# The EFA Fund

This note responds to the request from the FTI Board of Directors for a proposal for a single (or virtual) funding vehicle (the EFA Fund) and describes broadly how the EFA Fund would work – from the perspectives of the Partner Country and its LEG, the "Supervising Entity" of approved fund allocations, the Donor, and the Trustee. The EFA Fund is intended to accommodate reforms planned for the EPDF successor fund PACE, and the Education Transition Fund -- including that no single agency would be designated as default Supervising Entity of fund allocations.

Approval of the FTI Board of Directors is sought to further develop this proposal, with support from the key stakeholders.

***Background:*** At inception in 2002, the Education for All Fast Track Initiative identified itself as "an evolving global partnership of developing and donor countries and agencies to support global EFA goals by focusing on accelerating progress towards the core EFA goal of universal primary school completion (UPC) for boys and girls alike, by 2015."

Among the components of the FTI that have seen greatest evolution since 2002 is the FTI Trust Fund architecture, which current comprises the Catalytic Fund (CF), the Education Program Development Fund (EPDF) and the Secretariat Trust Fund, and soon to include the EPDF successor fund PACE and the Education Transition Fund (aimed at supporting countries with low institutional capacity). While all FTI Trust Funds support countries in the FTI Process, each was developed with, and operates using, its own rules and procedures and its own decision-making structure. Some unintended consequences of this fund fragmentation are: weakened the linkages between FTI Board decision-making and country allocation decisions, blunted impact of the recent governance reforms intended to give voice to Partner Countries, and increased cost of doing FTI business. Fund fragmentation has also likely contributed to diffusion of political leadership needed to support a successful replenishment, and most significantly, diverted attention away from the centrality of the Partner Country in the FTI Process.

More than simply addressing the complexity of funds administration, the single or virtual fund approach, together with the introduction of the Single Chair, would aim to create a unified dialogue among FTI Partners connecting FTI policy with funding.

## How EFA Fund could work

***From the Partner Country's Perspective:*** Working together with the Local Education Group (LEG), a Partner Country would prepare a request for funding from the EFA Fund to cover a set of activities, to be delivered over say a three year period, and to include (potentially) the range of activities covered under the various FTI Trust Funds (e.g. capacity building, knowledge exchange services, targeted analytical work and Education Sector Program implementation support). Identified in the request would be the agency designated to serve as Supervising Entity (or in some cases, the Implementing Agency) for each major component of the work to be undertaken. Financial and progress reporting on delivery of activities funded would be required at least annually from each Supervising Entity/Implementing Agency, and the Coordinating Agency of the LEG would be expected to report in aggregate on overall delivery of funded activities as an integral part of the joint reporting on progress on educational outcomes, including FTI Indicators.

***From the Supervising Entity's/Implementing Agency Perspective:*** Each agency designated in a Partner Country request as Supervising Entity/Implementing Agency would receive funding via Transfer Agreement with the Trustee. Transfers to Supervising Entities/Implementing Agencies would represent a share of the total of all allocations for which they are designated as SE – based on the liquidity needs of the SE to deliver the package of activities. In the example shown below, SE 1 would receive a 5,000 first year transfer from the Trustee upon approval of the Country requests. Subsequent transfers would be based on statements of need. Each SE would supervise Partner Country activities according to its own policies and procedures.

| | **Supervising Entity 1** | **Supervising Entity 2** | **Supervising Entity 3** | **Total Country Request** |
|---|---|---|---|---|
| **Country A** | 1,000 | 3,100 | 900 | 5,000 |
| **Country B** | 200 | 6,500 | 800 | 7,500 |
| **Country C** | 5,000 | 1,000 | 1,000 | 7,000 |
| **Total** | 6,200 | 10,600 | 2,700 | 19,500 |
| **Amt to be transferred in Year 1 (based on SE liquidity projection)** | 5,000 | 7,000 | 2,700 | 14,700 |

***From the Donor's Perspective:*** Under the current funding arrangements, many donors contribute to three separate FTI funds, each of which can require amendments to Administration Agreements to accommodate changes in scope of the fund, closing date, contribution amount, etc. Administration Agreement processing and tracking creates a burden for the donor (including their legal and financial staff) and for the Secretariat and the Trustee's legal and financial staff. (In 2009 alone, more than 30 FTI Administration Agreements/Amendments will have been processed.) In addition to the time and cost involved in processing Agreements/Amendments, separate fund governance arrangements require donors to participate in multiple Funds Committees, each of which meets at least once per year, and often more frequently. Because membership of the (current) two Fund Committees does not fully overlap, FTI communications/presentations are often delivered three times in the course of FTI Meetings – once at the FTI Board of Directors meeting and once at each of the Fund Committee meetings. Under a single fund approach each donor would contribute under the terms of a single Administration Agreement and would serve, or be represented on a single Funding or Finance Committee, reporting to the FTI Board of Directors will replace the individual Fund Committees.

***From the Trustee's Perspective:*** Under current arrangements, because of the multiple roles the World Bank plays in FTI -- Trustee, Supervising Entity for CF allocations, administrator of the EPDF, host of the Secretariat – FTI Partners and others are often confused about which role World Bank staff are playing in FTI any given circumstance. Under the single fund approach, the Trustee role would be clearly and fully segregated from all other roles the World Bank plays in FTI. As Trustee, the Multilateral Trustee and Innovative Financing Department (MTI) of the World Bank would take on all aspects of the FTI "banker" role, including financial administration of donor funds through *inter alia* contribution management, cash flow and liquidity, management of promissory notes and similar instruments, and recording and acting on allocation decisions taken by the FTI Board. (MTI is organizationally separate from all operational units of the World Bank, including the Human Development Network and Regional Vice Presidencies. It serves as Trustee for a number of large multidonor funds including the Global

Environment Facility and the Global Fund to fight Aids, Tuberculosis and Malaria.) Acting on instruction from the Funding or Finance Committee, the Trustee would transfer agreed allocations to the various designated Supervising Entities – including the World Bank – through Transfer Agreements.

***Additional Benefit:*** An additional benefit of the single fund approach is a more secure and equitable funding source for the Secretariat core operations. Under the current Secretariat Trust Fund arrangement, 3 donors fund more than 80% of the Secretariat core budget and workplan, while the entire Partnership benefits from their work. Under the single fund approach, the Secretariat would present to the FTI Board of Directors for approval a work program and budget (on an agreed periodic basis), and the agreed budget would be allocated.

**Challenges:** Among the challenges of moving to a single fund approach are:

- The objectives of the fund as set out in donor agreements must be sufficiently broad to accommodate all FTI services now covered by the CF, the EPDF and anticipated by PACE and the ETF, and all donors must agree to the same set of objectives
- All donors must agree to allow the Transfer Agreement mechanism.
- Country level processes, including the roles and responsibilities of the LEG and the Coordinating Agency (or equivalent) must be formalized and supported by agency HQ.
- Donors must agree to delegate financial decision-making to a representative Finance Committee. As well, the role and responsibilities of the Finance Committee will need be set.
- If a partner is not on the Finance Committee – how do they remain in the communication loop?