	Meets immediate needs and staking out a preliminary claim for $5 billion but leaving options open until convincing case can be made and uncertainties reduced.

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 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

RATIONALE: The Secretariat has, as noted, above, estimated the volume of funding needed in Stage 1 for 2009-2010 to be in the order of $1.2 billion. The amount for Stage 2 for 2011-2012 is far more uncertain, depending on a variety of "supply and demand" factors already mentioned. The decision can best be taken at the start of Stage 2, when more information is available.

Initial estimates by the Secretariat on the basis of likely proposals for 2009 and 2010 are based on country by country analysis and make no assumptions about changes in levels or country coverage or in redesign of the EPDF. In the event they turn out to be optimistic, the remainder would simply be rolled over to 2011. The uncertainties for 2011 and 2012 are much greater for reasons already cited of both country demand and donor availabilities. There is also more uncertainty about needs for fragile states. The initial estimate of $2 to $3.5 billion is highly preliminary, based essentially on no change in levels of financing but having the populous low-income countries – with the exception of India - come in. The amount sought will also have to take account of the findings of the evaluation as well as progress made in 2009 on disbursements and on strengthening country processes. The position of fragile states also remains to be clarified.

Further work will be required on all these figures in the run up to Phase 2. No work has been done on estimating complementary bilateral aid, so this will need to be done separately based on the agreed methodology to be developed. All of the figures will need to reflect the global economic downturn, both in terms of increased needs but also increased pressure on donor funds.

Issue 7: Structure of the Trust Funds

OPTIONS	+-
Status Quo; 3 separate Trust Funds, plus maybe the Transition Fund adding a 4th	The easiest option in terms of work now. Keeps Funds donors are familiar with. But financially inefficient and not Paris-friendly
A "virtual" single Fund for replenishment, but keep separate legal Trust Funds	Compromise option – some of advantages of merger without legal complications
Full merger into a single Trust Fund	Most Paris friendly and financially efficient in long run – offers recipients a one-stop shop. But legally complicated,

	with funds already committed to existing 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

RATIONALE: The current situation with 3 separate Trust Funds replenished ad hoc with individual donors deciding how to allocate funds among them is increasingly cumbersome and inconsistent with good practice elsewhere. It does not work well for funding the Secretariat (see Issue 8 below). It does not provide recipients with a one-stop shop nor the reduced transaction costs that Paris/Accra principles imply.

Ideally, the Trust Funds should be merged or at least operate as a Facility and this is a valid longer term aim. But this may be a step too far for the replenishment as it would require wholesale redesign of the fund structures and their legal underpinnings.

For the time being, many of the same benefits can be achieved by persuading donors to commit funds without earmarking them against the various Trust Funds. The Board can then give periodic strategic guidance about the allocation of funds among the Trust Funds based on evolving needs. This has the secondary benefit of involving the Board in funding policy decisions as recommended by the governance report agreed in Oslo.

Issue 8: Funding the Secretariat , office of the Chair and associated expenses

OPTIONS	+-
Continue the current system of 2 major funders	This is undesirable in terms of "ownership" and unfair in terms of burden-sharing.
Use a percentage of all contributions to Trust Funds to meet the needs of the Secretariat and Chair.	This shares the burden and ownership at very low transaction cost.
Raise funds, as part of a membership fee or on a voluntary basis, from all participants in the partnership.	This would have the broadest ownership but excessive transaction costs, trying to raise small amounts from a large number of participants.

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 workprogram. The amount needed to cover the budget and workprogram 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.

RATIONALE: There is broad agreement that it is not appropriate, whether from the point of view of "ownership" or burden-sharing, to continue having the Secretariat funded primarily ad hoc by one bilateral donor – plus the contribution in staff and kind of the World Bank as host. Ideally, the Secretariat should be funded by all constituencies of the Partnership that it serves. This would have high transaction costs for small amounts, however. The most cost-effective approach is simply to take a small percentage, *pari passu*, of funds received by each of the FTI Trust Funds (including the Education Transition Fund). The World Bank trust fund experts should suggest how this can be done with minimum administrative burden. The same arrangement could be used for funding the costs of the Chair
It is important that both the cost of the independent Chair and the additional cots of the replenishment process (especially extra events) are specifically included.

Issue 9: Replenishment Events

OPTIONS	+-
No major events.	Saves time. Does not build momentum.
1 major event to close Stage 1 and launch Stage 2, plus one-two (probably 2) in 2010. Use of informal approaches and road shows, particularly in Stage 1.	Lots of work and advance planning. Still lower than the norm, particularly for a two stage approach.
1 major event to close Stage 1 and launch Stage 2, plus three in 2010.	Closer to norm but very heavy workload would cut substantially into other work of the FTI as a whole.

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 SC and biggest donors should be seen as embracing 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

RATIONALE: There is not enough time to carry out the set of meetings and reports common to replenishment of other global funds. Mounting these meetings is a major effort that requires long preparation. Apart from the usual logistics, protocol, and security arrangements inherent to such meetings (some of which can be outsourced), there will also have to be careful planning for high-quality policy papers and presentations to build and sustain the momentum of each meeting. These analyses will require relatively long lead time for production, translation and dissemination.

Locations will need to be chosen carefully, as will the host country and its high-level spokesperson(s), whose diary commitments are made many months in advance. This is quintessentially true for the closing meeting, at which point the host inevitably acquires, if they have not done so already, a major diplomatic stake and media profile in the success of the entire replenishment. Some urgent thought should go to the selection of this end-game location (among the frontrunners are Washington and Paris, presumably), but also to the sites of preparatory meetings, as they are opportunities to engage a broad platform of leaders and constituencies.

For Stage 1, there will need to be a more informal approach that will draw on mobilizing support at the individual donor level. Other replenishments have made use of selective “road shows” to mobilize support from senior levels of major funders. There would be one major meeting in late 2009 to bring Stage 1 to a close and to launch Stage 2, which would probably require two major meetings in 2010 to bring the replenishment to a close. If things proceed well, it may be possible to have only one major meeting in the latter part of 2010.

Issue 10: Roles and Other Actions

OPTIONS	+-
Identify full list of actions and assign detailed roles now	Gives people advanced notice. Likely to be out of date quickly
Ask Secretariat to develop list and update it at regular intervals	Information more reliable and up to date. But delays start of actions somewhat

RECOMMENDATION: The Secretariat should be asked to develop the preliminary table of roles, other actions and milestones at Annexes 2 and 3 in more detail and then update at regular intervals as the replenishment progresses

RATIONALE: Experience elsewhere suggests the need for a major mobilisation of all constituencies, with strong support from the Secretariat, for replenishments. The Chair would lead one or more groups of Board members – and/or others from the constituencies it represents – and the Secretariat for the planning and implementation of the replenishment.

It is important for the Steering Committee/Board to establish that it "owns" the replenishment goals and is the policy-setting body for the replenishment exercise. This is particularly important given that there are three major donor Trust Funds Committees. The Global Fund has set an example of good practice here, forestalling the temptations for donors (for example in IDA) to use the replenishment to impose policy and programme decisions, short-circuiting normal board (Steering Committee) consideration. For the Steering Committee to establish such clear leadership, it – through and with the Chair – should take a proactive role in leadership, identifying needed analyses from the Secretariat and mediating unexpected follow-up requests during the replenishment process.

Civil society can, as in other cases, play a crucial role, as can support from partner countries. The Chair may wish to co-opt a distinguished public figure to help in building public support and/or a consummate insider with substantial expertise in other replenishments. This would follow the good practice of the Global Fund, which has successfully used both, and the African Development Fund.

Some special attention in Stage 2 should be given to attracting non-traditional donors and other funders. Those global programmes that have done well in attracting support from non-traditional donors and non-official funds have invested heavily in doing so. Assistance should be sought from the World Bank, which has substantial expertise in raising funds from donors and, and UNICEF, which has substantial expertise in raising funds from civil society and the private sector. (There was some preliminary discussion of a possible tie-in to the international soccer association, FIFA.) UNICEF has also made effective use of celebrities to promote financial and other support. The Global Fund has just taken on its first celebrity representative. UNICEF has made good use of celebrities for many years.

Experience in other global funds (see Annex 1) shows a likely need of at least 2-3 staff years of input into the replenishment by the Secretariat which has

implications for its own short-term funding needs. This includes background analysis and reports, and details of planning and of arranging meetings. Some will have to be diverted from other tasks. But given the increasing demand the Steering Committee is putting on the Secretariat (e.g. re country programmes or the role of bilateral aid), a substantial part of this input to the replenishment, say two thirds, should be reflected in its budget. The incremental costs for the Secretariat are only one part of the overall additional budget needs. Meeting and travel costs will be greater.

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

OPTIONS	+-
Sunset clause in 2015	Puts maximum pressure on donors to substitute for Trust Funds.
In-depth review of mandate as part of wider MDG review	Needs continue beyond 20015, all the more so for "basic" education. Donors unlikely to substitute. Country education programmes will bear the risks and costs.
Semi-permanent status of Trust Funds	This would not have credibility with donors. There are enough outstanding questions to justify a full review after two replenishments.

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

RATIONALE: Education is a long-term investment. It is also generally the biggest employer in the public sector, raising political as well as educational risks for aid-dependent countries if support through FTI trust funds were to increase rapidly and then suddenly stop. As discussed below, there is, regrettably, no evidence that provision of support from the Catalytic Fund – or other comparable global funds – results in mobilisation of bilateral or other resources that would make the fund redundant. And as a recent analysis by Richard Manning makes clear, the purpose of the MDGs was to incentivise progress by 2015, not to stop progress then[2]. MDGs 2 and 3 are likely to be met in many countries and not in others. In both cases there will be a continuing need for progress in access, quality, and learning outcomes and for continuing collective donor action to support them. In addition, coverage of basic education rather than just MDG 2 requires a longer time-frame. And it would be extremely difficult to get any serious attention to multi-year funding for a fund only five years away from phase-out. In sum, it would be country

[2] http://www.diis.dk/graphics/Publications/Reports2009/DIIS_Report_2009-1_Using_indicators_to_encourage_development.pdf

education programmes that would bear the risks and costs of the sunset clause.

But similar arguments apply to all the MDGs, so the FTI case should be dealt with in the context of the wider reviews of the MDGs post 2015 which are planned soon.

Issue 12: Level of education covered

OPTIONS	+-
Primary	Keeps a sharp focus on MDG 2, not getting distracted by competing needs.
Basic	Recognises closeness of links of primary to other aspects of basic education, although implies higher financing needs
EFA/All education	Logical sector-wide approach, but likely to reduce support, multiply financing needs, and raise issues of undercutting Paris/Accra principles.

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

RATIONALE: It is important for the replenishment for donors to be clear what objectives they are asked to replenish for. The goal of the FTI is is Universal Primary Completion. But the Catalytic Fund Committee has been considering, on a case by case basis, requests for financing not only of primary education (MDG 2) but early childhood education, primary education, lower-second education, relevant teacher training at the tertiary level, and adult literacy (primary education). This evolution from primary education to basic education (which has differing definitions but broadly encompasses the areas above) has occurred because: early childhood education is an important determinant of success in primary education, rapid expansion of primary education leads directly to strong social and political demand for expansion of lower-secondary education, and teacher training is a direct input into basic education. However, the policy has not been formalised or widely disseminated to partner countries and their Local Education Groups. It is important that this be done so that all countries are on an equal footing in preparing their proposals.

There is also a plausible argument for taking a more holistic approach to the education sector, covering all of EFA/a whole sector approach. This would help to avoid intra-sectoral distortions and to encourage the role of education in development as a whole. But there are risks: the strong political and financial support behind basic education and MDGs 2 and 3 could be

weakened; funding needs for the replenishment would greatly increase, judging from the ratio of aid for basic education to that for education as a whole; and having sector-wide funds would increase the share of aid, multilateral and bilateral, earmarked by sector -- in direct conflict with the sharp focus of the Paris Declaration and Accra Action Agenda on aligning aid to partner country priorities.

The work of the prioritization Task Team and forthcoming Copenhagen meetings provide opportunities to clarify the matter – a process which must be complete before Phase 2

Issue 13: Eligibility and Geographical Focus

OPTIONS	+-
nclude all low-income countries (IDA Categories I and II)	Already decided in Oslo. The biggest five countries not yet included have half the children out of school. Fragile states need more attention even though they cannot meet the FTI "Gold Standard"
Exclude the most populous countries	Reduced funding needs. One or more may not want to apply -- but that should be their choice.
Go back to prior policy of little or no access for fragile states.	Not a serious option. This was an error that is now being corrected.
Limit funding to "donor orphans"	In spite of early intentions, this has never been the case. The underlying objective is better handled by more focus on relative underfunding.

RECOMMENDATION: The report of the Task Teams on prioritization and the EPDF successor should be used to clarify these issues as soon as possible

RATIONALE: The Oslo meeting reconfirmed that "(i) all countries in IDA categories I and II, as well as small island economies as defined by IDA, are eligible for CF support; and (ii) priority will be given to countries in category I (i.e., the poorest)". This makes it clear that the highly populous low-income countries that have not applied for CF support are eligible to do so, although projections for the replenishment need to take account of issues of whether and when each of these countries might submit proposals.

The importance the FTI puts on assisting fragile states has led to the proposed establishment of the Educational Transition Fund. These needs, along with those of countries eligible for the Catalytic Fund, should clearly be covered by the replenishment.

The "Catalytic Fund" was so named because of an effort to focus on under-funded countries and to be catalytic in bringing in other financing. Both remain valid objectives. This does not mean restricting funding to "donor orphans", a

term that it is any event hard to define. But statistical analysis by the Secretariat has shown that in practice relative underfunding by donors has not led to higher allocations by the Catalytic Fund. The Task Team on Allocations will recommend whether and how underfunding should be taken account of in future allocations. The catalytic role – crowding in rather than crowding out other donor financing – should be an important theme of the replenishment and is discussed below.

Issue 14: Name and Branding of FTI and the Catalytic Fund

OPTIONS	+-
Leave the name unchanged.	Keeps current brand-recognition, but there is not much of it to keep.
Change the name now to something better reflecting the FTI's objectives.	A better name will help attract more support.
Change the name, but wait until there is more consensus and this can help bring the US in.	Has the benefits of the name change but can help bring in a major donor with increasing commitment to basic education.

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.

RATIONALE: There is increasing recognition of the need to change the name of the FTI and the catalytic fund. It has meaning only to the already initiated. And even within the aid community there could be confusion, for example with EU Fast Track Initiative on division of labour. The name chosen should reflect the focus of the FTI on improving the volume and effectiveness of aid for basic education as a whole, and not just on the financing that comes through its trust funds. Thus, for example, if the name begins with "Global Education" it could finish with a term such as "alliance" or "partnership" or "compact". While the name "fund" could be used to suggest that the FTI is a "fund of funds" that groups a variety of funding sources under common principles, this is in practice likely to be confusing. In any event, the new name and how to "brand" it should be decided in the first stage of the replenishment process, preferably with the involvement of the U.S.

It is also relevant that there is debate in the US on a possible Global Education Fund, facilitated by Gene Sperling's recent paper. This makes clear branding and dialogue with the US government all the more important.

Issue 15: Methodology for counting bilateral aid towards FTI

OPTIONS	+-
Let each donor decide if its aid is compliant	Faster but, based on DAC experience, far less reliable and credible.
Secretariat-GMR-DAC Secretariat work out scoring criteria and process	Results would be more credible and would have more of an incentive effect on donors.

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)
RATIONALE: Experience of the DAC's Working Party on Statistics shows that it is a time-consuming but ultimately highly useful process to get donor agreement on "markers" within sectors for aid in general. Benefits are both for credibility and for incentives for increased compliance. It will take even more effort to get agreement on aid that meets agreed principles of aid effectiveness. This should start with a report commissioned by the Secretariat, together with the GMR and the DAC Secretariat. Data that result can become a part of the DAC reporting system.

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

OPTIONS (Not Alternatives	+-
SC should consider proposing a timetable and process for transition to a single Finance Committee covering all Trust Funds as proposed in governance report (but not followed up)	This will be more efficient and in line with best practice and encourage higher level representation. On the other hand, some smaller donors may get excluded
SC should mandate the new Chair to examine ways of working of TF Committees/Finance Committee, including division of labour, participation by recipient governments, quality of proposals etc	This should also improve efficiency of financial decisions and increase transparency. But it will involve the new Chair in a lot of detailed and potentially sensitive work
The SC should ask the Chair to propose a timetable and process for adopting a minimum annual contribution (or multi-year equivalent) to allow donors to participate in the TF Committees/ Finance Committees	This should reduce the size of the TF Committees/Finance Committee and incentivise larger contributions. But it will involve the new Chair in a lot of detailed and potentially sensitive work and might deter small donors

RATIONALE: there is widespread dissatisfaction amongst FTI partners, including most donors, about aspects of the operation of the CF and EPDF Committees. Issues 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

The Governance Task Team considered a move to a unified Finance Committee, but did not follow up. Changes to ask one donor to lead on one country proposal in the CF Committee and thus reduce the length of discussions have been tried out, but not formally adopted. The participation of recipient governments in financial decision making, widely practised elsewhere, has not been seriously examined. Donors often remain unhappy at the quality of proposals put to the CF Committee. Many donors also feel that it is not sustainable to have a CF Committee in which donors who have contributed a long time ago can sit indefinitely.

Progress on any or all of these issues are likely to project the image of an FTI which is serious and adopts best international practice and thus more likely to attract funds in a Replenishment.

Issue 17: Interface with IDA

OPTIONS	+-
Take these major but difficult issues up linked to replenishment	More leverage linked to replenishment, but could complicate the process
Pursue them separately	Opposite of above

RATIONALE: A number of challenges arise from the interface between FTI and IDA, including:

- Differences in risk tolerance between the Bank's board (over IDA resources) and the bilateral donor community with respect to fiduciary accountability at the country level.

- The view that FTI is "crowding out" IDA from basic education, partly due to the reluctance of governments to use scarce IDA resources for basic education when grant funds are available through the CF

- IDA and CF instrument selection has tended toward project rather than budget support , (see Issue 18)

- Internal World Bank staffing and work program arrangements make it difficult for managers to deploy Bank staff to work on FTI proposals in countries where there is no IDA operation

- 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 (which are representatives of donors to the FTI).

Whilst donors' decisions on replenishment will partly depend on progress on these issues, they are already on the table and there is no immediate need for a decision on whether to nest them in with replenishment.

Issue 18: Harmonisation and Alignment of allocations at country level

OPTIONS (not Alternatives)	+-
Encourage the World Bank to make more use of country systems, particularly through quick disbursing sectoral operations.	The World Bank has been reluctant, but there is a recent example of good practice in Burkina. Not all country systems are sufficiently strong to merit use of budget support, though.
Consider use of other implementing agencies where country systems are strong but the World Bank is reluctant to have quick-disbursing CF grants.	The recent example of the role of the Netherlands is a case in point. But there will not be viable alternatives in every country

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 through budget support than the Bank are comfortable to support. The choice of investment-type arrangements over budget support gives rise to slower disbursement schedules and is seen as potentially undermining Paris/Accra principles. Appointing an alternative supervising entity may sometimes be a solution, but will not be possible in every case.

As with 17 above, 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, the Bank's Board and Headquarters management of donors or agencies that might be interested in serving as Supervising Entity.

Issue 19: Speed of disbursement of allocations

OPTIONS	+-
Take this major but difficult issues up linked to replenishment	More leverage linked to replenishment, but could complicate the process
Pursue it separately	Opposite of above

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. Instrument choice (budget support vs investment-type operation) and operation design (e.g. focussing on fast disbursing items) may help. This issue is clearly linked to Issues 17 and 18 above

The issue is now receiving priority from the Secretariat and World Bank staff. Greater use of sectoral budget support, following the recent example of Burkina Faso, has been identified by donors and by the Secretariat as a way of using and supporting country systems as well as of speeding disbursements. This modality – along with other means of quick disbursement - deserves consideration particularly in countries where there is already budget support (DPOs). It should be remembered though that there are serious problems with country systems in some countries (as shown e.g. by the Monitoring Survey of the Paris Declaration) and that budget support is not always the right instrument.

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

OPTIONS	+-
High balance of funds	Bank/FTI has more confidence to allocate. But some donors face problems with paying into a Trust Fund when previous transfers are not spent
Low balance of funds	Opposite of above

RATIONALE: Related to Issue 19 is the issue of the appropriate level of pledges by donors to the the Trust Funds. CF allocations can be made up to the amount of pledges made by donors. Cash is not required until funds are needed for disbursement. In the past donors have paid in funds in excess of the amounts required for disbursement, in part because they had funds available on hand, and in part because estimates of disbursement were not grounded in reality at the country level (e.g. overly optimistic estimates of countries getting to ESP endorsement, increased CF preparation time required as the result of newly introduced FTI Country Level Processes, conservative choice of funding instrument by the Bank). This mismatch has resulted in donors' rules precluding further pledges of funds, which in turn limits the available envelope for future CF allocations. Clearly, the slow disbursement is part of this picture, but many other issues play a role in this problem .

This is a complex issue and donors' rules and practices differ significantly. Need is also evolving rapidly. A more detailed study is required