REPORT OF THE FINANCIAL ADVISORY COMMITTEE

For Decision and Information

PURPOSE

The purpose of this paper is to summarize the deliberations of the Financial Advisory Committee ("FAC") in relation to its meeting (via audio conference) on 22nd January 2013.

Part 1 – FAC Recommendations to the Board of Directors

Section 1– Allocations from GPE resources for a program implementation grant in Mali

Part 2 – Items for Information

Section 2 – Guidance on Indicative Allocations in Federal States

List of Annexes

Annex 1 – Attendance List
Annex 2 – Final Readiness Review (Mali)

PART 1 – FAC Recommendations to the Board of Directors

1. Allocations from GPE resources for program implementation grants

Introduction

1.1 Table 1 contains a summary of the program implementation grant application reviewed by the FAC at its meeting on 22nd January 2013, including the FAC's recommendations (including supervision allocations and agency fees).

Table 1

Country	SE/ME	Allocation Requested (in US$)	Allocation Recommended by FAC (in US$)	Supervision Allocation (in $US)	Agency Fee % and Amount (in $US)	Period	Proposed Funding Source
Mali	World Bank	41,700,000	41,700,000	400,000	1.75% - 729,750	3 Years	GPE Fund

1.2 Mali was originally approved for a program implementation grant of US$41.7 million with the World Bank as Supervising Entity in December 2011. Due to the conflict in country, the proposal needed to be significantly revised. A 3 month extension to the signing deadline of 15th June 2012 was provided. However the revised deadline of 15th September could not be met, and therefore the approval expired.

1.3 Given the exceptional circumstances in Mali, it was agreed that the FAC would reconsider a revised application received outside of the normal application window.

1.4 As can be seen from Table 1, the FAC is recommending that the Board of Directors approve the full grant amount requested.

1.5 The application also included a request for a supervision allocation of US$550,000 which is above the standard allocation of US$400,000. Given the fragile nature of Mali at the moment, the FAC would be open to a request for an increased supervision allocation at a later point, provided it is supported with a written justification and costed supervision plan as outlined in the Board's decision on this subject from November 2012 (BOD/2012/11-10).

1.6 The FAC spent considerable time deliberating on the appropriateness of the implementation arrangements, particularly the issue of having a Supervising Entity as opposed to a Managing Entity arrangement given the fragility of the country.

1.7 The majority opinion of the FAC was that a Supervising Entity arrangement was acceptable considering that the Supervising Entity recognizes the need for flexibility to adapt the program to the changing circumstances, that the staff of the Ministry of Education at the national level are largely unchanged and therefore technical capacity has not significantly diminished, and that putting in place a Managing Entity arrangement at this point was likely to lead to significant delay in program implementation.

1.8 A minority view was expressed by one constituency that they believed a Managing Entity arrangement would be better suited for this situation.

1.9 The Secretariat's Final Readiness Review under the Quality Assurance Review process is provided in Annex 2. The FAC has included recommendations and comments for the LEG, which pursuant to the recommended decision, will be communicated by the Secretariat in its notification of the approval of the allocation. The FAC's comments are presented following the recommended decision below.

Recommended Decision

1.10 The FAC recommends that the Board of Directors approve the following decision:

BOD/2013/02-XX – <u>Approval of Allocation for Program Implementation Grant</u>: The Board of Directors:

1. approves the following allocation from GPE trust funds to be used for a program implementation grant as described in the application submitted for funding in December 2012:

a. **Mali:**

i. US$41,700,000 for a three-year implementation period, with the World Bank serving as Supervising Entity;

ii. US$$400,000 for a supervision allocation; and

iii. US$729,750 for an agency fee.

FAC Comments and Recommendations to the Local Education Group

Mali

- The FAC notes the challenging and changing environment in which this program must operate and strongly suggests that the LEG and the Supervising Entity work closely together and along with partners such as the Education Cluster to ensure that the program is flexible enough to adapt to this environment.
- The FAC encourages the LEG to ensure that there will be ongoing conflict analysis as appropriate to help inform the process of adapting the program as required to meet the changing needs.
- The FAC would welcome the expansion of activities to the North of the country if/ when circumstances permit, and would also note that in identifying activities and budget to reprogram in order to meet the changing needs, that the LEG consider the school construction activities as a potential area from which to reallocate resources.
- The FAC requests that the program be monitored closely and that they be kept informed of the progress in implementation from the LEG and Supervising Entity through the Secretariat.

PART 2 – Items for Information

2. Guidance on Indicative Allocations in Federal States

2.1. The FAC discussed a proposed guidance note to countries with federal systems of government on dividing indicative allocations for program implementation grants. This guidance note was recognized by the Board in June 2012 as an outstanding piece of work on the issue of engaging with developing country partners with federal systems of government and was designed to provide a way forward when countries required Secretariat assistance in deciding on the indicative allocation to sub-national levels.

2.2. The Secretariat's proposal to apply the methodology in the needs and performance framework as far as possible was recognized by the FAC as a sensible and pragmatic approach.

2.3. The FAC however did request additional information to be included in the paper on how the Secretariat would apply the methodology at sub-national level in cases where some elements of it were missing. In addition, the paper should clarify the position on how this guidance would affect any potential requests for an indicative allocation above the US$100 million cap. The paper should provide greater clarity on the issue of selection of sub-national levels to be included in the indicative allocation. Finally, it should be clear that the Secretariat is only providing, upon request, technical services for assisting the country in dividing the national allocations among the sub-national entities, but that the final decision on the actual division of the indicative allocation to sub-national entities rests with the country.

2.4. The Secretariat will work to revise the paper and a revised version will be submitted for FAC review as soon as possible in order to finalize the recommendation to the Board.

ANNEX 1:

MEETING OF THE FINANCIAL ADVISORY COMMITTEE
22 JANUARY 2013, VIA AUDIO CONFERENCE
ATTENDANCE LIST

Chair:

Camilla Helgo Fossberg (NORAD)

Committee Members:

Charles Y. Aheto-Tsegah[1] (Africa 3)

Olav Christensen (in place of Elizabeth King) (Multilateral and Regional Banks)

Jordan Naidoo/ David Atchoarena (UNICEF/ UNESCO)

Malin Elisson (in place of Paula Nolan) (Donor 2 and 4)

Artem Stepanenko (Donor 6)

Swati Narayan (CSO 1 and 2)

Aleesha Taylor (Private Sector and Private Foundations and CSO 3)

Dan Thakur (Donor 3)

Ronald Siebes (Donor 1)

Sylvia Schmitt (Donor 5)

Chair of the Board of Directors

Carol Bellamy

Secretariat:

Bob Prouty (Head)

Douglas Lehman (Country Support Team Lead for Mali)

Margarita Focas Licht (Acting Coordinator, Country Support Team)

Nancy Pinto (Coordinator, Finance, Portfolio and Administration)

Padraig Power (Sr. Financial Officer and FAC Liaison)

[1] Was unable to participate until near the end of the meeting

Observers:

Paula Engwell (Incoming alternate member for Private Sector and Private Foundations and CSO 3)

Apologies[2]:

Hamoud Al-Seyani (Eastern Europe, Middle East and Central Asia)

Minister Alim Hadidja Youssouf (Africa 2)

Sangay Zam (East Asia and the Pacific)

[2] A FAC representative for the Africa 1 constituency is yet to be appointed

ANNEX 2: FINAL READINESS REVIEW

MALI
Quality Assurance Review – Phase 3
Final Readiness Review
Proposed Grant Amount : US$ 41.7 million

COUNTRY BACKGROUND

After two decades of democratic rule and four peaceful presidential elections, the country was destabilized by a March 22, 2012 coup d'état. Various insurgent groups quickly took over the northern two thirds of the country in the weeks following the coup, as the government forces withdrew from that part of the country. In the southern part of Mali, still controlled by the government in Bamako, the military junta retains considerable power, directly managing four ministries, while efforts have been made to return the country to constitutional rule. The military intervened to have the transitional government dismissed on December 10, 2012, signaling that the path to stability will likely be long. Roughly 85% of the population lives in the southern, government-controlled part of Mali.

Reliable economic data for Mali is not available at this time. Prior to the coup, the country had a per capita GDP of US$ 603, and its economy was growing at an annual rate of 5%. Much of the economy relied on activities such as tourism that have been hard hit by the upheaval. Some of the main tourist attractions are in the part of the country occupied by the various rebel groups in the North. Islamist factions in the north have applied sharia law, and approximately 400,000 Internally Displaced Persons (IDPs) from the north have moved to southern Mali while 600,000 have become refugees in neighboring countries. The Ministry of Finance has applied an austerity budget in the face of falling revenue. Most donors have either suspended their programs or reoriented support to non-government implementing partners.

EDUCATION SECTOR

Prior to the political upheaval, Mali already had one of the weakest school systems in the region with relatively low access to education and very low quality. The Gross Enrollment Ratio (GER) had been climbing steadily since 1992 and stood at 81.5% in 2011, and there is no data available yet to reflect the events of the past year on enrollment or achievement. Girls' access to education remains a major challenge, and the gender gap in enrollment was 15.6 points. The country had been planning on reaching universal primary education at 2020, but this is now highly unlikely. Student achievement as measured by various tools shows that at the very best 41% of second-graders perform adequately in French whereas for Math the figure is 38%. Other tools,

such as the Early Grade Reading Assessment (EGRA) showed that more than 80% of Grade 2 students were unable to read even one word. Prior to the coup, the number of days of instruction was one of the lowest in the region at 122 days out of the planned 175. The decentralization process planned for the education sector has been implemented unevenly as central and regional education and finance ministries retain major control over resource allocation and management leading to unclear reporting relationships, particularly for teachers.

Before the coup, the education sector accounted for 21.9% of the national budget expenditures, and basic education was 68.5% of the total education sector spending. With the move away from community-based education to local government school management, there was considerable wage growth over the past 5 years, and in 2011, the average teacher's salary was approximately 4.4 times the GDP per capita. Some of the main challenges facing the education sector at the time were the need to (i) improve physical facilities, (ii) reduce the reliance on household contributions, (iii) reduce the distance that children must walk to school, and (iv) ensure that all schools offer the full basic education cycle.

The security situation in the North and the macroeconomic imbalance associated with it, as well as the suspension of budget support to the government, have consequences with respect to meeting the MDGs and on the reduction of overall recurrent budgets allocation. Moreover, nearly half of the 83495 estimated displaced young people (ages 0 – 18) from the North to the South are of school age (7-15), and as such they are at risk of dropping out or not enrolling. This phenomenon of displacement leads to a drop in GER and Net Enrollment Ratio (NER), as well as to a spike in student/teacher ratios in affected areas, which will likely put downward pressure on primary completion rate and increase repetition rates. Nevertheless, the 2013 initial budget data, at least from the perspective of the total budget share, suggest that education will continue to remain a priority in the current crisis with about 24 % of the total budget (and 37% of the total recurrent budget), highlighting the government's commitment to the financing of the PISE III in a very difficult context.

The 3rd phase of the PISE-Programme d'Investissement Sectoriel de l'Education (Education Sector Investment Program), launched in March 2010 (endorsed in May 2011), was to conclude in December 2012. However, even prior to the coup, it had been decided to extend PISE III to December 2013 due to implementation delays. With the lack of political stability and the occupation of the north of the country, it is not feasible to update the PISE III at this time. Work on a new sector plan is slated to begin in 2013.

PISE III is a phase of the implementation of the 10 year sector plan (PRODEC) which aims to ensure that "all Malian children complete quality basic education, and the education sector provides the country with the human resources required for its development".

The Dutch Embassy serves as Coordinating Agency in Mali, and the Local Education

Group (LEG) includes only donors and government. Discussions continue regarding the inclusion of civil society organizations in the LEG. The current political instability does not lend itself to meaningfully tackling the issue of representation on the LEG, but such CSO participation might be a way for the sector program to remain on track while the country continues to go through a period of instability. The primary development partners on the LEG at this time are the French Development Agency, the Canadian International Development Agency, and the Dutch Embassy.

PERFORMANCE UNDER PREVIOUS GRANTS

In 2007 Mali received an FTI grant of US$ 8.7 for a program focused on improving quality and equity in the basic education system (including textbooks, teachers guides, school grant provision, in-service training of community school teachers, construction and equipment of new basic education classrooms in rural areas). The funding was added to a larger IDA program entitled "Education Sector Investment Program II" which had total funding of US$ 58.7 million. That program closed in December 2010, but a total of US$ 13.8 million was cancelled, of which US$ 2.1 million from the FTI Catalytic Fund. Among the primary constraints cited were (i) the lack of a Project Implementation Unit (PIU), and (ii) failure to complete an audit of 2009 expenditures. A 2009 mid-term external evaluation concluded among others: i) The FTI project modalities derogated from key PFM principles and created additional and parallel procedures to the national ones, ii) the most significant contribution was to improve the M&E system, iii) FTI did not contribute to strengthening of donor coordination and capacity development, iv) FTI defined a different set of objectives deviating from the national process involving high transactions costs."

Despite the cited constraints, the overall project showed marked improvement in key indicators with the primary completion rate increasing from 43.2% in 2005 to 55.7% in 2010, and the percentage of 2nd graders with satisfactory scores in reading increasing from 49.6% to 55.2% against a target of 60%. The World Bank was the Supervising Entity.

Mali subsequently submitted an application for a US$ 41.7 million Global Partnership for Education (GPE) allocation in 2011, and the program was approved the same year. The program design took into account many of the performance issues raised during the preceding program.

APPLICATION SUMMARY

The country's GPE-funded program was approved in 2011 with the World Bank as Supervising Entity, and the then government was nearly ready to sign a grant agreement for the amount allocated (US$ 41.7 million). Following the unconstitutional change of government in March, the World Bank suspended its operations, and the

signing of the grant agreement was no longer possible.

In April 2012, the Secretariat held a teleconference with lead Development Partners to discuss the way forward following the overthrow of the government and the suspension of the constitution. The Secretariat recommended at that time that the Development Partners consider opting for a Managing Entity (ME) modality so as to permit the program to go forward in time for the 2012 – 2013 school year and to take into account the probability of continued instability. The development partners decided to hold off on making a decision until an assessment of the political situation could be done by the SE, scheduled for May 2012. Later in April there was an attempted counter-coup, and in May the unelected president left the country after being attacked by a mob when the military declined to provide protection. In June, the SE was able to conduct an assessment, and in a videoconference with the Secretariat in July, the Development Partners unanimously decided to continue working with the World Bank as SE if/when it would recommence operations. The Development Partners noted that the government systems capacity in the south of Mali was largely intact following the coup, and that it would be important moving forward to maintain and build on the existing capacity. Given the context, the Development Partners agreed that the use of the previously approved Sector Budget Support modality was no longer an option. As the approved program did not include any specific activities to be implemented, any program to replace it would be entirely new. The allocation lapsed on September 15, 2012, and the GPE Board agreed to consider a resubmission, for the same amount when a new program could be developed.

The World Bank was able to commence selected program preparation activities in August, operating under emergency procedures, and by October a draft program document was available. In consultation with the GPE Board and Financial Advisory Committee (FAC), the Secretariat agreed to an accelerated timeline for reviewing the emergency program. Quality Assurance Review (QAR) Phase I was conducted in September, and QAR Phase II in November. The final program document was submitted in December, and resubmitted on January 7, 2013, as discrepancies were noted by the Secretariat in the context of the QAR Phase III Final Readiness Review.

The proposed project, the "Mali Emergency Education for All Project" focuses on populations affected by the occupation of the north of the country by several insurgent groups. The program aims to (i) improve access to basic education for children affected by the conflict in the north of Mali, (ii) mitigate the negative effect of overcrowding through other improvements of the learning environment, and (iii) improve learning and primary school completion through a package of interventions including school feeding programs, teacher training, materials distribution, pedagogical support for teachers, and school management committee activities. The project also includes some non-governmental organization (NGO)-implemented activities to support schools in the occupied north of Mali.

The three components target 40,000 out of school children (of whom 50% are IDPs)

four of the country's nine regions: Bamako, Koulikoro, Ségou and Mopti. The table below summarizes program funding by component:

	Program Subcomponents	Amount (US$)	%of total
1	**Increase access to quality basic education services**		
1.1	School construction, rehabilitation, and equipment	21,150,000	50.7
1.2	School health, feeding program, and teaching material	8,700,000	20.9
2	**Strengthen the technical, and pedagogical capacity of the education system**		
2.1	Teacher training for community schools	4,050,000	9.7
2.2	Pedagogical Support to affected students	3,700,000	8.9
3	**Strengthen the administrative and monitoring capacity of the education system**		
3.1	Setting-up of 1,000 School Management Committees	1,500,000	3.6
3.2	Support to the Ministry M&E system in targeted areas	800,000	1.9
3.3	Project M&E and TA	1,800,000	4.3
	TOTAL	41,700,000	

The project is integrated into the ministry administrative line and is designed to strengthen the administrative and monitoring capacity of the education system. It will be implemented using the following layers of responsibilities: (i) strategic coordination; and (ii) overall technical coordination including fiduciary management, School Management Committees and M&E system.

The program document notes that "*The operation faces very high security and political risks which are compounded by external risks, implementation capacity risks, and governance and budget risks. Mali's education emergency project differs from most emergency projects in the sense that the latter are usually rehabilitation and recovery projects initiated after the crisis has subsided while in this case, the crisis has just begun and has still to play itself out*." (PAD, p. 38)

SUMMARY OF THE QUALITY ASSURANCE REVIEW PROCESS

The QAR process has followed the guidelines shared with the FAC. The timeline of the preparation was accelerated as part of an emergency response effort on the part of the LEG and the Secretariat.

The QAR Phase I report concluded with the following recommendations:

- Ensure the participation of CSO's in the program development process, and continue to reflect on the inclusion of CSO's in the LEG;
- Adequately document development partner feedback and contributions to the program document development process;
- Further develop the aspects of the program that support improved quality of learning in the Malian school system;
- Ensure that girls' education activities are properly integrated in the different program activities;
- Include specific activities to for children who reside in the north of Mali

Following are the key recommendations from the QAR Phase II report:

- Consider specific activities which might better align the program with GPE priorities in the areas of (i) direct support for children in occupied northern Mali; (ii) explicit support to improved reading, implementation of the new curriculum, setting up a learning assessment system; (iii) activities to improve security for girls attending school.
- If necessary, provide a better justification for the decision not to directly support education for the children of the North of Mali, and better explain the shift in technical emphasis away from quality of learning (as in the previously approved program, of September 2011) to infrastructure which accounted for more than ¾ of the draft program budget.
- Include qualitative indicators for service delivery, including client satisfaction with work done by implementing partners.
- Better document the subcomponents to include more information on the current situation in the target zones, past experience with activities implemented by the ministry or by partners, and capacity building activities to address weaknesses observed.
- Address fiduciary risk issues with respect to proposed financial management arrangements particularly with respect to the direct school-level subsidies.
- Better document the need for the national budget to take on recurrent costs associated with program implementation.

Following is the status of the key recommendations from QAR Phases I and II:

Program support to children living in occupied northern Mali: The final program document includes specific activities to be implemented in 120 schools in occupied northern Mali. The Ministry will contract with NGOs to implement the activities, and the Education Cluster will provide monitoring in those areas where the Ministry of Education and Literacy (MENA in French) cannot operate directly. The planned activities are: (i) school feeding program, (ii) teacher training, and (iii)

provision of teacher/ learning materials.

Consultative process and the inclusion of CSOs in program development and LEG: The LEG in Mali does not include CSOs as LEG members at this time. Discussions on CSO inclusion were underway in March 2012 prior to the coup d'état. Since that time, with the considerable level of political instability and the unconstitutional changes in government, the context for discussing CSO inclusion is particularly complex. On one hand, donor support is largely channeled through Malian NGOs since the coup, and International NGOs mobilize considerable sector investment financing for Malian school communities, but the coordinating mechanism at the national level has not been updated to formally include representatives of the two groups. Interviewed during the QAR Phase I mission, Malian CSO associations reported that they are insufficiently consulted, and that Malian NGOs would be able to provide leading edge technical inputs into sector discussions on the improvement of the quality of education if the LEG were open to their inclusion. Since then, the MENA and its partners worked to improve CSO participation, and the Program Implementation Grant application indicates that trade unions and other CSOs were consulted in meetings on October 20 and 18, 2012 respectively. The Coordinating Agency provided a cover letter with the application that indicated that "all involved parties" recognize that the flexible emergency project is well-suited to the context.

Improved alignment with GPE priorities in the areas of learning outcomes, girls' education: The program document features a more holistic approach to supporting girls' education by explicitly including girls' education concerns in the various existing program components including (i) school construction and rehabilitation, (ii) training for teachers in community schools, (iii) support to the creation and functioning of School Management Committees. There is also an activity to provide subsidies to girls with perfect attendance records.

For the quality of learning, the program document includes a similar holistic approach, underlining the link between school retention efforts, teacher training and provision of materials and improved learning. The program also includes training specific to teaching in multigrade classes. The considerable disparity between the results obtained by the various student assessments (between PASEC, EGRA, others) indicate that the MENA may not have a good grasp of the quality challenge, particularly in the area of reading. Inclusion of Malian NGOs in the LEG may provide an avenue for enriching education sector discussions on learning outcomes.

With respect to the GPE priority of education in fragile contexts, the program document notes that the Supervising Entity does not classify Mali to be a fragile context. But while the title of the program, and the geographic focus, appear to be oriented to the specific needs of the country that are generated by the current context of fragility, most of the planned activities are typical for a development project as opposed to an emergency

project. A residual concern moving forward is that the proposed project may face suspension if there is continued instability, and that a rapidly evolving political/military situation may create the need for additional, flexible adaptation.

Program balance: Whereas the draft program document budgeted 62.4% of its funding to school construction/rehabilitation/equipment, in the final version, this number declined to 50.7%. Further, the infrastructure-related interventions are better tied into student retention through improvement of the learning environment. The project activities that saw substantial budget increases include pedagogical training for teachers as well as peace, civic and human rights education, and pedagogical materials distribution. This positively contributes to all three of the GPE priority areas that were stressed in the QAR process.

Additional information for subcomponent baselines, indicators, management of fiduciary risk: The program document includes additional information substantially responding to the QAR recommendations by providing additional contextual information relating to the target intervention zones and the implementation arrangements. The program does not include indicators that capture client satisfaction.

The project document better addresses the risks linked to (i) construction activities (reinforcement of the construction and monitoring capacities at the national level and through delegation of responsibility to implementing agencies), and (ii) pedagogical training and material delivery in the north areas (collaboration with local agencies and NGOs with existing and efficient expertise).

FINAL COMMENTS

The proposed project intends to respond not only to the emergency but also help reinforce the foundation for further development of the education system through management and teaching-learning improvements identified in the PISE III and made all the more imperative under the current circumstances. Specifically, the project includes rehabilitation/expansion of school places, nutrition and health, participation of communities in school management, teacher training and remedial courses for students, all of which are in line with the SE's core competencies.

Implementation of the proposed program in the Malian context will be complex. Just 5 days after the submission of the program document, the Malian military intervened to dismiss the government that prepared the application under consideration. The LEG has thinned out with the suspension and/or redirection of activities by several partners. There is a strong likelihood of continued instability. The emergency EFA program will be

a welcome stabilizing influence in the country, but there is a considerable risk of program suspension if there is another unconstitutional regime change or degradation of the security situation. The proposed project notes the need for flexibility, but does not include specific contingency plans for various scenarios including (i) intensification of armed conflict and further national education budget contraction, (ii) unconstitutional change of government, or (iii) resumption of government control in the north. Events in Mali since the submission of the application underscore the risk to the project implementation context.

The LEG has opted for a development project approach that mainly benefits populations in the south that are affected by the conflict in the north rather than an emergency project designed for a conflict-affected context. The program also includes support for populations remaining in the north of the country, but this support will take place in a rapidly evolving security situation where implementation of humanitarian interventions is quite challenging.

The program design is relatively simple, which favors smoother implementation. At the same time, some of the more ambitious, riskier, activities that could address core education system challenges will not be covered by this project. The program's focus on permanent construction in the context of large numbers of (temporarily) displaced populations is more typical of a regular development project, but it is noted that such construction will also serve the normal expansion of the school system in the target areas.

Given the stark national budget situation, and the redirection of major donor-funded activities, the GPE-funded program, working through the government systems, constitutes an important avenue for maintaining education sector capacity at the national level.