

Mid-Term Evaluation of the EFA Fast Track Initiative

**Draft Synthesis Report
Volume 3 – Appendices
Appendix III: The Catalytic Fund**

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Acronyms and Abbreviations

| | |
|----------|--|
| CF | Catalytic Fund |
| CFC | Catalytic Fund Committee |
| DPO | Development Policy Operation |
| EC | European Commission |
| ECF | Expanded Catalytic Fund |
| EFA | Education for All |
| EPDF | Education Program Development Fund |
| ESP | Education Sector Plan |
| FTI | Fast Track Initiative |
| FTIS | FTI Secretariat |
| GA | Grant Agreement |
| GDP | Gross Domestic Product |
| GMR | Global Monitoring Report |
| IBRD | International Bank for Reconstruction and Development |
| IDA | International Development Association |
| IF | Indicative Framework |
| IO | Investment Operation |
| LDC | Least Developed Country |
| LIC | Low Income Country |
| LMIC | Lower Middle Income Country |
| ODA | Overseas Development Assistance |
| OECD DAC | Organisation for Economic Cooperation and Development Development Assistance Committee |
| OLIC | Other LICs |
| QDO | Quick Disbursing Operation |
| SWAp | Sector Wide Approach |
| TIP | Traditional Investment Project |
| UK | United Kingdom |
| USA | United States of America |
| USD | United States Dollar |
| UNESCO | United Nations Educational, Scientific and Cultural Organisation |
| WB | World Bank |

A Introduction

1 This appendix provides a detailed review of Catalytic Fund (CF) allocations, commitments and disbursements and their evolution over time. It also assesses the significance of the CF in terms of overall aid to basic education.

2 Section B provides background information on the three FTI Trust Funds (Catalytic Fund, Education Program Development Fund, and Secretariat Fund) and their relative sizes and objectives. Section C presents an overview of the Catalytic Fund operations, and Section D describes the distribution of the CF according to country characteristics. This is followed by a focus (Section E) on the mobilisation of financial resources for the CF. Section F looks at CF funding modalities and the final section (G) examines the disbursement performance of the CF.

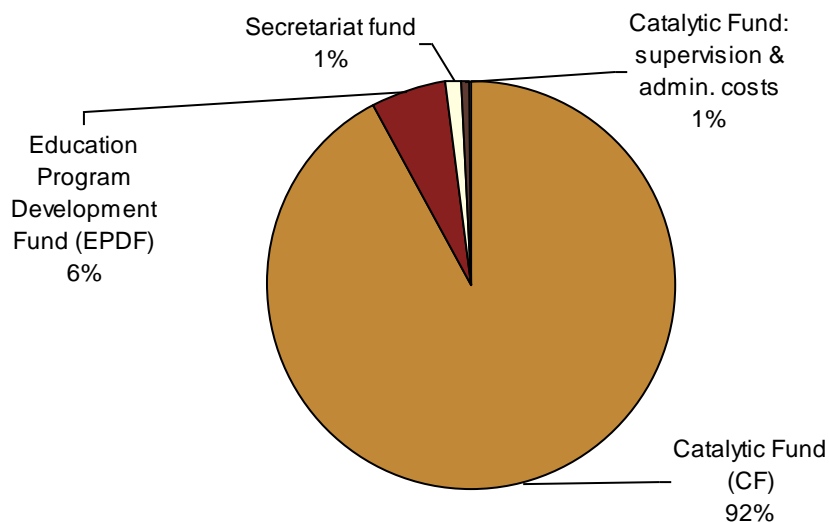
3 A detailed review of the EPDF is provided in **Error! Reference source not found.**

B FTI Trust Funds

4 Since their inception the FTI trust funds have disbursed USD 483m in total. Figure III.1 shows the distribution of this sum between the three trust funds. Some 98% of trust fund disbursements have been directed to countries or regions via the CF and the Education Program Development Fund (EPDF), leaving 2% for the running of the FTI secretariat and administration/supervision of the CF¹.

5 Disbursements from the CF far outweigh those from the EPDF (see Figure III.2 for the annual disbursement profile of each fund). The CF accounts for over 90% of trust fund disbursements to date. It has been disbursing for five years, starting in 2004, while the EPDF has been disbursing for three years (since 2006).

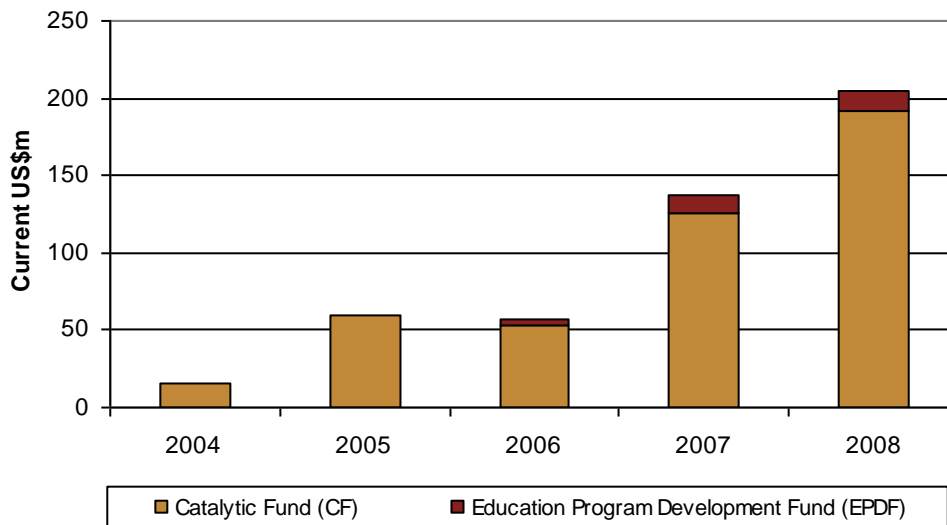
Figure III.1 Distribution of cumulative FTI trust fund disbursements by fund type, to end 2008



Source: FTI trust fund reports; Data from the FTI secretariat (**Error! Reference source not found.**).

¹ It has not been possible to obtain any figures for the cost of EPDF administration. Unlike the CF, this is not regularly reported in annual EPDF reports.

Figure III.2 Annual disbursements from the FTI CF and EPDF, 2004 to 2008



Source: FTI trust fund reports; data from the FTI secretariat (**Error! Reference source not found.**).

6 The three trust funds are hosted by the World Bank. Annex B (The Evolving Governance and Management of FTI) sections F and H provides further information on the WB trust fund management policy and the WB role as a trustee.

C The Catalytic Fund - overview

7 The CF was established in 2003 as a multi-donor, multi-recipient trust fund. A total of 17 donors have made pledges so far. The vast majority of pledges come from bilateral European donors. Australia, Canada, Japan and Russia constitute the only non-European contributors, and their share of total pledges amounts to under 4%. The only non-bilateral donor is the EC, whose total share of pledges amounts to 8%. Three main donors dominate the share of overall pledges: The Netherlands, Spain and the UK, whom together have contributed 72% of total funds. Table III.1 below details total pledges by donor up to 2011.

Table III.1 Distribution of pledges to CF by donor (2004-2011)

| Donor | Pledge (USDm) | % |
|-----------------|----------------------|----------|
| Romania | 0.5 | 0% |
| Japan | 2.4 | 0% |
| Russia | 4.0 | 0% |
| Germany | 9.9 | 1% |
| Belgium | 11.5 | 1% |
| Italy | 14.6 | 1% |
| Canada | 17.0 | 1% |
| Denmark | 19.3 | 1% |
| France | 21.4 | 1% |
| Australia | 32.0 | 2% |
| EC part 2 | 32.9 | 2% |
| Ireland | 40.2 | 3% |
| Sweden | 58.2 | 4% |
| Norway | 69.7 | 5% |
| EC (ACP) Part 1 | 83.8 | 6% |
| UK | 267.0 | 18% |
| Spain | 308.3 | 21% |
| Netherlands | 475.5 | 32% |
| Total | 1,468.1 | |

Source: FTI-Secretariat 2008.

Notes: represents signed donor commitments as of October 31, 2008.

8 There have been two distinct phases in CF operations so far. The first, between 2004 and 2006, when the CF was open only to so called 'donor orphan' low income countries with an endorsed education sector plan (ESP)². Under this concept, the fund aimed to provide transitional short term funding on a year-to-year basis, for up to three years. It was expected that this would help to establish a good performance record to attract increased and longer-term support through regular bilateral and multilateral channels. 2007 marked the start of the second phase of CF operations. The expanded catalytic fund (ECF) concept was approved in May 2007 to enable the CF to support all endorsed ESPs with insufficient funding, making the donor orphan criterion redundant. Its other explicit aim was to provide more predictable long-term financing, and provision was made to extend the implementation period from year-to-year to three years.

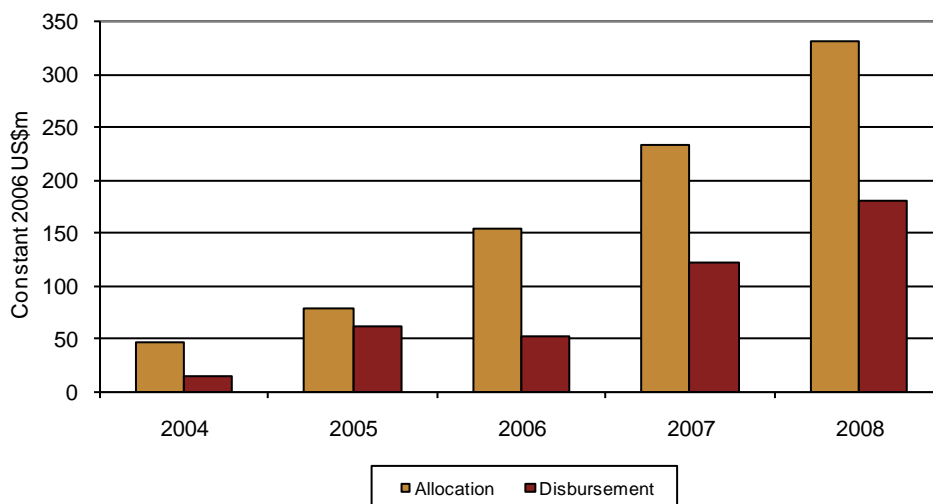
9 Three main steps are required to access catalytic funding after a country has been endorsed by the FTI and has submitted an application to the CF. First an allocation is awarded at a Catalytic Fund Committee (CFC) meeting. Second, a signed grant agreement (GA) is put in place. This is a legal document and represents a commitment on the part of the CF trustees to disburse the stipulated amount. Both allocations and grant agreements have covered between one and three years, depending on the time of application (the rules have changed over time, as will be explained below). The third step is disbursement of funds to a country-level account. The subsequent disbursement of funds within a country, to service delivery points and beneficiaries, is monitored locally and is not reported back to the FTI secretariat³.

² Initially defined as countries having fewer than four donors disbursing more than USD 1m annually.

³ The supervising entity (SE), in almost all cases the World Bank, monitors progress on various types of financial and education performance indicators depending on the type of funding modality.

10 Allocations from the CF have increased sharply in real terms over its five-year history. Put starkly, the 2008 allocation is seven times larger than the 2004 allocation. Figure III.3 illustrates real trends in allocations and disbursements between 2004 and 2008. In relative terms, the largest gain was between 2005 and 2006 when allocations almost doubled. For reasons which will be discussed in section E, pledges to the CF from donors also increased sharply between these two years to facilitate this hike in allocations.

Figure III.3 Real trends in allocations and disbursements from the CF, 2004-08

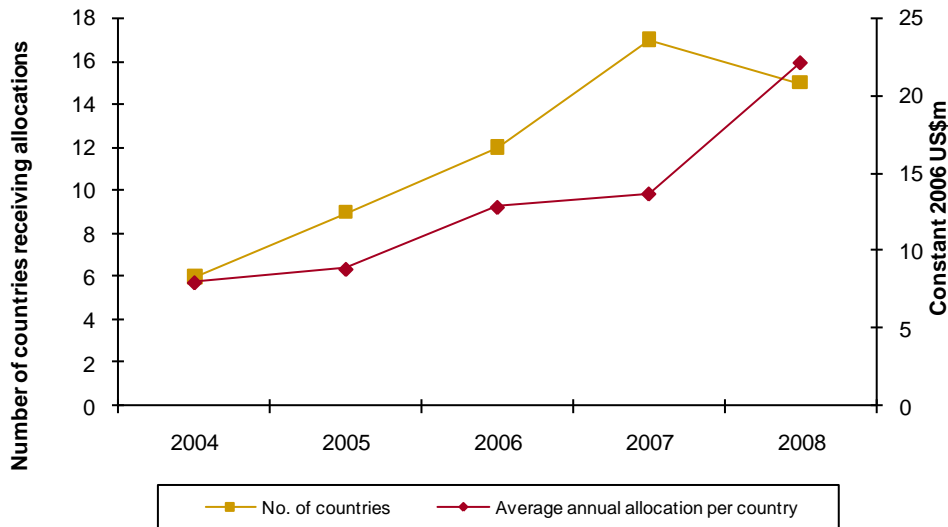


Sources: (i) FTI-Secretariat 2008; (ii) Deflator: OECD DAC (**Error! Reference source not found.** and **Error! Reference source not found.**).

11 In total, by end December 2008, 30 countries had received allocations from the CF. The number of countries receiving an allocation each year has grown steadily from the initial group of six in 2004 to a peak of 17 in 2007, falling slightly to 15 in 2008 (Figure III.4). It is apparent that the growth in CF allocations between 2004 and 2008 does not simply reflect a parallel growth in the number of countries receiving allocations each year. Average annual allocations per country have also risen over the first five years. There was a particularly sharp increase in 2008 to reach an average of USD 22m per country compared with USD 14m for the previous year (in 2006 constant prices) (Figure III.4). Table III.2 below details the number, year, and total value CF allocations by country.

12 Turning to disbursements, it is clear from Figure III.3 that they have not kept pace with allocations, and have been somewhat erratic over the five years. It is important to clarify that the full disbursement of an allocation would not normally be expected within the calendar year of allocation. There is inevitably some start-up time between the allocation award and signing the GA, and a further period between the signing and subsequent disbursements. In addition, until recent rule changes, GAs covering an annual allocation were split into two tranches that were released every six months, depending on satisfactory progress. CF disbursement performance over time is analysed below, where it is shown that both the choice of modality and changes in the rules governing the CF affected disbursement rates.

Figure III.4 Real trends in average annual allocation per country from the Catalytic Fund, 2004-08



Sources: (i) FTI-Secretariat 2008; (ii) Deflator: OECD DAC (**Error! Reference source not found.**).

13 While 30 countries have been allocated funds from the CF, only 21 of these have received disbursements to date. Average annual disbursements per country have more than trebled since inception in real terms: from USD 4.0m in 2004 (4 countries) to USD 12.9m in 2008 (14 countries) (**Error! Reference source not found.**).

14 As well as looking at allocations and disbursements, it is useful to examine the trends in the value of signed GAs (i.e. Commitments), partly because this enables a comparison between the size of the CF with the overall volume of external aid to basic education, but also because commitments are a better predictor of future disbursement than allocations. Figure III.5 presents CF commitment data, and reveals the dramatic jump between 2007 and 2008. This is partly explained by a change in the CF rules, which extended the time period for allocations and GAs.

Table III.2 CF Allocations

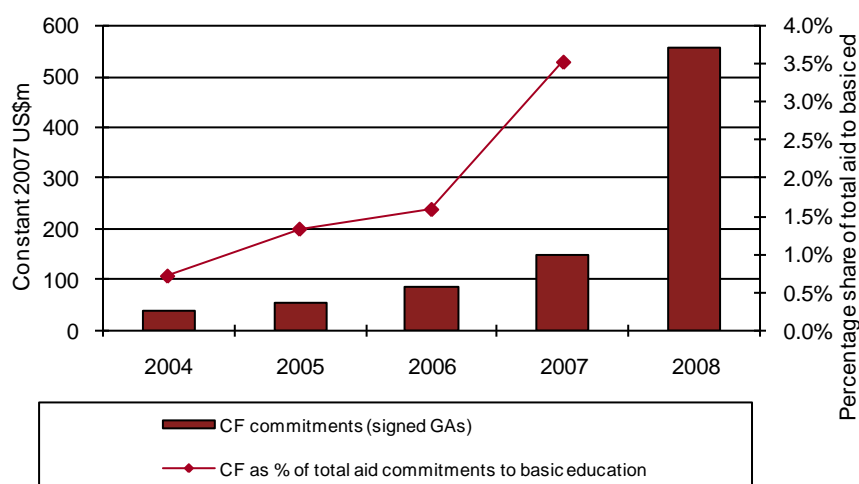
| Country | First allocation announced | Number of allocations | Allocation years | Total allocations (USDm) | Total Grant Agreements (of Dec 2008) | Total Disbursements (of Dec 2008) |
|----------------------|----------------------------|-----------------------|---------------------------------------|--------------------------|--------------------------------------|-----------------------------------|
| Yemen | 2003 | 3 | 2003/04, 2005, 2006 | 40.0 | 20.0 | 20.0 |
| Guyana | November 2003 | 6 | 2003/04, 2005, 2006, 2009, 2010, 2011 | 32.5 | 12.0 | 12.0 |
| Mauritania | November 2003 | 4 | 2003/04, 2005, 2007, 2008 | 23.0 | 23.0 | 9.0 |
| Nicaragua | November 2003 | 3 | 2003/04, 2005, 2006 | 24.0 | 14.0 | 14.0 |
| Niger | November 2003 | 2 | 2003/04, 2005 | 21.0 | 13.0 | 13.0 |
| The Gambia | November 2003 | 6 | 2003/04, 2005, 2006, 2009, 2010, 2011 | 41.4 | 13.4 | 13.4 |
| Ghana | November 2004 | 3 | 2005, 2006, 2007 | 33.2 | 19.0 | 19.0 |
| Madagascar | July 2005 | 6 | 2005, 2006, 2007, 2008, 2009, 2010 | 145.1 | 60.0 | 60.0 |
| Kenya | September 2005 | 3 | 2005, 2006, 2007 | 121.0 | 121.0 | 121.0 |
| Djibouti | December 2005 | 2 | 2006, 2007 | 8.0 | 6.0 | 6.0 |
| Lesotho | December 2005 | 2 | 2006, 2007 | 11.9 | 11.9 | 7.5 |
| Moldova | December 2005 | 2 | 2006, 2007 | 8.8 | 8.8 | 4.9 |
| Tajikistan | December 2005 | 2 | 2006, 2007 | 18.4 | 18.4 | 12.0 |
| Cameroon | November 2006 | 2 | 2007, 2008 | 47.3 | 22.5 | 22.5 |
| Kyrgyzstan | November 2006 | 2 | 2007, 2008 | 15.0 | 9.0 | 6.2 |
| Mongolia | November 2006 | 3 | 2007, 2008, 2009 | 29.4 | 17.1 | 17.1 |
| Rwanda | November 2006 | 2 | 2007, 2008 | 70.0 | 70.0 | 48.0 |
| Timor Leste | December 2006 | 3 | 2006, 2007, 2009 | 13.1 | 8.2 | 8.2 |
| Benin | May 2007 | 3 | 2007, 2008, 2009 | 76.1 | 76.1 | - |
| Cambodia | May 2007 | 3 | 2007, 2008, 2009 | 57.4 | 57.4 | 1.0 |
| Mali | May 2007 | 2 | 2007, 2008 | 8.7 | 8.7 | 2.2 |
| Mozambique | May 2007 | 2 | 2008, 2009 | 79.0 | 79.0 | 28.0 |
| Sao Tome & Principe | May 2007 | 3 | 2008, 2009, 2010 | 3.6 | - | - |
| Sierra Leone | May 2007 | 3 | 2007, 2008, 2009 | 13.9 | 13.9 | - |
| Ethiopia | December 2007 | 1 | 2008 | 70.0 | 70.0 | - |
| Guinea | December 2007 | 3 | 2008, 2009, 2010 | 117.8 | 117.8 | - |
| Senegal | December 2007 | 3 | 2008, 2009, 2010 | 81.5 | - | - |
| Burkina Faso | December 2008 | 3 | 2009, 2010, 2011 | 102.0 | - | - |
| Central African Rep. | December 2008 | 3 | 2009, 2010, 2011 | 37.8 | - | - |
| Zambia | 2008 | 2 | 2009, 2010 | 60.0 | - | - |
| 30 | - | 87 | - | 1410.9 | 890.2 | 445.0 |

Source: FTI-Secretariat 2008.

15 Up until May 2007, when the expanded catalytic fund (ECF) concept was approved, allocations were made for multiple years (two years with the third year being allocated later upon satisfactory implementation), but GAs covered single-year allocations⁴. From May 2007 onwards, allocations could be made for three years at a time, and their related GAs could also cover three years in one go. The first three-year GA was signed for Benin in April 2008.

16 In total 25 countries have signed CF GAs. The number of countries has stagnated somewhat over the past three years (12 in 2006, 11 in 2007 and 13 in 2008), partly due to the disbursement delays set out above. The jump in overall commitments in 2008 has been accompanied by a more than three-fold increase in the average annual commitment per country: from USD 13m in 2007 to USD 41m in 2008 (**Error! Reference source not found.**). This change is only partly driven by the introduction of multiple-year GAs. In 2008 only six of the 13 countries received multiple-year GAs, the rest were single-year GAs. This implies that the average value of GAs covering single allocation years has also increased. Indeed, Ethiopia signed a GA for USD 70m in 2008, covering its 2008 allocation only. This is by far the largest single-year GA to date.

Figure III.5 Real trends in CF commitments, 2004 to 2008



Sources: (i) FTI-Secretariat 2008; (ii) Deflator: OECD DAC (**Error! Reference source not found.** and **Error! Reference source not found.**).

17 In the context of overall aid commitments to basic education, the contribution of the CF has been small, but increasing (Figure III.5). In 2004, it accounted for less than 1% of aid commitments to basic education, rising to 3.5% three years later. Given the sharp rise in CF commitments in 2008, from USD 150m to USD 556m (described above), it seems likely that this share will rise considerably⁵.

⁴ In exceptional cases, GAs covered less than one year's allocation. For example, Madagascar received a GA covering USD 17m of a USD 25m allocation for 2006.

⁵ CF grant agreement figures are used to represent CF commitments made to countries. This is based on the definition of a commitment taken from the OECD DAC directive. The GMR also follows this method. The total volume of CF allocations announced each year is far higher than the volume of grant agreements. Part of the reason for this disparity has been delays in the processing of grant agreements (see Technical Note: Catalytic Fund Allocations vs. Commitments, at the end of this appendix).

D Distribution of Catalytic Fund

18 This section examines some of the key characteristics of the 30 countries that had received a CF allocation by the end of 2008 (CF countries). It aims to draw out some key comparisons with the overall group of FTI eligible countries (i.e. low income countries), and also to look at the distribution of CF allocations between the 30 countries.

19 Following the approval of the ECF concept in May 2007, the CFC decided in September 2007 that all IDA low income countries would be eligible for catalytic funding. As of July 2008, 64 countries appeared in the IDA list based on their per capita GNI. This classification matches up pretty well with the OECD ODA recipient category 'low income countries' of which there are 68, but there are some important mismatches⁶. For example, the IDA list excludes some large low income countries, already deemed eligible to join the FTI partnership, such as India and Pakistan⁷. The IDA low income group is subdivided into three income categories: I (lowest), II (middle) and III (highest).

20 All 30 CF countries are part of the IDA low income group. Table III.3 shows the breakdown of CF countries and their associated CF allocations by IDA income category⁸. This reveals that although a quarter of CF countries fall into the middle or highest category, their combined allocations from the CF only account for 12% of total allocations. The picture is quite different, however, when the size of the school age population is taken into account: the average allocation per child for countries in the highest category was more than three times that for countries in the lowest category.

Table III.3 Distribution of CF countries and allocations by IDA category

| IDA income category | CF Countries | % of total countries | Total CF allocation (USD m) | % of total allocation | Mean CF allocation per school-aged child (USD) |
|---------------------|--------------|----------------------|-----------------------------|-----------------------|---|
| I (lowest) | 22 | 73 | 1,240 | 88 | 44 |
| II (middle) | 4 | 13 | 91 | 6 | 36 |
| III (highest) | 4 | 13 | 84 | 6 | 141 |
| Total/All | 30 | 100 | 1,415 | 100 | 56 |

Sources: (i) FTI-Secretariat 2008; (ii) Deflator: OECD DAC; (iii) IDA income category @July 2008: World Bank; (iv) Population of school-aged children in 2005: UNESCO 2008, Table 5 p300.

21 If we compare the distribution of bilateral aid commitments to basic education by income category generally, we see that in 2006-07 (using two-year averages to smooth out lumps) 56% of bilateral aid went to low income countries (LICs), with 41% going to LDCs and 15% to Other LICs (OLICs). In addition a snap shot of a few key donors across 2006-07 shows that IDA had the most concentration of basic education aid going to LICs with 89%; 62% going to LDCs and 27% going to OLICs. The UK devoted 68% of its aid to basic education to LICs (40% to LDCs, 28% OLICs), France 51% (45% LDCs, 6%OLICs), The Netherlands 47% (35% LDCs, 12% OLICs), the EC 47% (32% LDCs, 15% OLICs), and the USA 46% (25% LDCs, 21% OILCs) (Table III.4 below). In comparison, the CF has to date (2004-11) allocated 98% of its total funding to LICs, with the major share (77%) going to LDCs; 21% went to OLICs and 2% to Lower Middle Income Countries (LMICs) (**Error! Reference source not found.**). In this respect, the CF has clearly focused its aid on lower

⁶ The countries not included in the IDA classification, but included in the OECD DAC low income category are: Equatorial Guinea, Tuvalu, India, Pakistan, Democratic People's Republic of Korea, Papua New Guinea, Uzbekistan, and Zimbabwe.

⁷ The IDA recently updated it's eligibility categories and now includes several countries that were excluded before as 'mix' countries. These are: India, Pakistan, Papua New Guinea, Uzbekistan and Zimbabwe.

⁸ All country CF allocations discussed in this section refer to cumulative allocations awarded since 2004.

income countries, and within those on the LDCs, more than any of the main bilateral and multilateral donors.

Table III.4 Distribution of aid commitments to basic education to LDCs and OLICs for selected donors and for all bilaterals

| Income Category | 2000-01 | 2003-04 | 2006-07 |
|-----------------------------|---------|---------|---------|
| EC | | | |
| LDCs | 35% | 47% | 32% |
| OLICs | 48% | 11% | 15% |
| IDA | | | |
| LDCs | 67% | 47% | 62% |
| OLICs | 23% | 48% | 27% |
| France | | | |
| LDCs | 50% | 79% | 45% |
| OLICs | 14% | 5% | 6% |
| The Netherlands | | | |
| LDCs | 28% | 56% | 35% |
| OLICs | 24% | 7% | 12% |
| UK | | | |
| LDCs | 41% | 32% | 40% |
| OLICs | 42% | 52% | 28% |
| USA | | | |
| LDCs | 22% | 28% | 25% |
| OLICs | 22% | 7% | 21% |
| All bilateral donors | | | |
| LDCs | 38% | 46% | 41% |
| OLICs | 22% | 20% | 15% |

Source: (i) FTI-Secretariat 2008; (ii) GMR 2010 external aid database (from OECD DAC CRS).

22 Across the 30 countries, the mean CF allocation per school-aged child varies enormously. At one extreme, Mali has received USD 4 per child, while Guyana has received USD 338 per child. It is interesting to try to investigate the characteristics of countries which received relatively high or low per child allocations. For this purpose, the 30 countries have been split into three even groups of 10, based on their relative position in the scale of per child allocations. Countries in the lowest allocation group received an average of USD 14 per child, in contrast to the USD 116 allocated per child on average in the highest allocation group, as Table III.5 shows. The right hand panel of the table presents the average per capita income for each allocation group. This confirms the earlier finding that the CF has awarded the lowest per child allocations to the relatively poorer countries in the group on average⁹.

⁹ One of the possible influences on these data is the issue of absorptive capacity of recipient countries. Annex K contains a discussion of this issue.

Table III.5 Mean and range of allocation per child and GNI per capita by CF allocation group

| CF Allocation group ¹ | CF allocation per school-aged child (USD) | | | GNI per capita (USD) | | |
|----------------------------------|---|----------|------------|----------------------|------------|-------------|
| | Mean | Minimum | Maximum | Mean | Minimum | Maximum |
| Lowest | 14 | 4 | 26 | 557 | 220 | 1050 |
| Middle | 37 | 27 | 50 | 724 | 320 | 1260 |
| Highest | 116 | 54 | 338 | 805 | 320 | 1510 |
| All | 56 | 4 | 338 | 695 | 220 | 1510 |

Sources: (i) FTI-Secretariat 2008; (ii) Deflator: OECD DAC; (iii) GNI per capita @July 2008: World Bank; (iv) Population of school-aged children in 2005: GMR 2009, Table 5 p300. Notes: (1) The 30 countries that have received a CF allocation up to December 2008 have been split into three even groups of 10, based on their relative position in the scale of per child CF allocations.

23 Taking the whole group of 30 countries, the average GNI per capita is USD 695 (ranging from USD 220 to USD 1510). This is considerably higher than the mean for IDA category I countries of USD 491 (this includes 41 countries, omitting Afghanistan, Myanmar and Somalia), and suggests that CF allocations have been skewed to the relatively rich countries within the IDA eligible category. It is true that the FTI can only award grants to those countries that apply, but it is also true that the FTI invitation, application and endorsement process is explicitly geared towards those countries best placed to apply (i.e. with an approved performance record and credible ESP), which are not necessarily the poorest or most in need.

24 At the start of the decade, the average amount of aid going to basic education per child in the least developed countries was USD 11, and to the low income countries was USD 6 (UNESCO, 2008 p404). The comparable figure for CF countries was USD 24, which means that CF countries were relatively well off in terms of aid to basic education at the start of the decade. Even more surprisingly, Table III.6 demonstrates that the 10 countries that received the highest allocations per child from the CF began the decade with a relatively high level of aid to basic education per child on average, compared with the countries which received lower CF allocations per child. In short, the CF effectively targeted those countries already receiving a relatively high level of aid per child.

Table III.6 Mean and range of aid to basic education per child in 1999/00 by allocation group

| CF Allocation group ¹ | Aid to basic education per school-aged child in 1999/00 (Constant 2006 USD) | | |
|----------------------------------|--|----------|------------|
| | Mean | Min | Max |
| Lowest | 19 | 2 | 48 |
| Middle | 23 | 5 | 74 |
| Highest | 32 | 8 | 118 |
| All | 24 | 2 | 118 |

Sources: (i) FTI-Secretariat 2008; (ii) Deflator: OECD DAC; (iii) Aid to basic education per school-aged child in 1999/00: GMR 2009, Table 4 p398. Notes: (1) The 30 countries that have received a CF allocation up to December 2008 have been split into three even groups of 10, based on their relative position in the scale of per child CF allocations.

25 The distribution of CF countries and allocations by region in Table III.7 reveals that CF allocations are concentrated in Sub-Saharan Africa. This region accounts for just over 60% of CF countries, but more than 80% of CF allocations. It is notable that the group of CF

countries does not include any from South and West Asia. Latin America and the Caribbean stand out as having by far the highest average CF allocation per child. This is because this region contains Guyana which, as noted above, has received the highest allocation per child of all countries.

Table III.7 Distribution of CF countries, allocations (total and per child) by region

| Region | CF countries | % of total countries | Total CF allocation (USD m) | % of total allocation | Mean CF allocation per school-aged child |
|---------------------------|--------------|----------------------|-----------------------------|-----------------------|--|
| Arab States | 3 | 10 | 71 | 5 | 42 |
| Central & Eastern Europe | 1 | 3 | 9 | 1 | 37 |
| Central Asia | 3 | 10 | 63 | 4 | 60 |
| East Asia & Pacific | 2 | 7 | 71 | 5 | 49 |
| Latin America & Caribbean | 2 | 7 | 56 | 4 | 183 |
| Sub-Saharan Africa | 19 | 63 | 1,140 | 81 | 45 |
| Total/All | 30 | 100 | 1,410 | 100 | 56 |

Sources: (i) FTI-Secretariat 2008; (ii) Deflator: OECD DAC; (iii) Population of school-aged children in 2005: GMR 2009, Table 5 p300.

26 The omission of South and West Asian countries from the CF group could be read as important in relation to the overall objectives of the FTI, namely to accelerate progress on EFA goals. As Table III.8 illustrates, this region accounted for nearly one quarter of the World's out-of-school children in 2006. Overall, the CF is not currently active in countries where 81% of the World's out-of-school children live. This said, bilateral donors are active in many countries where the CF is not operating – e.g. India, Pakistan, Bangladesh – so it does not necessarily follow that the CF should be active in these countries. In its most active region, Sub-Saharan Africa, CF countries are home to just over one third of the region's out-of-school children¹⁰.

¹⁰ Roughly 8m, out of an estimated 35m, out-of-school children in Sub-Saharan Africa are in Nigeria where FTI engagement has been complicated by various factors (see [Annex D](#)).

Table III.8 Distribution of out-of-school children by region, 2006

| Region | Out-of-school pop. in CF countries as % of regional total (2006) | Out-of-school pop. as % of World total (2006) | |
|----------------------------------|--|---|---------------|
| | | CF countries | All countries |
| Arab States | 18.8 | 1.4 | 7.6 |
| Central & Eastern Europe | 1.1 | 0.0 | 2.1 |
| Central Asia | 15.6 | 0.1 | 0.5 |
| East Asia & Pacific | 2.8 | 0.4 | 12.7 |
| Latin America & Caribbean | 2.7 | 0.1 | 3.5 |
| North America and Western Europe | 0.0 | 0.0 | 2.6 |
| South and West Asia | 0.0 | 0.0 | 24.2 |
| Sub-Saharan Africa | 35.7 | 16.7 | 46.8 |
| All | | 18.7 | 100.0 |

Source: UNESCO 2008, Table 5 p300.

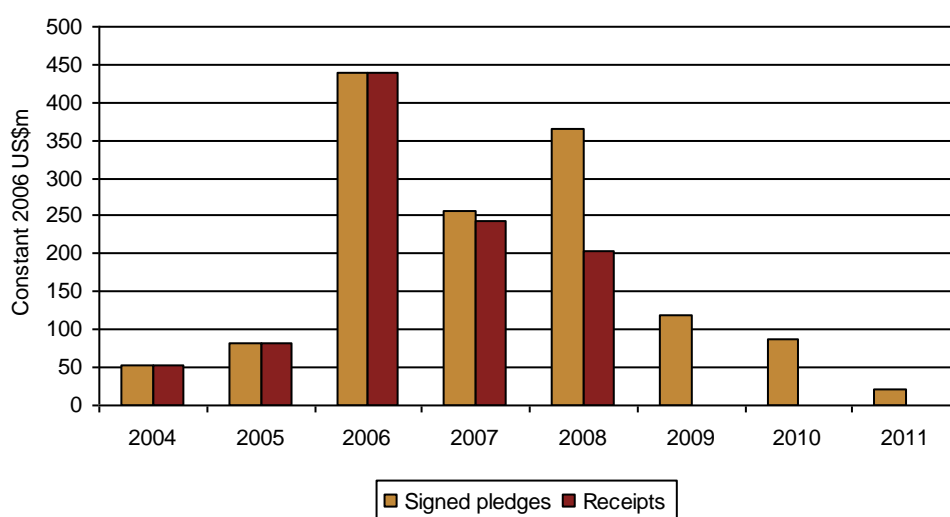
27 There does not appear to be a relationship between the level of CF allocation per child and the proportion of out-of-school children in a particular country. The average proportion of out-of-school children is pretty similar for the highest allocation group and the lowest allocation group (**Error! Reference source not found.**).

28 In summary, the available evidence suggests that within the group of 30 CF countries, the distribution of allocations per child has been skewed to the relatively well-off low income countries and those that started the decade in a relatively better position in terms of aid to basic education per child. Overall, the CF is not currently active in countries where 81% of the World's out-of-school children live. This omission could become more important if the FTI changes its criteria for qualification or moves more towards the model of a traditional global fund in pursuit of its aims. As it stands, the FTI clearly has scope for improvement in terms of the numbers of IDA eligible countries it supports. The issue of how FTI support is best targeted amongst those countries is also ripe for debate. The South and West Asia region accounts for nearly one quarter of out-of-school children, but the FTI CFs omission of India and Pakistan could potentially change in the future as these countries have now been added to the IDA eligible list of countries.

E Mobilising funds for the CF

29 The annual volume of donor pledges to the CF has been extremely erratic as Figure III.6 illustrates¹¹. The CF was relatively small in the first two years reaching a cumulative total of USD 135m by the end of 2005. The following year, saw a dramatic increment, such that by the end of 2006 the CF had reached USD 575m. Four new donors joined the existing seven in 2006. The two largest contributions in 2006 came from the UK (USD 129m), a new donor, and from the Netherlands, an existing donor (USD 185m)¹². Why did more donors join the CF and existing donors step-up their contributions in 2006? Various respondents have suggested that the discussions about the ECF concept, which took place at the various CFC meetings throughout 2006, influenced some donor's behaviour. Although the ECF concept was not approved until May 2007, it was clear during the 2006 meetings that the eligibility for the CF was likely to be opened up to include all low income countries. In the case of the UK, there was also very strong political will to scale up external aid to education in Africa.

Figure III.6 Real trends in pledges and receipts, 2004-11



Sources: (i) FTI-Secretariat 2008; (ii) Deflator: OECD DAC (**Error! Reference source not found.**).

30 In 2007, pledges were down by 40%, and by 2008 they had not regained their 2006 level. Looking to the future, there is a steep slide in pledges for the next three years with a two-thirds reduction between 2008 and 2009 and further decreases after that. Given that the CF is now making three year allocations to countries, which must be backed by signed pledges, this puts the fund into a precarious position. At the end of 2008, it was anticipated that 20 countries would apply for CF support at the spring 2009 CFC meeting for a total amount of USD 900m (FTIS, 2008). In the event, only one country application was dealt with at that meeting. Based on the number of pledges to date, there is a worry that CF donors may not provide the predictable or long-term commitments needed to properly support the operation of the CF over the next few years. The case of the 2008 pledging pattern, underlines this point. By September 2008, only USD 270m out of the required USD 385m (70%) had been pledged. Though the total required amount was eventually pledged (the remaining 30% was pledged in the last three months of the year). This situation creates great uncertainty for the countries submitting CF applications.

31 At present there is no formal mechanism for the replenishment of the CF. Peer pressure between donors appears to be one of the few ways of leveraging pledges. The

¹¹ In this context, pledges are backed by signed agreements, so they represent commitments.

¹² For a complete list of donor pledges to the CF as of October 2008, see Table III.1 above.

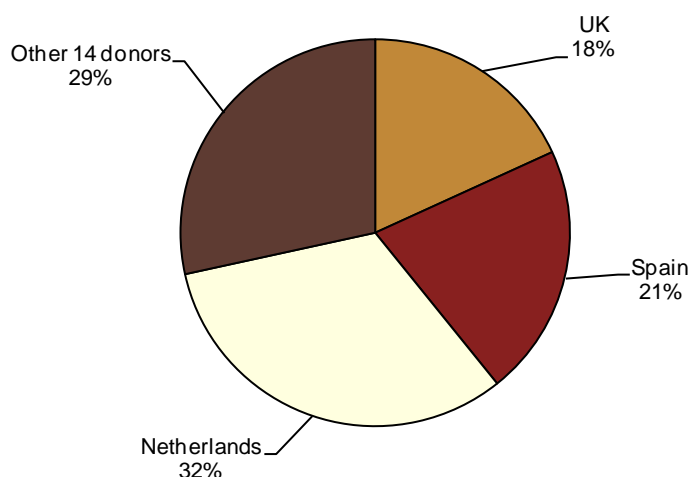
willingness to replenish is affected by the perception that the large cash balance held by the CF means that it does not require additional pledges. This is incorrect, under the current *modus operandi*. The CF has a large cash balance because some donors provide the cash to back their multi-year pledges in one go, but the funds are not all needed immediately since countries receive CFs in tranches. The volume of signed pledges is carefully matched to the volume of allocations awarded, and regardless of the CF cash balance, new CF allocations cannot be made unless additional pledges are made. The extension of CF allocations to three years has exacerbated the cash balance issue. The recent poor disbursement performance of the CF (see section F for details) has also negatively affected the decision of some donors to pledge to the CF.

32 The problem of providing more predictable support to the CF has been discussed on numerous occasions at the CFC meetings; indeed it sparked the ongoing work on developing a longer-term replenishment cycle to move away from year-to-year pledges. This work started as a discussion in the December 2007 CFC meeting and a concept note for a replenishment mechanism was prepared for the April 2008 CFC meeting. Replenishment is now one of the main issues engaging the new FTI Board.

33 The FTI secretariat reports that there are few problems with turning signed pledges into receipts. Receipts matched pledges up until 2006 and were close in 2007.

34 Another issue relating to the sustainability of the CF is its dependence on a few large donors. Figure III.7 below shows that the CF is supported by 17 donors, but the amount contributed by each is far from evenly spread. There are three major donors: Netherlands, UK and Spain. Together these account for over 70% of total pledges made by the end of 2008. The remaining amount is split between 14 other donors, with pledges from nine of these countries amounting to less than 1% of total pledges each.

Figure III.7 Distribution of signed pledges from inception to Oct 2008, by donor



Sources: (i) FTI-Secretariat 2008; (ii) Deflator: OECD DAC (**Error! Reference source not found.**).

35 In value terms, how significant is the CF compared with individual donors' bilateral aid programmes to basic education? In 2006, the Netherlands' CF pledge was equivalent to 16% of its bilateral aid programme to basic education. The comparable figure for UK was 15%, and Spain was 10%. Norway stands out in this respect: its CF pledge was the equivalent of 30% of its bilateral aid programme to basic education in 2006 (Table III.9 below).

Table III.9 Relative importance of CF pledges in total aid for basic education commitments by donor, 2006 (constant 2006 USD)

| Donor | CF pledge 2006 | Bilateral aid to basic education | CF equivalent to what % of bilateral programme |
|-----------------|----------------|----------------------------------|--|
| Belgium | 1.2 | 42 | 3% |
| Canada | 17.0 | 213 | 8% |
| EC (ACP) Part 1 | 40.3 | 302 | 13% |
| Ireland | 4.5 | 45 | 10% |
| Italy | 1.3 | 0 | - |
| Netherlands | 185.3 | 1100 | 17% |
| Norway | 40.6 | 135 | 30% |
| Russia | 1.0 | - | - |
| Spain | 9.0 | 88 | 10% |
| Sweden | 10.4 | 153 | 7% |
| UK | 129.1 | 834 | 15% |

Sources: (i) FTI-Secretariat 2008; (ii) Deflator: OECD DAC (**Error! Reference source not found.**); UNESCO 2008.

F Funding modalities and disbursement performance of the CF

36 This section analyses the modalities which have been used to channel CFs, and the efficiency of CF disbursement to the country level.

37 An important distinction made use of in the following discussion is that between 'earmarked' and 'traceable' funds¹³:

- Earmarking involves the *ex ante* justification of the provision of budget support funding (either general or sector) against a particular component of public expenditure. It can be broad (sector wide) or narrower (funds targeting a sub-sector or even specific budget lines). According to this definition, Sector Budget Support (SBS) is universally provided in support of the sector budget in question and is therefore, *de facto*, earmarked;
- Traceability: funds are traceable when they are separately identifiable in the expenditure classification of the recipient government's budget (e.g. through special accounts or separate accounting). Project funding is by nature traceable, as is pooled funding and some types of sector budget support. Overall traceability is often associated with further derogations from government financial management procedures (e.g. separate cash management, additional reporting and audit requirements).

CF modalities

Modalities used until July 2008

38 Until the reform of IDA trust fund management processes (effective from July 1st 2008), the CF was channelling its funds to countries under two broad modalities: **(i) traditional investment project (TIP); and (ii) quick disbursing operation (QDO)**. The details of the differences in these modalities were set out in a discussion paper on current and future aid modalities for the CF (FTIS, April 2008, section B). In summary:

- Under a **TIP** there is a specification in the grant agreement about what items the funds can be used for (a positive list) i.e. funds are fully earmarked and traceable.

¹³ This distinction is new and was introduced in the upcoming study on Sector Budget Support in Practice (Mokoro, ODI 2009). The distinction between earmarking and traceability helps clarify and distinguish different instruments. As a result, the definition of earmarking differs from the generally used broader meaning.

Many TIPs also operate under tight disbursement procedures whereby relatively small advances are made into a special account which is then replenished after the approval of monthly reports of actual expenditure. Standard World Bank procurement rules for investment operations are applied.

- A **QDO**, in contrast, does not specify what items the funds can be used for in the GA. It is characterised as a policy-based agreement. It is generally earmarked, but not traceable. Earmarking varies from sector-wide (i.e. sector budget support) to cases where spending is tied to a set of primary/basic education programme outputs. Disbursement procedures are much less onerous¹⁴, with funds released in tranches; usually two tranches per grant agreement. The first tranche is released, in principle, after the country signs the grant agreement and submits a withdrawal application. The second tranche is released on a satisfactory report of implementation progress. The progress report contains a disbursement summary, a broad description of the implementation progress of the education sector programme, any critical issues relating to the programme's execution, and an overall assessment and rating (either satisfactory or unsatisfactory)¹⁵. Procurement reviews are (generally) less than under the standard World Bank rules which apply to TIPs¹⁶.

39 The QDO or policy-based agreement was set out as the preferred disbursement option in the Catalytic Fund guidelines (FTIS, November 2005, p5), but as can be seen in Table III.10 below, the number of grant agreements with a QDO modality is only slightly higher than those with a TIP (25 vs 22 to end December 2008). In value terms, TIPs are dominant; they account for about 60% of signed GAs.

Table III.10 CF modalities for signed grant agreements to end December 2008

| CF Modality | Number of countries | Number of grant agreements | Value of grant agreements (USD m) | Share of value of grant agreements (%) |
|--|----------------------------|-----------------------------------|--|---|
| World Bank instrument for CF OECD DAC terminology | | | | |
| Traditional investment project (TIP) | 15 | 22 | 522.3 | 59 |
| (1) Project type | 10 | 17 | 165.5 | 19 |
| (2) Pooled funding | 5 | 5 | 356.8 | 40 |
| Quick disbursing operations (QDO) | 11 | 25 | 367.9 | 41 |
| (3) Project type | 9 | 20 | 176.9 | 20 |
| (4) Pooled funding | 1 | 3 | 121.0 | 14 |
| (5) Sector budget support (SBS) | 1 | 2 | 70.0 | 8 ¹ |
| Total | 26 | 47 | 890.2 | 100 |

Sources: (i) Country grant agreements; (ii) World Bank, April 2009; (iii) FTI Secretariat, April 2008. Notes: (i) Mauritania appears twice in the number of countries because it has used more than one modality. Notes: (1) In Rwanda, the two first SBS grant agreements were done using investment project grant agreements slightly modified – see Annex D.

40 Within each of the two broad World Bank instrument categories, there are a range of different arrangements. Table III.10 indicates under each of the World Bank instruments whether there is a pooled funding arrangement (with other donors and sometimes

¹⁴ They can nevertheless be quite significant in terms of reporting and additional requests (audit etc.).

¹⁵ The progress report is often referred to as 'annex 5' because a model report was set out in annex 5 of the FTI Catalytic Fund Operational Guidelines (Nov 2005).

¹⁶ Examples are presented by the case studies that do not fall neatly into one type of funding modality or the other (e.g. Rwanda, Ethiopia).

government) or a sector budget support arrangement where CFs co-fund the national budget. Pooled funding arrangements account for nearly 55% of the value of grant agreements, while SBS takes up only 8%; project type funding accounts for the remaining value of grant agreements. The movement towards such a high concentration of pooled funding arrangements is relatively recent. The grant agreements for the five countries in the pooled funding category under TIPs were all signed during or after April 2008.

41 Apart from the degree of pooling, QDOs vary in other respects too. In many cases, although the items to be financed from the CF grant were not specified in the GA, the recipient was, in fact, asked to provide a separate detailed list of inputs. In addition, WB rules on financial management and procurement were sometimes applied, which limited the use of country systems for these purposes. The FTIS carried out an analysis of the degree of use of country systems for procurement and financial management (budget execution, reporting and auditing) of the CF in countries which had received grants up until December 2007. Out of 19 countries, only two were fully using country systems, 10 were partly using them, while six did not use them at all (FTIS, April 2008, Table 1).

After July 2008

42 The change in IDA trust fund regulations, which are applicable to all WB-managed trust funds, has significant implications in terms of the aid instruments available to the CF. The revised Operational Policy and Bank Procedure (OP/BP) 14.40 on trust funds was issued on July 1, 2008. It specifies that Recipient Executed Trust Funds (RETF - such as the Catalytic Fund) will be aligned with processes, systems, and oversight arrangements applicable to IBRD/IDA lending operations, including fiduciary and safeguard policies and application of the results framework. Starting in end FY08, RETF projects over USD5 million are subject to the same Bank processes as for regular loans and are reported as part of the Bank's portfolio. For further details see Annex B box B2.

43 The new WB trust fund rules therefore imply that the WB, when acting as supervising entity for the CF, could only use standard WB aid modalities. The choice of aid modalities is therefore:

- Investment Operation (IO): project modality (similar to the TIP), has to be earmarked and traceable and to satisfy WB standards (including procurement); a new model grant agreement for IOs came into effect for all allocations made after May 2007 and remains valid.
- Development Policy Operations (DPO): budget support modality, which cannot be traceable but can be earmarked¹⁷. DPOs are based on a set of policy or institutional reforms to be fulfilled *ex-ante*. A DPO can focus on a particular sector. In the case of the FTI CF, this means that the 'prior actions' will relate to the education sector. In the first FTIS analysis of future funding modalities (FTIS, April 2008) it suggested that the use of DPOs for CFs "would be feasible if a budget support operation is already in place, because most, if not all, assessments needed would have been done....for example the PRSC".

While there are other instruments available within the WB for sector support (Adaptable Programme Loan, Disbursement Linked Indicator SWAp), they are not mentioned in the EFA-FTI modality guidelines (FTI Secretariat 2008).

44 As a result of the changes in WB trust fund rules, the QDO modality is no longer available because it is not a standard WB instrument. In addition, contribution to a pooled fund may be made more difficult in some cases because the obligation to use an investment

¹⁷ Although the FTI Modality guidelines confuse earmarking and traceability when they mention that "A DPO focusing on a particular sector is possible, but it is not possible to use any earmarking". (p.3)

lending operation modality implies the requirement to fulfil IDA standards in terms of procurement and fiduciary risk¹⁸.

45 The new aid modalities for the CF are described in the EFA-FTI modality guidelines which were published in November 2008. The guidelines aim to assist Local Education Groups in deciding on the modality for the CF. They reiterate the FTI's commitment to Paris Declaration principles and hence to the use of the "most aligned aid modality" (p.8-9). In particular, they outline that "the steps involved in the choice of modality would be to assess whether budget support can be used and, if not, to determine appropriate funding channels and design features that would align as far as possible with Government systems and harmonise among donors".

46 Furthermore, the guidelines clearly specify (p.11) that the choice of an alternative Supervising Entity to the WB should be kept in mind by Local Education Groups in order to allow a broader range of aid modalities to be considered¹⁹. The guidelines give examples of cases when an alternative supervising entity should be considered: where the WB has no experience in providing budget support, where it is not participating or able to participate to an existing pooled fund, or where it has no experience in the sector in the country.

47 The EFA-FTI modalities guidelines also indicate that it would be easier to use a DPO if the WB already uses one (for example by providing general budget support through a PRSC): "further work to assess the feasibility of a sector budget support would include looking at the WB's experience with DPOs in the country, or at other donor agencies' experiences with general budget support or sector budget support. If such budget support had not been used earlier, the use of sector budget support would require additional work." (p.11)

48 In addition to providing guidance on the choice of aid modality, the 2008 modality guidelines outline a process for making this decision. This process shifts much of the preparatory work (e.g. fiduciary assessments) upstream, i.e. prior to making an application for CF. Agreement on the choice of modality is now required prior to the CFC application, instead of afterwards which often caused delays.

49 Table III.11 shows the modalities agreed for CF awards since July 2008. Four out of the seven applicant countries have opted for an IO, while two have chosen a DPO modality. The DPO modality accounts for almost half of the value of the total allocations made. The reason that the World Bank was unable to act as the SE in the case of Zambia was because of the choice of an earmarked and traceable SBS modality, which was not possible to support either through an IO (which requires alignment with WB fiduciary standards) or through a DPO (which cannot be traceable).

¹⁸ The EFA-FTI modality guidelines (FTI, 2008) specify that the WB does not have a specific modality to fund pooled funds, contrary to bilateral donors (p.6)

¹⁹ "The WB is normally the SE, but the funds can also be passed on to another donor agency through a Transfer Agreement if such an arrangement is found to be more feasible" (FTIS, 2008:12)

Table III.11 Modalities for CF allocations made since July 2008

| CF modality | | Countries | Value of allocations (USD m) | Share of value of allocations (%) |
|--|--------------------------------------|--|------------------------------|-----------------------------------|
| EFA-FTI modality guideline instrument¹ (OECD DAC terminology) | WB instrument | | | |
| Project type | Investment Operation (IO) | Guyana, Gambia, Central African Republic, Timor Leste (4 in total) | 91.2 | 32 |
| Pooled funding | Investment Operation (IO) | None (0) | 0.0 | 0 |
| Sector budget support | Development policy operation (DPO) | Burkina Faso; Rwanda (2 in total) | 137.0 | 48 |
| Sector budget support (targeted) | n/a (alternative supervising entity) | Zambia (1) | 60.0 | 21 |
| Total | | 7 | 288.2 | 100 |

Source: FTI 2008; FTI 2008ae; and FTI 2009. Notes: (1) FTIS, November 2008

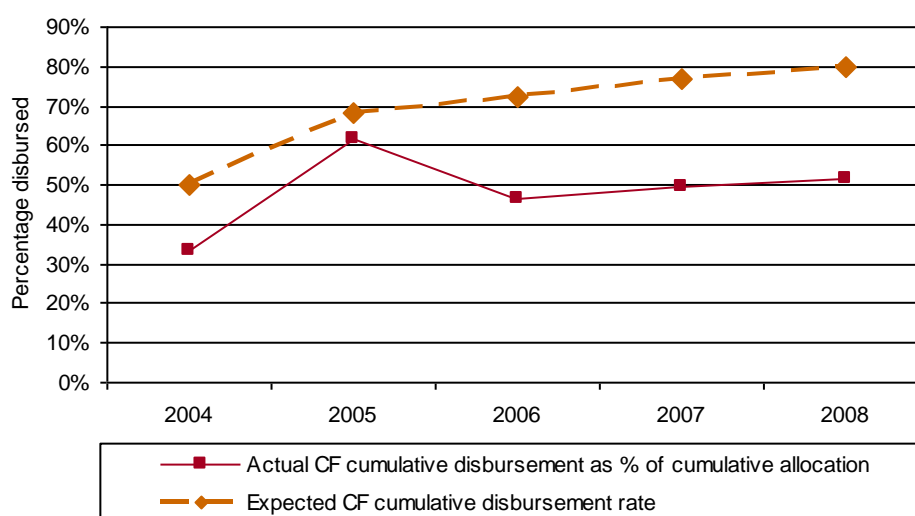
G CF disbursement performance

50 It is clear from Figure III.3 above that disbursements from the CF have not kept pace with allocations. But in order to put this disbursement performance in context, it is important to ask:

- How does the CF's disbursement performance compare with what was expected under the original CF model (three year allocations backed by single year grant agreements covering two tranches)?
- How does CF's disbursement performance compare with that of a typical IDA investment operation?
- Does the choice of modality for CF appear to affect disbursement rates? Given the recent changes in available modalities for the CF, and changes in the FTI processes (for endorsement and application to the CF), what are the prospects for CF disbursement performance in future?

51 These three issues are investigated in this section. Taking the first, Figure III.8 below compares the actual trend in cumulative disbursements as a share of cumulative allocations for the CF, with the expected cumulative disbursement rate²⁰. In the first two years, the actual cumulative disbursement rate was fairly close to the expected rate, but there was a sharp divergence in 2006, where actual cumulative performance fell well short of expectations. This gap has remained almost constant since then, suggesting that while disbursement performance has not recovered its position relative to expectations prior to 2006, it has just about kept pace with them (note that even with stable disbursement performance over time, cumulative disbursement rates would be expected to increase over time).

Figure III.8 Actual vs. expected¹ cumulative CF disbursement performance 2004-08



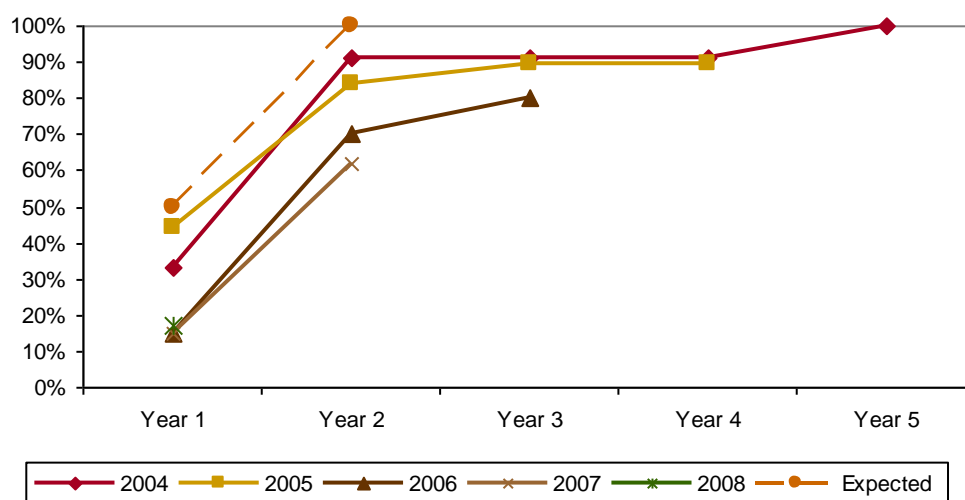
Source: Author's calculation using data from the following sources: (i) FTI-Secretariat 2008. Note: (1) The expected cumulative disbursement rate is based on the simple model disbursement profile for the CF set out in the CF Annual Status Report 2008 (FTIS, Dec 2008, Annex 3 ¶ 24). This assumes that a country receives three consecutive annual grants (Y1, Y2 & Y3). Each annual grant has two equal tranches (e.g. Y1t1 & Y1t2) which are released within six monthly intervals. It allows for at least six months from allocation to first disbursement (assuming allocation was awarded in the previous calendar year), and sets out expected disbursement performance as Y1t1 for first year, Y1t2 & Y2t1 in second year, Y2t2 & Y3t1 in the third year, leaving Y3t2 for the fourth year. We have assumed that this model holds over the five years. (**Error! Reference source not found.**)

52 The disbursement profiles for individual allocation years underpin the cumulative disbursement profile and help to explain it. Figure III.9 below tracks the disbursement over time of allocations made for a particular year (using country level data). It shows that by end of 2008, only the allocation for 2004 had been fully disbursed. The disbursement profile for each of the five allocation years fall short of the expected rates, but the first two years are not far from the benchmark. The sharp drop in disbursement performance from 2006 onwards is clearly visible. Part of the explanation for the slowing of the disbursement rate over time is perhaps the fact that later years increasingly cover multiple allocations for existing countries, as well as new countries, giving more scope for delays to build up (as additional GAs have to be signed and additional applications made to the CFC). There are

²⁰ It is important to make the distinction between allocations intended for a particular year and allocations made in a particular year (which are usually intended for future years). The denominator in the calculation of the cumulative disbursement rate up until year X only includes allocations intended for the years up to and including year X (not future allocations). The FTIS also followed this method in their calculations of disbursement performance for 2004-06 in the CF Annual Status Report (FTIS, Dec 2008, Annex 3 table 1), but in ¶s 29 and 30, they (mistakenly) include future allocations in their calculations of the cumulative disbursement rates up to 2007 (26%) and up to 2008 (40%).

also some specific reasons for slower performance from 2007 onwards, which are explained below.

Figure III.9 Expected¹ vs. actual disbursement performance by allocation year



Source: Author's calculation using data from the following sources: (i) FTI-Secretariat 2008. Note: (1) The expected disbursement profile is based the standard CF three year profile detailed in the note under the table above. This assumes that the allocation for a single year is fully disbursed after two years. (**Error! Reference source not found.**)

53 Turning to the question of how CF disbursement performance compares with that of a typical three year IDA investment operation, Table III.13 below sets out the disbursement profiles for the 11 countries which have received a three year CF allocation (up until 2007-09). Four out of the seven CF countries from the early allocation groups (2004-06 and 2005-07) had fully disbursed their allocations within four years, meeting the IDA benchmark. The other three countries had disbursed only 50-60% of their allocations by this stage. Of the four countries in the more recent allocation group (2007-09), only Mongolia has performed strongly over the first two years (well above the IDA benchmarks); the other three countries have barely disbursed at all. This analysis reveals a variable picture of disbursement performance across countries, with some performing above the IDA profile and some well below. Part of the reason for these cross country differences probably relates to the choice of modality, as explained below.

Table III.12 Comparison of disbursement performance for CF countries which have received a three year allocation with an IDA profile

| Country | Allocation for years | Total allocation (USD m) | Cumulative rate of disbursement (%) | | | | | Funding modality |
|--|----------------------|--------------------------|-------------------------------------|------------|------------|-------------|--------|------------------|
| | | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | |
| Gambia | 2004-06 | 13.4 | 0% | 30% | 60% | 100% | 100% | TIP |
| Guyana | 2004-06 | 12.0 | 0% | 33% | 67% | 100% | 100% | TIP |
| Nicaragua | 2004-06 | 24.0 | 15% | 29% | 44% | 58% | 58% | QDO |
| Yemen | 2004-06 | 40.0 | 8% | 25% | 50% | 50% | 50% | QDO |
| Ghana | 2005-07 | 33.2 | 12% | 42% | 57% | 57% | | QDO |
| Kenya | 2005-07 | 121.0 | 20% | 20% | 60% | 100% | | QDO (pooled) |
| Madagascar | 2005-07 | 60.0 | 10% | 28% | 45% | 100% | | QDO |
| Benin | 2007-09 | 76.1 | 0% | 0% | | | | TIP (pooled) |
| Cambodia | 2007-09 | 57.4 | 0% | 2% | | | | TIP |
| Mongolia | 2007-09 | 29.4 | 28% | 58% | | | | TIP |
| Sierra Leone | 2007-09 | 13.9 | 0% | 0% | | | | TIP (pooled) |
| IDA profile for investment operations | | | 10% | 30% | 65% | 100% | | |

Sources: (i) FTI-Secretariat 2008. (ii) IDA profile: CF Annual Report 2008 (FTI, Dec 2008, annex 3 ¶32). Notes: Year 1 is the same as the year of allocation. (Error! Reference source not found.). TIP = Traditional Investment Project; QDO = Quick Disbursement Operation; (pooled) signifies CF funds part of pooled funding.

Table III.13 Grant processing and first disbursement times for new applicants

| Date of allocation award | Number of new applicant countries | Mean time between allocation & GA (months) by modality | | | Mean time between GA & first disbursement (months) by modality | | |
|--------------------------|-----------------------------------|--|------------|------------|--|------------|------------|
| | | QDO | TIP | All | QDO | TIP | All |
| Nov-03 | 6 | 7.2 | 10.9 | 7.8 | 2.8 | 7.2 | 3.6 |
| Nov-04 | 1 | 3.5 | | 3.5 | 2.5 | | 2.5 |
| Jul-05 | 2 | 1.5 | | 1.5 | 2.2 | | 2.2 |
| Dec-05 | 5 | 5.0 | 6.3 | 6.0 | 3.4 | 2.4 | 2.6 |
| Dec-06 | 4 | 8.7 | 5.4 | 7.1 | 1.0 | 1.9 | 1.4 |
| May-07* | 5 | | 12.6 | 12.6 | | 5.1 | 5.1 |
| Dec-07* | 3 | | 7.7 | 8.8 | | 2.7 | 3.1 |
| All | 26 | 5.9 | 9.2 | 7.7 | 2.4 | 3.7 | 3.1 |

Sources: (i) Allocation, grant agreement and disbursement times: FTI-Secretariat 2008, appendix 1) and FTI 2009; (ii) Modality information: country grant agreements; report on CF modalities (FTIS, April 2008); and the narrative status report (WB, April 2009). Notes: * means estimate (1) Days have been converted into months on the basis of 30.4 days per month. (2) There are another 3 new countries who have received allocations since December 2007: Zambia, CAR, and Burkina Faso, but none had signed grant agreements by the time of the April 2009 status report. (3) Dataset covers the 25 countries who have received a disbursement by Dec 2008 plus Sierra Leone which has signed a GA (26 in total) (4) A country from the May 2007 allocations (Sierra Leone) has signed a GA but has not yet received a disbursement. The length of the delay as at March 20th 2009 was included in the analysis, but this means that the figure for the time between GA and first disbursement is underestimated for May 2007. (5) A country from Dec 2007 allocation (Senegal) has been excluded because it hadn't signed a GA by March 20th 2009. This means that the figures for Dec 2007 are underestimates. (5) A country from Dec 2007 allocation (San Tome & Principe) has been excluded from the analysis by modality since. It is included in the 'all' figures'. (Error! Reference source not found.)

54 In order to understand some of the reasons behind the worsening overall disbursement performance over time, it is useful to examine the time taken for the key steps in the process between allocation and disbursement to take place. For the twenty six countries which have signed a CF GA to date, Table III.13 above groups them according to the date of their first allocation award and presents the average time taken to go from allocation to GA and from GA to first disbursement.

55 The time taken to move from allocation award to GA signature improved markedly over the first few years, down from nearly eight months for the first group to one and half months for the July 2005 applicants. It started to increase for the December 2005 applicants onwards, reaching a peak of over one year for the May 2007 applicants—it appears to have fallen for the December 2007 applicants, but there is still one country outstanding and so the average time for this group will increase. The FTI CF Annual Status Report 2008 (FTIS, Dec 2008) explained that the step increase in delay in May 2007 was related to the introduction of the expanded CF concept in 2007 and the parallel decision by the World Bank to make CF grants subject to standard IDA rules. The new grant agreement for CFs which takes account of the new IDA requirements was used for all allocations awarded from May 2007 onwards. As the report says *'the requirement to retrofit the new rules to allocations already made caused major delays of several months'*. Essentially, additional preparatory work, largely related to fiduciary risk and financial management arrangements, had to be put into place before GAs could be signed.

56 Following a similar pattern, the time taken from GA to first disbursement improved over the first few years, reducing from over three and half months for the earliest group to just over two months for the July 2005 applicants. There was a further improvement for the December 2006 applicants to less than one and half months, but again this was followed by a step increase in delay for the May 2007 applicants to over five months. It is not clear if the application of additional IDA rules also affected this stage of the process.

57 It is clear that the main delay in starting to disburse comes from the first step in the process i.e. getting the GA in place. On average, the processing of the GA takes more than twice as much time as moving from GA to first disbursement. In response to the step increase in delays for the May 2007 applications, the FTI has put in place new process guidelines which move the decision regarding modality, and the draft preparation of the GA, upstream and prior to the CF application. This seems likely to reduce some of the causes of disbursement delay, although it will presumably increase the period between endorsement and application to the CF. Nonetheless, the clarification of procedures, including the publication of CF modality guidelines to assist decision making by LEGs, coupled with additional strategies by the FTIS to strengthen its communications with LEGs should go some way towards reducing disbursement delays.

58 As might be expected from their design, Table III.13 above also reveals that on average countries which adopted a QDO modality suffered far less delay in getting a GA in place, and in moving from GA to first disbursement, than countries using TIP modality. In principle, QDO arrangements enable the recipient to obtain a first disbursement as soon as a GA is signed and a withdrawal application made. It is surprising to see that, in fact, this part of the process has taken nearly two and half months on average.

59 Looking to the future, it seems likely that the use of the TIP modality will increase in frequency, at least in the short term, which may exacerbate disbursement delays. The use of a DPO modality, which, in principle, would result in relatively fast disbursements, is an option for some countries, but so far only two countries have used this modality. DPOs depend upon extensive WB requirements that make FTI's use of them only likely where SBS is already in place (where all the necessary assessments have been already been carried out).

H Technical Note: Catalytic Fund Allocations vs. Commitments

60 A question was raised during the FTI meetings in Copenhagen in April 2009 about the figures described as follows in ¶3.39 of this Preliminary Report (¶17 of this report):

In the context of overall aid commitments to basic education, the contribution of the CF is small, but increasing. In 2004, it accounted for less than 1% of aid commitments to basic education, rising to just less than 2% two years later....

This technical note clarifies the figures behind this paragraph.

61 There are three main steps required to access catalytic funding after a country has been endorsed by the FTI and has submitted an application to the CF. First an **allocation** is announced at a Catalytic Fund Committee (CFC) meeting. Second, a **signed grant agreement (GA)** is put in place. This is a legal document and represents a commitment on the part of the CF trustees to disburse the stipulated amount. The third step is **disbursement** of funds to a country-level account.

62 In line with the convention adopted by the GMR in its 2009 report, the Preliminary Report uses grant agreement figures to represent CF commitments. The figures are shown in Table III.14 below, along with the overall figures for aid commitments to basic education. Both sets of figures appear in the GMR 2009 aid annex.²¹

Table III.14 Catalytic Fund commitments to basic education

| Year | Aid commitments to basic education (Constant 2006 USD m) | Of which, Catalytic Fund (signed grant agreements) | | Catalytic Fund allocations vs. commitments | |
|------|--|--|------------------------------|--|-----------------------------------|
| | | Constant 2006 USD m | share of aid commitments (%) | Allocations announced | GAs as % of allocations announced |
| 2003 | 4060 | 0 | 0.00% | 88 | 0% |
| 2004 | 5215 | 39 | 0.75% | 9 | 23% |
| 2005 | 3679 | 52 | 1.41% | 236 | 22% |
| 2006 | 5033 | 85 | 1.69% | 217 | 89% |
| 2007 | | 146 | NA | 522 | 28% |
| 2008 | | 537 | NA | 323 | 166% |

Sources: (i) GMR aid database (extracted from the OECD DAC CRS); (ii) FTI secretariat for CF data.

63 The calculation of the share of aid commitments to basic education accounted for by the CF is shown in the fourth column of Table III.14. These are the basis for the comment quoted in the first paragraph of this technical note. The GMR 2009 also makes reference to these figures as follows:

Of the total commitments of aid to basic education in low income countries in 2006, the Catalytic Fund accounted for just over 2% [p216, GMR 2009]²²

64 It was suggested to the Evaluation Team that allocation announcements should be used instead of grant agreements to represent CF commitments. We do not view this as appropriate for two main reasons:

- (i) The GMR uses the following definition of a commitment which is taken from the OECD DAC directives. It is only CF grant agreements which meet these criteria.

²¹ See GMR 2009 aid annex table 2 p392 for figures from 2005 and 2006.

²² Note that in the Preliminary Report we stated that the CF accounts for just under 2% of aid commitments to basic education, while the GMR statement says "...just over 2%". The GMR statement is puzzling because the data on aid commitments to basic education by donor is given on p392 of the GMR report (in constant 2006 USD million) as 85 for FTI and 5063 for the overall figure. This translates to a share of 1.7% for the CF.

A commitment is a firm obligation by a donor, expressed in writing and backed by the necessary funds, to provide specified assistance to a country or multilateral organisation. The amount specified is recorded as a commitment. [p390, UNESCO 2008]

- (ii) The allocation announcements made to countries for specific years have fluctuated significantly in some cases. Table III.15 below shows the timing of allocation announcements, grant agreements and disbursements for Kenya and Nicaragua. Kenya has received three top-up allocations following the original allocation announcements, while Nicaragua has received one top-up allocation. This illustrates the fact that in some cases allocation announcements are far from firm. The data in Table III.15 below also provide some examples of significant intervals between the dates of allocation announcements and the signing of grant agreements.

65 For illustrative purposes, the right-hand columns of Table III.14 above also show the CF allocation announcements each year, in USD terms together with the ratio of commitments to allocations. These figures do show that allocations were running well ahead of commitments each year until 2007. In 2008, however, commitments (grant agreements) substantially exceeded new allocations from the CF.

Table III.15 Examples of CF allocation announcements, grant agreements and disbursements

| Allocation year ¹ | Allocations announced (USD m) | Date of announcement | Grant agreement (USD m) | Date of grant agreement | Disbursement (USD m) | Date of disbursement |
|------------------------------|-------------------------------|-----------------------------------|-------------------------|-------------------------|----------------------|----------------------|
| Kenya | | | | | | |
| 2005 | 22.5 | Jul-05 | 24.2 | Nov-05 | 24.2 | Dec-05 |
| | 1.7 (top-up) | Sep-05 | | | | |
| 2006 | 24.2 | Dec-05 | 48.4 | Mar-07 | 24.2 | May-07 |
| | 24.2 (top-up) | end 2006/early 2007? ² | | | 24.2 | Nov-07 |
| 2007 | 24.2 | Dec-05 | 48.4 | Apr-08 | 24.2 | Jun-08 |
| | 24.2 (top-up) | Nov-06 | | | 24.2 | Dec-08 |
| Nicaragua | | | | | | |
| 2004 | 7 | Nov-03 | 7 | Aug-04 | 3.5 | Oct-04 |
| | | | | | 3.5 | May-05 |
| 2005 | 7 | Nov-03 | 7 | Nov-06 | 3.5 | Dec-06 |
| | | | | | 3.5 | month? 2007 |
| 2006 | 7 | Dec-05 | 7 | Nov-06 | | |
| | | 3 (top-up) | | | | |

Source: FTI secretariat. Notes: (1) This refers to the year in which the allocation is intended to be used. (2) The decision on the amount of this top-up was discussed at the November 2006 meeting, but a decision was deferred. The records do not show exactly when this decision was taken, but it was certainly before March 2007 when the grant agreement was signed.

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- #1 Cambridge Education, Mokoro & OPM 2009b Cambridge Education, Mokoro and OPM (2009) *Mid-Term Evaluation of the EFA Fast Track Initiative: Preliminary Report*. 25 May 2009..
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- #3 FTI 2008ae EFA-FTI (2008). *FTI Catalytic Fund Committee Minutes*. December 2008.
- #4 FTI 2008e EFA-FTI (2008). *FTI Catalytic Fund Committee Minutes*. September 2008.
- #5 FTI 2008I EFA-FTI (2008), *FTI Catalytic Fund Annual Status Report*: Oslo, Norway, December 13
- #6 FTI 2009n EFA-FTI (2009). *FTI Catalytic Fund Interim Status Report*. April 2009. Copenhagen.
- #7 FTI 2009o EFA-FTI (2009). *FTI Catalytic Fund Committee Minutes*. April 2009.
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- #9 FTI-Secretariat 2008c FTI Secretariat (2008), *FTI Catalytic Fund Annual status report*.
- #10 ODI & Mokoro 2008 ODI and Mokoro (2008), *Sector Budget Support in Practice: Inception Report (Final Draft, 21st November 2008)*
- #11 UNESCO 2008b UNESCO (2008), *EFA Global Monitoring Report 2009: Overcoming Inequality – Why Governance Matters?* UNESCO Publishing.