

EDUCATION FOR ALL – *FAST TRACK INITIATIVE*

**CATALYTIC FUND
PROGRESS REPORT**

MARCH 2005

**Prepared by the FTI Secretariat for the FTI Technical Meeting
March 17-19, 2005**

EFA-FTI Catalytic Fund Activity Update November 2004 - March 2005

PLEDGES AND RECEIPTS

1. Donor pledges for 2003 – 2007 in donor currency and estimated US\$ equivalents are shown in Table 1. Out of the total amount of US\$75.23 million equivalent pledged for 2005, receipts to date total US\$13.4 million. Total amount pledged for 2006-2007 is an estimated US\$168.56 million.

Table 1: Catalytic Fund Donor Pledges 2003-2007*(in millions) in Donor Currency and US\$ equivalent

Donor	Currency	2003-2004	US\$ 2004	2005	US\$ 2005	2006-2007	US\$ 2006-07	Total	US\$ equivalent
Netherlands a/	EUR	38.75	39.47	46.25	60.5	110	143.9	195	243.87
Norway b/	NOK	40	5.9	50	8.1	38	6	128	20
Italy	EUR	2	2.4	-	-	-	-	2	2.4
Belgium	EUR	1	1.25	1	1.33	2	2.66	4	5.24
UK	GBP	-	-	-	-	8.5	16	8.5	16
Sweden	SEK			35	5.3			35	5.3
Total			49.02		75.23		168.56		292.81

The dollar conversion for 2005 and beyond utilizes the exchange rate on February 28, 2005.

a/ In 2003 and 2004, the Netherlands contribution was channelled through the BNPP. The total US\$ equivalent excludes US\$ 6.9 million transferred from the BNPP to Cape Verde prior to the Catalytic Fund.

b/ Norway's contribution of 19 million NOK in 2006 and 2007 is based on their commitments of US\$ 3 million each for these years.

Country Allocations and Disbursement Schedule

2. Table 2 shows allocations, grant signature dates, disbursements, and planned disbursements through December 2005. Of the \$45 million allocated in 2004, \$28.5 million has been disbursed to date, due to the signing of a number of grant agreements in the later part of 2004 and sometimes early 2005. For example the Gambia agreement for the 2004 allocation was signed in November 2004. Similarly, Niger's 2004 agreement was signed in January 2005. As a result, grant allocations for 2004 have been completely disbursed to Yemen (US\$10million) and Guyana (US\$4million) and for the other countries only the first tranches have been disbursed. However, the remaining US\$ 16.5 million from the 2004 allocations are expected to be disbursed by September 2005.

Table 2. Country Allocations and disbursements (US \$ millions) CY 2003 – 2005

Country	Grant agreement signature	Grant Allocations				Disbursed	Planned Disbursements		
		2003	2004	2005	Total	Mar. 2004 – Mar.2005	Apr-June 2005	July—Sept 2005	Oct.-Dec. 2005
Yemen	04/23/04	-	10	10	20	10	5*	0	5*
Niger	01/12/05	5 ¹	8	8	21	5	4	4	8*
Nicaragua	08/17/04	-	7	7	14	3.5	3.5	3.5*	3.5*
The Gambia	11/04/04	-	4	4	8	2.5	1.5	2*	2*
Guyana	06/28/04	-	4	4	8	4	4*	0	0
Mauritania	04/23/04	5	2	2	9	3.5	3.5	1*	1*
Ghana	02/17/05			8	8		4*		4*
Total		10	35	43	88	28.5	26.0	10.5	19.5

*Amounts indicate planned disbursements from 2005 allocations.

3. For 2005 allocations, of a total of US\$79.23 million available (US\$75.23 pledged plus US\$4.00 million carried over from 2004) US\$43 million was allocated by the Strategy Committee in November 2004 to seven countries. The remaining US\$36.23 million will be allocated by the Strategy Committee during its meeting in March 2005. To date one grant agreement has been signed for 2005 allocation. The grant agreement for Ghana was signed by the Government of Ghana on February 17, 2005. The first tranche of Ghana's grant is expected to be disbursed by the end of March 2005. Grant agreements for other 2005 allocations will be prepared as soon satisfactory grant completion reports for 2004 allocations are received.

SUPERVISION FUNDING

4. A total of US\$490,000 has been transferred to the operational regions for supervision of the grants for 2004. Out of the above amount, US\$ 270,000 has been transferred to Africa, US\$ 160,000 to Latin America and the Caribbean and US\$ 60,000 for the Middle East and North Africa region. With the signing of the 2005 grant agreement for Ghana, \$90,000 is in the process of being transferred to the Africa region.

2005 WORKPLAN IMPLEMENTATION STATUS

Activity	Status
Process grant agreements for new CF countries	Completed for Ghana
Evaluate results and experience of the first six CF grants	Pending
Develop a model agreement for cases where the recipient is another agency	Pending
Develop a model agreement for pooled funding	Pending
Disseminate the operational guidelines and disbursement mechanism widely to task managers, Country Directors, and local donors	Clearance of guidelines in progress (See Annex II for revised guidelines)
Maintain quarterly meetings with advisory group	Pending

¹ Grant agreement for Niger's 2003 grant allocation was signed on January 26, 2004.

Issues for discussion during the CF Strategy Committee – March 17, 2005

- Revised allocation criteria (including LICUS countries and Small Island states)
- Proposed options for new countries and allocation strategy for 2005
- Proposed exit strategy options
- Secretariat work program
- Any other business

ANNEX 1: FINANCIAL STATEMENTS***Annex I A - CATALYTIC FUND MULTI-DONOR TRUST FUND ACCOUNT******SUMMARY OF CONTRIBUTIONS, ALLOCATIONS, DISBURSEMENTS
AND FUND BALANCE***

For the period November 21, 2003 (inception) to March 3, 2005 (till date)

Expressed in U.S. dollars

	<i>UNAUDITED</i>
	November 12, 2003 (inception) to March 3, 2005
<i>Receipts</i>	
Contributions	\$
Norway	14,047,419
Italy	2,364,000
Sweden	5,313,092
Belgium	1,233,395
Total contributions	22,957,906
Investment income	190,453
Total receipts	23,148,359
<i>Disbursements</i>	
Project disbursements	
Mauritania	1,000,000
Supervision costs for grants to MENA countries	7,229
Supervision costs for grants to LAC countries	55,516
Total project disbursements	1,061,400
Transfer to other trust funds (Guyana)	4,000,000
Administration fee	45,915
Total disbursements	5,107,315
Excess of receipts over disbursements	18,041,044
Fund balance, beginning of period	-
<i>Fund balance, end of period</i>	\$ 18,041,044

Note**(A) Summary of allocations from Catalytic fund till date**

Mauritania	2,000,000
Ghana	8,000,000
Child fund for supervision for MENA countries	60,000
Child fund for supervision for AFR countries	270,000
Child fund for supervision for LAC countries	160,000
Total allocation*	\$ 10,490,000

* Excludes transfer to Guyana for which a separate multi-donor trust fund has been created at the country level.

(B) Summary of donor pledged amount

Norway	NOK	128,000,000
Italy	EUR	2,000,000
Netherlands	EUR	156,250,000
Belgium	EUR	4,000,000
United Kingdom	GBP	8,500,000
Sweden	SEK	35,000,000

The above unaudited financial statement was prepared by the FTI Secretariat

Annex I B - BNPP EDUCATION FOR ALL (CATALYTIC FUND)

***SUMMARY OF CONTRIBUTIONS, ALLOCATIONS, DISBURSEMENTS
AND FUND BALANCE***

For the period November 21, 2003 (inception) to March 3, 2005 (till date)

Expressed in U.S. dollars

		<u>UNAUDITED</u>
		November 12, 2003 (inception) to March 3, 2005
<i>Receipts</i>		
Contributions	\$	39,470,951
Total receipts		<u>39,470,951</u>
 <i>Disbursements</i>		
Project disbursements		
The Gambia		2,500,000
Yemen		10,000,000
Mauritania		2,500,000
Nicaragua		3,500,000
Níger		5,000,000
Total disbursements		<u>23,500,000</u>
Excess of receipts over disbursements		15,970,951
Fund balance, beginning of period		-
<i>Fund balance, end of period</i>	\$	<u>15,970,951</u>
 Note		
Summary of allocations for various countries till date		
The Gambia		4,000,000
Yemen		10,000,000
Mauritania		5,000,000
Nicaragua		7,000,000
Niger		5,000,000
Níger Phase 2		8,000,000
Total allocation	\$	<u>39,000,000</u>

The above unaudited financial statement was prepared by the FTI Secretariat

ANNEX II: REVISED OPERATIONAL GUIDELINES

1.0 Introduction

1.1 The Education for All Fast Track Initiative (EFA FTI) was launched in 2002 by over twenty bilateral and multilateral donors and UN agencies. The FTI aims to support countries to achieve the Millennium Development Goal (MDG) for primary education, which calls for completion of primary education by all children by 2015. The Catalytic Fund (CF) is one component of the FTI program.

1.2 These guidelines describe the CF and how it operates. Annex 1 provides the terms of reference of its decision making body, the Trust Fund Strategy Committee (Strategy Committee). Annex 2 summarizes the responsibilities of task team leaders and others in the processing of a C F grant.

2.0 Objectives

2.1 The EFA-FTI Catalytic Fund (CF) was established by the FTI donor partners in November 2003. It provides one to two, maximum three, year's transitional grant financing to low-income countries with too few donors to enable them to scale up country education sector programs that aim to achieve the MDG for primary education. The CF transitional financing is intended to enable such countries to bridge their financing gap, boost their performance, and attract additional and longer term financing to enable them to sustain the effort.

2.2 The EFA-FTI C F is open to IDA eligible countries that meet the EFA-FTI criteria and have too few donors to finance the education program fully. The EFA-FTI criteria are that the country:

- has a sector program, endorsed by partners at the country level, that prioritizes the achievement of the MDG for primary education;
- has a Poverty Reduction Strategy (PRS) in which the program is embedded; and
- demonstrates reasonable and effective country effort that is tracked by common indicators (indicative framework).

3.0 Eligible Recipients

3.1 Four categories of Eligible Recipients may receive funding from the CF, as follows:

- governments of eligible countries;
- country-specific trust funds established to support education in an eligible country;
- aid agencies of governments providing assistance to eligible countries;
- and such other eligible recipients as may be determined by the Strategy Committee.

4.0 Governance

4.1 The CF is administered by the World Bank (Bank) on behalf of the FTI partnership. The FTI Secretariat, which is housed in HDNED (Human Development Network Education), manages the CF on a day to day basis. A Strategy Committee, consisting of a representative from each contributing donor and a representative of the Bank, sets the policies and guidelines of the CF, decides upon the country allocations, and provides guidance to the FTI Secretariat during implementation. Decisions are made by

consensus. The Strategy Committee is chaired by the Bank representative who is the Senior Vice President of the Human Development Network.

4.2 The Bank decides which type of recipient will receive funds in a given country.

5.0 Administrative Fees

5.1 A fee of 0.2% is levied on the CF's principal to recover the costs of the Bank's central support units. Additionally, the CF allocates funds for its principal to cover the operational costs of grant supervision. In certain cases, however, CF resources will be transferred to either finance existing Bank-administered trust funds which have an established fee or to provide "seed money" to start a multi-donor trust fund. In both cases, the transferred CF funds are not subject to an administrative fee at the level of the country trust fund since the fee has already been levied at the central level. However, any new donor contributions to the country level funds incur the established fee for the fund in question.

6.0 Eligible Expenditure

6.1 In accordance with the Bank's new policy (OP 6.00) on the eligibility of local expenditures, recurrent expenses and taxes, for countries with approved Country Financial Parameters (CFPs), the CF fund may finance any expenditure – investment or recurrent – that is part of the country's endorsed education sector plan. For countries which do not yet have approved CFPs, Regions can be flexible and proceed with up to 100% recurrent cost and taxes to the extent permitted under the administration agreements with donors because this flexibility was allowed by Bank policy (i.e. para 35 of OMS 1.21, "Bank Financing of Recurrent Costs", the December 2002, OpMemo regarding income taxes under trust funds and the Vice President, Operations Policy and Country Services' waiver regarding taxes on goods with respect to the EFA trust fund given during the meeting) and the administration agreement with the EFA trust fund donors allowed the financing of these expenditures.

7.0 The Grant Agreement

7.1 The Grant Agreement sets out the terms and conditions of the grant, inter alia, that the grant funds will support a program of activities, objectives and policies designed to achieve the country's EFA Program. **Annex 3** provides a model country grant agreement prepared by the Legal Department, June 2004. The Task Team Leader (TTL) works with the country operations lawyer to prepare the grant agreement and obtains clearances from the concerned departments of the Bank (Trust Fund Operations, Accounting Trust Funds Division (ACTTF), Loan Department Disbursements) The grant agreement is signed by the Country Director (with copies to the Country Manager, the Country Economist, the regional HD manager and the TTL).

8.0 The Financing and Disbursement Mechanism

Preferred disbursement option

8.1 Given the relatively small individual grant allocations, the need to disburse funds in the most timely and efficient manner in order for the CF to achieve the MDG for primary education in countries with few donors, and the eligibility criteria already applied to CF recipients (a PRSP and a sector program), the CF grant agreements will, as a preference, be policy-based adjustment agreements with the recipient governments and disbursements will be made in two or more tranches.

8.2 The first tranche disbursement would be released on the recipient's meeting the required criteria for eligibility for CF participation, that is:

- ❑ an approved national poverty reduction strategy, or a similar national strategy that would help ensure that education strategies are anchored in country level consultative and budgetary processes;
- ❑ a sector-wide program for education agreed with in-country donors and including a strategy for HIV/AIDS, gender equality, capacity, monitoring and evaluation; and
- ❑ agreement to monitor benchmark indicators.

8.3 The tranche would be available immediately after signing the grant agreement, on submission of a withdrawal application. The second (and subsequent, if applicable) tranche would be released on a satisfactory report of implementation progress, together with a withdrawal application.

Alternative disbursement options

8.4 Where fiduciary ESW (i.e., Country Financial Accountability Assessment, Country Procurement Assessment Review, Public Expenditure Review or other analytical work) has indicated an extremely high fiduciary risk to using the recipient government's budget systems (for example, in a conflict or post conflict situation), alternative disbursement options may be implemented including using a monitored Project Implementation Unit.

8.5 Other disbursement modalities may also be used, as appropriate, including traditional or report-based disbursement methods under co-financing of investment operations and pooling of funds with other donors in the case of Sector Wide Approaches (SWAs). This would apply also to grant agreements where the implementing agencies are NGOs or UN agencies. In these cases the grant agreements will be signed with the recipient governments with subsidiary agreements with the implementing agencies. The Bank's operational procedures for dealing with UN agencies will be followed and disbursements would be made through the Loan Department.

8.6 On an exceptional basis, grant funds may also be made available to an eligible recipient whose activities the Bank is not required to supervise and where the Bank acts simply as a paying agent. In these cases, disbursement arrangements would be limited to secure delivery of funds to the recipient and disbursements would be made through the Loan Department or ACTTF, as subsequently agreed.

In order to ensure due diligence on the part of the Strategy Committee in recommending such cases for consideration, the following are required elements of the decision package for consideration of such requests:

- an assessment of the Administrator's and recipient's financial management systems (in cases where they are not one and same) conducted by a Bank Financial Management Specialist, and
- clear designation of responsibilities and plans for supervision.

9.0 Supervision costs

9.1 The Bank will enter into grant agreements with the Eligible Recipients selected to receive funds, except where the Eligible Recipient is a Bank-administered Trust Fund (which is a simple Bank transfer). The Bank will supervise the activities financed under a grant agreement of Eligible Recipients who are eligible countries and the activities financed under a grant agreement of other Eligible Recipients as the Strategy Committee may agree should be supervised by the Bank.

9.2 The Bank is responsible for supervising CF grants made to:

- (a) Eligible countries

- (b) Country specific trust funds for which the Bank acts as a trustee
- (c) Other Eligible Recipients (as identified by the Strategy Committee) where the committee determines that the Bank will supervise

9.3 The EFA-FTI Secretariat will set aside CF funds for Bank supervision into “child trust funds”; there will be one per Region or Network, and the Secretariat will agree with colleagues in the Vice Presidential Unit (VPU) as to who will be the TTL of record for the child fund.

The CF finances the reasonable costs of supervision from the fund’s principal. Budgets shall be proposed to the Secretariat by team leaders responsible for supervision, in consultation with their managers. The Secretariat is authorized to approve proposals under \$100,000; proposed supervision budgets exceeding \$100,000 shall be submitted to the Strategy Committee for decision. Based on Bank regional norms for the supervision of Bank funded projects/programs, estimates in 2004 are \$90,000 in Africa (AFR) for both investment and adjustment operations, \$80,000 in Latin America and the Caribbean (LAC), \$60,000 in Middle East and North Africa (MENA), and \$65,000 in East Asia and the Pacific(EAP) per project/program per year. On the basis of the supervision budgets approved by the Strategy Committee ACTFF establishes one “child” trust fund (TF) per region. The child TFs are managed by the designated regional sector manager. The TTL draws down on the child TF to meet supervision expenditures which are monitored through established Bank systems for staff time recording, the consultant contract system and statement of expenses (SOE) for travel and other expenditures.

9.4 In cases where the grant agreement is entered into between the Bank and the government of the Eligible Country to which CF funds have been allocated, the Bank shall supervise the activities financed under grant agreement. Bank fiduciary safeguards also apply to the management of country level funds set up for FTI in countries which are Eligible Recipients when the Bank is the Administrator of such funds.

9.5 The Bank shall have no responsibility to the CF Donors for an Eligible Recipient’s use of grant funds transferred to an Eligible Recipient whose activities the World Bank is not required to supervise. It is the Bank's intention not to pursue these options. However, the Bank may consider exceptions on a case by case basis as the Strategy Committee may propose. In such cases, the following shall apply:

- ❖ The proposed Administrator of the funds transferred to from the CF shall assign a qualified team leader to monitor and support implementation of the program. In addition to day to day implementation support, a review of progress in program implementation and outcomes, with the participation of all other donors that support the country's education sector development program, would be expected to take place twice a year, and in conjunction with the country's regular schedule of reviews of its sector program. Reports from the reviews would be transmitted by the responsible agency concerned to the FTI Secretariat for reporting purposes.
- ❖ The Bank shall conduct an assessment of the proposed financial management arrangements of the Administrator and those proposed to be utilized by the executing agency, where they differ. The assessments shall be made available to the Strategy Committee as an input to its deliberations as to whether to recommend the exception.
- ❖ Should CF Donors require an audit report; the Bank will provide an audit to Donors of the transfer transactions only at the main Trust Fund level. Details on subsequent applications of the funds would not be the responsibility of the Bank. However, the Bank as Trustee of the C F may transmit to Donors reports received from the administrators of those non-Bank-administered funds.

9.6 The supervision funds will be transferred from the parent CF to a separate child Trust Fund. In cases where the Bank supervises (as the Grant Administrator), the allocation for implementation support,

monitoring and reporting will be channeled as a separate task/line item in the child TF for supervision for draw down by the team leader. The Bank systems would be used to account for expenditure through recording system for staff time, contract system for consultants, and SOE for travel and other expenditure. In cases where the supervision funds are transferred to another aid agency because the Strategy Committee decides that such agency should be responsible for supervision, the Bank is not responsible for overseeing the use of the grant funds.

10.0 Accounts and Audits

10.1 Accounting and auditing requirements follow operational policies for Bank adjustment and investment loans and credits.

11.0 Closing Date

11.1 The CF is quick disbursing so the Closing Date is set one year after the effectiveness date. In other respects, the CF follows the closing date policies for Bank loans and credits.

12.0 Implementation Report

12.1 The Recipient prepares a report on the implementation of the Grant and its impact on the Sector Program objectives which is submitted to the FTI Secretariat not later than three months after the Closing Date.

13.0 Reports to Contributing Donors

13.1 The FTI Secretariat provides each donor with an annual report on the activities financed by the CF. The Bank will provide a standard Single Audit for the Catalytic Fund to all its Donors (A Single Audit encompasses the Bank's standard Quarterly Unaudited Statement of Receipts, Disbursements and Fund Balances along with an annual management assertion together with an attestation from the Bank's external auditors concerning the adequacy of internal control over cash-based financial reporting for trust funds as a whole).

13.2 In those cases where the CF transfers funds to another Bank-Administered trust fund, the CF Single Audit would simply show a transferred amount to another trust fund. The Secretariat, upon request of the Donors, can ask for the Single Audit of the receiving trust fund from the TTL of record.

13.3 In cases where the CF has transferred monies outside of the Bank Group, if Donors require an audit report, the Bank will provide an audit to Donors of the transfer transactions only at the main Trust Fund level. Details on subsequent applications of the funds would not be the responsibility of the Bank. However, the Bank as Trustee of the Catalytic Fund may transmit to Donors reports received from the administrators of those non-Bank-administered funds.

Guidelines and Processing Checklist
Education For All - Fast Track Initiative Catalytic Fund

	Activity	Responsible	Date
1	Country Sector Program assessed and endorsed	Local donors	
2	Endorsed Country Sector Program sent to FTI Secretariat with indication of financing gap	TTL	
3	Country Catalytic Fund grant allocation decision	Catalytic Fund Strategy Committee	
4	Country Task Team Leader notified of allocation decision	Secretariat	
5	Country notified of allocation decision	TTL	
6	Letter requesting preparation of Catalytic Fund agreement.	CF recipient	
7	Copy of letter sent to EFA/FTI Secretariat and country lawyer	TTL	
8	Draft Catalytic Fund Grant Agreement prepared	Country Lawyer/TTL with support of Secretariat	
9	Draft Grant Agreement is cleared by FTI Secretariat; ACTTF; FMS; LOA	TTL/Lawyer	
10	Trust Fund number requested from ACTTF	Secretariat	
11	Trust Fund number is assigned	ACTTF	
12	Grant Agreement is finalized and prepared for signature	Lawyer	
13	Grant agreement signed by Country Director	TTL	
14	Grant agreement sent to recipient Government for signature	TTL	
15	Original signed copy of Grant Agreement sent to Legal Department, copy sent to FTI Secretariat, and Loan department	TTL	
16	Request is sent to ACTTF to transfer grant supervision budget to appropriate regional child trust fund account	FTI Secretariat	
17	TTL/Sector manager is informed of the supervision budget transfer	FTI Secretariat	
18	Country program/project is linked to TF for supervision	SM, Regional Budget Officer	
19	Disbursement letter and withdrawal application forms are issued and sent to recipient government	LOA	
20	Implementation progress report prepared in the form of letter, Aide-memoir (as per grant agreement).	TTL (Local donors)	
21	Implementation progress report prepared at the end of grant period and sent to FTI Secretariat	TTL	