

Education for All – Fast Track Initiative

Accelerating progress towards quality universal primary education

CATALYTIC FUND

STATUS REPORT UPDATE

MARCH 2006

**Prepared by the FTI Secretariat for the EFA-FTI Technical Partnership Meeting
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EFA-FTI Catalytic Fund Status Report

A. Introduction and progress since Beijing

Brief overview

As reported in December 2005, Catalytic Fund (CF) operations have increased significantly over the course of the past two years. Since Beijing, donors have disbursed an additional \$44.5 million on their existing pledges (an increase of 37%); the number of recipient countries has increased by 56% from 9 to 14; and grant disbursements to countries have increased by 63% from US\$51 million to US\$83.2 million. This strong progress notwithstanding, the remaining challenges are twofold: (i) efficient mobilization of financial resources so as to increase the speed of overall allocations in line with the FTI expansion strategy; and (ii) reduce and largely eliminate the lag time between allocation decisions and first tranche disbursement, currently running at about 3 to 4 months (this in itself represents a reduction of about half as compared to the first set of CF recipient countries). In general, the majority of donors are current in terms of paying their pledges. The large balance of unpaid pledges shown in Table 1 below (US\$279.7 million equivalent) is for mostly 2006 and 2007. The FTI Secretariat is taking the required steps to mobilize the 2006 pledges, in particular the contributions from the European Commission and from the United Kingdom.

Some of the recent highlights include:

- ❖ Grant allocation to five additional countries in Beijing (Djibouti, Lesotho, Moldova, Tajikistan and Timor-Leste) for a cumulative amount of US\$53m;
- ❖ Cumulative disbursements amount to US\$83m, an increase of \$US32m since the last FTI Annual Meeting in December 2005;
- ❖ Growth in donor payments by US\$44.5m from US\$120.5m to US\$165.0 since the last FTI Annual Meeting in December 2005.

Table 1. Pledges made and payments by donor (in US\$ millions equivalent)

Country	2003-2004	2005	2006	2007	Total 2003-2007	Cumulative payments	Balance to be paid 1/
Belgium	1.2	2.6	1.2	1.2	6.2	3.7	2.5
EC	-	-	37.8	37.8	75.6	-	75.6
Ireland	-	-	1.5	-	1.5	1.5	-
Italy	2.4	2.4	-	-	4.8	4.8	-
Netherlands	39.5	56.1	60.0	72.0	227.6	93.8	133.8
Norway	5.9	8.1	25.5	3.0	42.5	39.5	3
Spain	-	6.0	-	-	6	6	-
Sweden	-	5.3	10.4	-	15.7	15.7	-
UK	-	-	32.4	32.4	64.8	-	64.8
	49.0	80.5	168.8	146.4	444.7	165.0	279.7

1/ Please note that these related mostly to financial pledges for this year (2006) and next year (2007).

Commitments: Grant allocations

As summarized in Table 2 below, financial commitments to country programs have more than tripled over the past three years, reaching US\$320.7 million since inception. The bulk of those commitments were made by the CF Strategy Committee meeting in Beijing for a period of two years (2006-07) for aid predictability. However, the cost and associated risk of such aid predictability can only

be mitigated by the timely payment of donor pledges. This situation shows the necessity for raising additional resources before the impact of any FTI expansion strategy kicks in. The basic message here is not that current donors are behind in paying their pledges; but rather that the Catalytic Fund needs significant additional pledges to accommodate future expansion._

Table 2. Commitments – Country Allocations (US \$ millions)

	Country	2003 & 2004	2005	2006	2007	Total 2003-07
1	Djibouti	-	-	6.0	2.0	8.0
2	Ghana	-	8.0	11.0	11.0	30.0
3	Guyana	4.0	4.0	4.0	-	12.0
4	Kenya	-	24.2	24.2	24.2	72.6
5	Lesotho	-	-	7.2	4.7	11.9
6	Madagascar	-	10.0	25.0	25.0	60.0
7	Mauritania	7.0	2.0	-	-	9.0
8	Moldova	-	-	4.4	4.4	8.8
9	Nicaragua	7.0	7.0	7.0	-	21.0
10	Niger	13.0	8.0	-	-	21.0
11	Tajikistan	-	-	9.2	9.2	18.4
12	The Gambia	4.0	4.0	4.0		12.0
13	Timor Leste	-	-	3.0	3.0	6.0
14	Yemen	10.0	10.0	10.0	-	30.0
	Total	45.0	77.2	115.0	83.5	320.7

Grant disbursements: Resource flows into countries

Globally, a cumulative amount of US\$83.2 million has been disbursed into country programs (See table 3) to date out of total receipts of US\$165.0 million. This corresponds to a disbursement rate of approximately 50%; an eight percentage point increase in the past three months. This compares quite favorably with the average disbursement rate of most development aid of 20-25%. Over the same period, total disbursements against the 2005 allocations quadrupled, reaching US\$42.2 million. As reported in Beijing, the US\$45 million allocated over the 2003-2004 period have been disbursed entirely, except in Niger where a second tranche of US\$4.0 million is expected to be disbursed by April 2006 on the basis of an on-going financial audit of the country's education program. Please refer to Table 4 below for a planned disbursement schedule over the next 12 months. Countries with good disbursement performance against 2005 commitments include Ghana for US\$8 million; Guyana for US\$4 million; Kenya for US\$24.2 million in one single tranche; and Madagascar for US\$6.0 million. Other 2005 recipient countries with signed Letter Agreements (and thus first tranche disbursements to follow soon) are Mauritania, The Gambia and Yemen. A complete status report by country will be prepared for the full Partnership Meeting in Cairo (Egypt) next fall.

The five new recipients have made good grant implementation progress. This is the result, in part, of: (i) the CF Operational Guidelines prepared by the FTI Secretariat in 2005 and adopted by the Strategy Committee in Beijing; and (ii) a grant implementation Seminar conducted for Task Team Leaders via Video-conference on February 16, 2006. As a result, it is projected that all new recipient countries will be able to sign their Letter Agreements and disburse their first tranches by June 2006. A one-year disbursement schedule is also provided based on current commitments (See table 4 below).

Table 3. Summary of disbursements to date

US\$ millions

	2003/4			2005			Cumulative disbursements
	Allocated	Disbursed	Pending	Allocated	Disbursed	Pending	
Djibouti	-	-	-	-	-	-	-
Ghana	-	-	-	8.0	8.0	-	8.0
Guyana	4.0	4.0	-	4.0	4.0	-	8.0
Kenya	-	-	-	24.2	24.2	-	24.2
Lesotho	-	-	-	-	-	-	-
Madagasc.	-	-	-	10.0	6.0	4.0	6.0
Mauritania	7.0	7.0	-	2.0	-	2.0	7.0
Moldova	-	-	-	-	-	-	-
Nicaragua	7.0	7.0	-	7.0	-	7.0	7.0
Niger	13.0	9.0	4.0	8.0	-	8.0	9.0
Tajikistan	-	-	-	-	-	-	-
The Gambia	4.0	4.0	-	4.0	-	4.0	4.0
Timor Leste	-	-	-	-	-	-	-
Yemen	10.0	10.0	-	10.0	-	10.0	10.0
Total	45.0	41.0	4.0	77.2	42.2	35.0	83.2

Table 4. Planned Disbursement Schedule, 2006-2007 (US\$ millions)

	Planned Disbursements				
	Pending (2004-2006)	April-June 2006	July - Sept 2006	Oct- Dec 2006	Jan – March. 2007
Djibouti	6.0	3.0	--	--	3.0
Ghana	11.0	--	6.0	--	5.0
Guyana	4.0	--	--	4.0	--
Kenya	24.2	--	12.1	--	12.1
Lesotho	7.2	3.6	--	--	3.6
Madagascar	29.0	4.0	--	15.0	--
Mauritania	2.0	1.0	--	1.0	--
Moldova	4.4	2.2	--	--	2.2
Nicaragua	14.0	4.0	--	3.0	--
Niger	12.0	4.0	--	--	4.0
Tajikistan	9.2	4.6	--	--	4.6
The Gambia	8.0	2.5	--	1.5	--
Timor-Leste	3.0	1.5	--	--	1.5
Yemen	20.0	3.0	--	7.0	--
Total	154.0	33.4	18.1	31.5	36.0

B. Issues for discussion

The Catalytic Fund has been in operation for a little over two full years. As the financial picture presented earlier indicates, progress has been made but much remains to be done to ensure long-term sustainability. The concept of “donor orphan”, i.e. CF beneficiaries are countries with four or fewer bilateral donors contributing at least US\$1 million to the education sector, was introduced to ration limited financial resources (see further discussions on this concept in section D below). Current financial constraints will be highlighted more vividly in the next section (estimates of future needs for countries already endorsed). Cumulative CF commitments to the current 14 country programs amount to US\$320.7

million (see Table 2), comparing quite poorly with their estimated financing of US\$1.1 billion over the next three years (see Table 6 further below).

In addition to these long-term sustainability issues, there are three urgent discussion/decision points that need attention from the CF Strategy Committee. These are as follows:

- (i) Rules and amounts of supervision budgets to CF recipient countries;
- (ii) The European Commission's membership in the CF Strategy Committee; and
- Closing Date of the Catalytic Fund.

Decision point 1: Rules and amounts of supervision funding.

The basic principle is that FTI donors allocate resources additional to the World Bank's own budget for the extra cost of supervising CF grants. To respect this spirit of additionality, the starting point is whether or not the World Bank Group has an on-going education project/program in the recipient country. If it does, on the one hand, the CF extra budget should be smaller than the full regional supervision coefficient. If it doesn't, on the other hand, the CF extra budget should reflect the total cost of regional project/program supervision.

With the increase in the number of CF grant recipients from 9 to 14 (and perhaps higher in the near future), the amount of resources required for grant supervision has also increased. There is a need to keep the allocation rule simple enough for everyone to understand it; and therefore, the FTI Secretariat recommends that: (i) Half (50%) of the average regional supervision coefficient be applied for countries with active World Bank education projects/programs; and (ii) The full (100%) of the average regional supervision coefficient be applied for countries with no active World Bank education projects/programs. The status of World Bank's education projects and programs in each country will be assessed at the time of Grant Agreement clearance by the Secretariat and subsequent signature by the authorities. As this is not tied to any specific schedule, it is difficult to estimate the required supervision budget for this year; although substantial savings can be expected. Currently, the application of this allocation rule leads to results summarized in Table 5 below.

Table 5: Proposed CF Grant Supervision Budget per country and by Region (US\$)

World Bank Regional Classification	Full Regional Coefficients (Category A)	Half Regional Coefficient (Category B)
Africa	90,000	45,000
East Asia & Pacific	80,000	40,000
Europe & Central Asia	80,000	40,000
Latin America & the Caribbean	80,000	40,000
Middle East & North Africa	60,000	30,000
South Asia	To be determined	To be determined
Total		

Decision 1: Does the Strategy Committee agree with the recommendation to provide each country team for CF recipient countries a CF grant supervision as proposed in the Table 5 above? In other word, countries classified in Category A at the time of Grant Agreement signature will receive the full regional coefficient; and countries classified in Category B at the time of Grant Agreement signature will receive 50 percent of the regional coefficient as shown in Table 5 above.

Decision point 2: Issues related to the European Commission's Window of the Catalytic Fund

Prior to the last Partnership Meeting in Beijing, the European Commission (EC) made a financial commitment of Euros 63 million to the FTI Catalytic Fund (about US\$76 million). This is a new CF financing window for the Africa, Caribbean and Pacific (ACP) countries. The set up of this single donor Trust Fund is currently in process. The decision point is related to proposed European Commission membership in the single Governance and decision making body, i.e. the CF Strategy Committee, of which the EC would become a member and which would make grant allocation decisions to all recipient countries without distinction.

Decision 2: Does the Strategy Committee agree with the recommendation that the same Governance and decision-making body be responsible for decisions regarding both Trust Funds?

Decision point 3: Closing Date of the Catalytic Fund.

The current Closing Date of the Catalytic Fund is December 31, 2007. The Strategy Committee approved an extension of the grant implementation period from 12 to 18 months during the Beijing meeting. Currently, no Letter Agreement can allow a Closing Date beyond August 31, 2007 or four months before the end-December 2007 Closing Date of the main CF Trust Fund. This four-month grace period is allowed by the World Bank's procurement rules for payment of outstanding commitments and closing down the books. Unless the Closing Date of the main CF is extended within the next 2-3 months, the grant implementation period for new recipients will be less than the required 18 months.

Decision 3: It appears that an extension of the main CF Closing Date for a minimum of 2 to 3 years would allow the FTI to fulfill its current obligations to recipient countries; and thus avoid causing any disruptions to country program implementation. Does the Strategy Committee agree with the recommendation to extend the Closing Date of the CF by three (3) years? In this case, the new Closing Date of the main TF will be December 31, 2010.

C. Unmet financial needs for the 20 endorsed countries, 2006-08.

This section of the status report update summarizes the estimated financing gaps for all twenty (20) countries already endorsed by the FTI Partnership. Countries are classified as CF funded (14 countries, Table 6) and non-CF funded (6 countries, Table 7). This analysis covers the three-year period 2006-08 as reported in their Appraisal and Endorsement documents for all countries except Honduras. The last column of each table indicates the portion of the financing gap covered by the CF for each recipient over the 2006-07 only based on commitment already made.

For the 14 CF recipient countries, the cumulative financing gap is estimated at US\$1,149.6 million, while current total CF allocations amount to US\$198.5 (or 17% of their needs). For the 6 non-CF eligible countries (excluding Honduras), the cumulative financing gap is estimated at US\$957.3 million. As expected, this category includes large countries such as Ethiopia and Mozambique with an equally large number of children out of the school system. Since these countries are not eligible for CF support, it will be critical to work through existing donor modalities to ensure that these needs are met.

Table 6. Unmet financial needs for 14 FTI countries funded by CF, 2006-2008 (US\$ millions)

	Finance. gaps 2006	Finance. gaps 2007	Finance. gaps 2008	Gaps-Tot. 2006-08	CF Finance. 2006-07
Djibouti	6.0	2.0	6.0	14.0	8.0
Ghana	14.2	14.2	3.2	31.6	22.0
Guyana	4.0	4.0	4.0	12.0	4.0
Kenya	85.4	144.5	133.1	363.0	48.4
Lesotho	7.2	4.7	6.9	18.8	11.9

Madagascar	73.3	78.7	84.3	236.3	50.0
Mauritania	6.2	6.2	6.2	18.6	--
Moldova	4.4	4.4	4.4	13.2	8.8
Nicaragua	31.4	24.4	24.4	80.2	7.0
Niger	7.7	49.6	79.5	136.8	--
Tajikistan	9.2	25.9	34.3	69.4	18.4
The Gambia	5.4	5.4	5.4	16.2	4.0
Timor-Leste	3.0	6.7	8.2	17.9	6.0
Yemen	47.2	37.2	37.2	121.6	10.0
Total	304.6	407.9	437.1	1149.6	198.5

Table 7: Unmet financial needs for the 6 FTI countries not funded by CF 2006-2008 (US\$ million)

	Finance. gaps 2006	Finance. gaps 2007	Finance. gaps 2008	Gaps-Tot. 2006-08	CF Finance. 2006-07
Burkina Faso	19.8	19.8	19.8	59.4	--
Ethiopia	163.6	163.6	163.6	490.8	--
Guinea	25.8	25.8	25.8	77.4	--
Honduras *	--	--	--	--	--
Mozambique	96.9	96.9	96.9	290.7	--
Vietnam	13.0	13.0	13.0	39.0	--
Total	319.1	319.1	319.1	957.3	--

* Not reported in appraisal and endorsement documents.

D. Conclusion and the way forward

The main conclusions from this year's activities are:

- (a) Donors have increased their contributions to the Catalytic Fund, but will have to do much more as the number of FTI countries eligible for funding increases.
- (b) The nature of the CF as a transitional fund over two years is being revisited; further recommendations will depend on the outcomes from the ongoing meetings in the Hague.
- (c) The time lag between allocation decision and first tranche disbursement has been substantially reduced; but more can be done to reduce it even further;

Going forward, items of immediate attention and a future work plan include the following:

- Faster processing of grant Letter Agreements for new countries;
- Urgent mobilization of the EC's Catalytic Fund; and
- Extension of the Closing Date for the CF with the aim of minimizing potential disruptions to country program implementation.

Ultimately, it may be necessary to revisit the concept of "donor orphan", which was introduced to ration limited CF resources to countries, for several reasons. First, there had been the idea that "donor orphan" status would be a good benchmark of CF progress, i.e. we could move countries out of such status as a sign of progress. But the evidence now seems to indicate that donors are unlikely to engage in a substantive number of new countries. Second, the "donor orphan" concept (and certainly the term itself) puts the FTI in the uncomfortable position of determining country eligibility as a function of the relationship with donors, as opposed to such country-specific realities as the size of the financing gap, or the number of children out of school, etc. The presence of four qualifying donors (with annual support of \$1 million or more) can mean very different things in very small and very large countries. It is plausible that, as countries begin to focus on eligibility criteria; this could lead them to reject relatively modest bilateral financial assistance that may prevent them from being CF eligible. At the very least, it will be important to give real attention to see whether non-qualifying countries with financing gaps are being adequately considered for additional support through existing donor channels.

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