

**Mid-Term Evaluation of the EFA Fast Track Initiative**

**Draft Synthesis Report  
Volume 2 – Annexes  
Annex K: Financing Gaps**

**21 November 2009**



This report is based on the work of an independent evaluation team. It has been reviewed by the Evaluation Oversight Committee (EOC) which determined that it meets an objective set of quality standards for an evaluation of this nature (based in part on DAC guidelines and on DFID's quality assurance guidelines for programme evaluations) and that it sufficiently meets most of the EOC requirements for having satisfied the relevant portion of the terms of reference to be shared as a discussion document.

This determination in no way signifies the endorsement of the report's conclusions or recommendations by the EOC as a whole, by any of its individual members or by the agencies they represent. The analyses, interpretations and opinions expressed in this report are those of the evaluation team.

## **Volume 2: List of Annexes**

Annex A: FTI Timeline (General)

Annex B: The Governance and Management of the FTI

Annex C: The FTI Indicative Framework and the UPC Target

Annex D: Summaries of Country Case Studies

Annex F: Data, Monitoring and Evaluation

Annex G: FTI and Capacity Development

Annex H: FTI and 'Fragile States'

Annex J: Interviewee Analysis

Annex K: Financing Gaps

## Contents

<b>Volume 2: List of Annexes</b>	<b>2</b>
<b>Acronyms and Abbreviations</b>	<b>5</b>
<b>A. Introduction</b>	<b>1</b>
<b>B. FTI usage of financing gap</b>	<b>1</b>
<b>C. Conceptual issues</b>	<b>2</b>
<b>D. Global estimates of the cost of reaching EFA goals &amp; financing gaps</b>	<b>4</b>
<b>E. Basic/primary education financing gaps in FTI endorsed countries – FTIS estimates</b>	<b>5</b>
<b>F. Basic/primary education financing gaps in FTI endorsed countries – evidence from country case studies</b>	<b>7</b>
<b>G. Financing gap as a CF criterion</b>	<b>11</b>
<b>References</b>	<b>15</b>

## Tables

Table K1	Mean financing gap, GNI, proportion of out-of-school children by financing gap group	5
Table K2	Mean adjusted financing gap, GNI and proportion of out-of-school children by adjusted financing gap group	7
Table K3	Country studies examples of the rationale for the CF allocation decision	9
Table K4	Calculation of financing gaps in country studies.*	10
Table K5	Use of allocation formulas by the CFC	11
Table K6	Features of the current proposed model for prioritisation of CFs	14

## Acronyms and Abbreviations

CF	Catalytic Fund
CFC	Catalytic Fund Committee
ECCE	Early Childhood Care and Education
ECD	Early Childhood Development
EFA	Education for All
ENI	Education Needs Index
EPDF	Education Program Development Fund
FTI	Fast Track Initiative
GMR	Global Monitoring Report
GNI	Gross National Income
GNP	Gross National Product
IDA	International Development Association
MTEF	Medium-term Expenditure Framework
NER	Net Enrolment Rate
NGO	Non-governmental organisation
ODA	Official Development Assistance
OECD	Organisation of Economic Cooperation and Development
PRSP	Poverty Reduction Strategy Plan
SWAp	Sector-wide approach
TTP	Task Team on Prioritisation
UNESCO	United Nations Educational, Scientific and Cultural Organisation
Unicef	United Nations Children's Fund
UPC	Universal Primary Completion
UPE	Universal Primary Education
USD	United States Dollar
WB	World Bank



## A. Introduction

K1 The terminology of “financing gaps” has been central to FTI discussions from the outset, and the objective of assisting countries to close their financing gaps was one of the four key objectives (four gaps) highlighted at the creation of the FTI. The Terms of Reference for the present evaluation, in High Level Question 3 (f), ask “to what extent has FTI assisted countries in closing their financing gaps for their EFA acceleration efforts?”

K2 However, the concept of a “financing gap” is not straightforward. This Annex attempts to clarify the conceptual issues, and reviews the various ways in which the financing gap concept and terminology have been used in the context of FTI.

K3 Successive sections: review the use of the term in FTI formative documents; discuss underlying conceptual issues; note different approaches to estimating the financing gap at global level; review recent estimates of financing gaps by the FTI secretariat; present findings from the evaluation’s country studies on how the gap has been calculated; and finally on how the financing gap has been used as a criterion for Catalytic Fund allocations.

## B. FTI usage of financing gap

K4 The FTI was born out of the adoption of the Dakar Framework for Action on Education For All at the World Education Forum in 2000, and the declaration that:

*No countries seriously committed to Education for All will be thwarted in their achievement of this goal by lack of resources. (World Education Forum 2000)*

K5 It was launched in 2002 as a major effort to mobilise resources to support EFA. Its specific focus was on achieving the goal of Universal Primary Completion, through a “compact” linking increased financial support to country improvements in policy performance and accountability for results.

K6 The notion of a financing gap features prominently in the World Bank 2002 Action Plan (World Bank 2002)<sup>1</sup> and the FTI framework (FTI 2004d). The Action Plan identified the four “gaps” (data, policy, capacity, resources) and called for the scaling up of aid where countries could demonstrate that they had a credible plan to make use of it. The financing gap it identified was calculated as the external financing needed after allowing for the feasible scaling up of domestic financing for primary education. “*This financing gap should be considered the absolute minimum cost of achieving EFA under the most optimistic reform scenarios*” (World Bank 2002, ¶28). It built on World Bank work by Bruns, Mingat and Rakotomalala (Bruns et al 2003), which included a systematic effort to calculate financing gaps against the target of Universal Primary Completion.

K7 This formulation of the financing gap underlay the Action Plan’s stress on resource requirements at the global level:

In Dakar, the international community committed that “no country with a credible plan would be thwarted from implementing it for a lack of resources”. Making good on that commitment would require development partners to:

- Significantly increase donor funding for primary education...a three to five fold real increase over current aid for primary education to these countries and a sevenfold real increase in the levels of aid for Sub-Saharan Africa.
- Ensure better targeting of EFA priority countries. Current aid patterns for education do not prioritize EFA countries in greatest need.<sup>2</sup>
- Change the mix of donor assistance. Donor support would need to shift a larger share of external assistance to recurrent budget support, including through debt relief under

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<sup>1</sup> This was a revised version of a paper first circulated in September 2001.

<sup>2</sup> The paper noted that the 47 countries analysed had an average primary completion rate of only 51% but received only 10% of current ODA going to education.

the HIPC Initiative. In turn, recipient countries would need to show greater budgetary transparency and monitoring of outcomes, building on gains made through the PRSP process and PRSC [Poverty Reduction Support Credit] lending.

- Improve the efficiency of aid transfers. A significant share of donor assistance typically supports technical assistance contracts, consultancies, seminars, and other expenditures that cannot be counted directly against the “net” resource requirements for EFA estimated in the calculations, about two-thirds of which will be for recurrent costs and notably for teacher salaries, system management and appropriate demand-side interventions. Greater use of pooled assistance and direct budgetary transfers in the context of Sector Wide Approaches (SWAs), PRSPs and other programmatic support will be needed to increase the efficiency of transfers.

K8 The FTI Framework defines the nature of the financing gap at country level in relation to the definition of a “credible plan”. It characterises the “credible and sustainable<sup>3</sup> education sector plan” as follows:

In general, the sector plan would address key constraints to accelerating UPC in the areas of policy, data, capacity, and financing and align primary education priorities with those for pre-school, secondary, tertiary, and non-formal education. It would:

- provide a *costed strategy* for accelerated progress towards UPC; ...
- *review the total resources available (domestic and external) to implement the sector plan and estimate the **incremental domestic and external resource requirements** in light of short-to-medium term implementation capacity.* [emphasis added]

## C. Conceptual issues

K9 It is important to be aware of different ways in which the term “financing gap” is used and of different approaches at global and country level.

K10 In the Action Plan and in the EFA Global Monitoring Reports (GMRs), the “global” financing gap is conceived as the difference between actual and projected levels of expenditure on primary education (on the one hand), and (on the other hand) the levels of expenditure that would be required if primary education for all were adequately financed and UPE were to be achieved by 2015.

K11 In contrast, at country level, and as outlined in the FTI Framework and in the context of the definition of a credible plan, Ministries of Finance and of Education calculate in general a shorter term financing gap – usually three to five years but sometimes up to 10 years – based on a bottom-up costing of policies and strategies. Often this gap is calculated in a way that takes account of the likely (rather than desired) availability of financing, which creates a confusing circularity in the concept of financing gap. In general it is not the gap that needs to be filled to reach UPE by 2015.

K12 The size of the “gap”, if expressed as a single number, will depend on the number of years over which the calculation extends. The anticipated “gap” may be filled from various sources, including public and private domestic expenditures and external aid. A number of other dimensions also complicate the issue, as discussed below.

K13 *Recurrent and capital expenditures:* Required expenditures will include one-off **capital investments (e.g. classrooms) and also annual recurrent spending on** teachers’ salaries, text books and other inputs to the education system. Broadly speaking, if recurrent costs do not take place in year 1 (the teachers were not hired), they drop out of the calculation that starts in year 2; but capital costs carry forward (a classroom not built in year 1 is still needed in year 2). If the gap is calculated against a fixed target to reach UPE in 2015, one could then consider that the overall financing gap is shrinking, since the recurrent expenditures not carried out in the past year drop out of the calculation. On the other hand,

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<sup>3</sup> There is a conundrum in assessing the sustainability of a plan if the availability of finance to bridge a “financing gap” is not known.

the ability of a government to sustain its education system is more closely related to the recurrent costs involved (including the costs of maintaining the capital stock of school buildings etc). It is therefore a confusing simplification to present “gap” calculations that do not clearly differentiate between the capital and recurrent cost elements.

K14 *Focus on 2015.* The financing gap mainly concerns recurrent expenditures (teacher salaries, textbooks, school maintenance, teacher training) and therefore it is both unrealistic and potentially harmful<sup>4</sup> to set an end date to the “gap” that is calculated. There are many countries that, even if they could achieve UPE or UPC by 2015, would still require external assistance in subsequent years.

K15 *Absorptive capacity.*<sup>5</sup> When discussing financing gaps, concerns arise about potential absorptive capacity constraints on spending additional resources, especially in the short term. As further discussed below, there appear to be downward pressures on the way short-term financing gaps are calculated at country level, particularly in relatively poor countries. Problems with absorptive capacity are often cited by donors as a reason for reducing the scale of proposed reforms. There are undoubtedly some short-term constraints which may prevent poorer countries, and those starting from relatively low rates of primary completion, from expanding provision and implementing service delivery and financing reforms quickly. However, absorptive capacity is neither fixed nor absolute. Absorptive capacity may be increased over time, and even in the short term, countries’ ability to absorb aid is directly related to the manner in which resources are provided. Key issues to be considered regarding absorptive capacity are (i) the role of aid modalities and in particular what aid is used for (e.g. recurrent or only investment expenditures); (ii) how predictable the aid is – especially its predictability over the medium and long term; (iii) requirements by donors for short term sustainability (often linked to an “exit strategy” for the donor); and (iv) the recipient government’s own concerns about aid dependency. These last two concerns can both lead to limits in levels of aid provided or a requirement to fund only capital expenditure.

K16 *Sector coverage.* The size of the “gap” obviously depends on whether it is calculated just for primary education or for all the EFA goals together. It also depends on the objectives set and the underlying policy choices, as well as anticipated unit costs. Focusing on a subsector for calculation of the gap risks giving insufficient attention to trade-offs between subsectors, while neglecting some of the cost implications for the sector as a whole (e.g. expanded primary education will invariably lead to pressure for more expenditure at secondary and tertiary levels).

K17 *Arbitrariness/“negotiation” of the gap.* Some quantitative and qualitative evidence (see section E below) suggests that country-level financing gaps contained in the financial frameworks presented to the FTI CFC are arbitrary in the sense that estimates are influenced by elements of negotiation or game-playing. There are many potential reasons for this, not least the obvious scope for estimates of the financing gap to be influenced by perceptions of the level of external aid that is likely to be available. CFs, while only a small part of the overall aid effort for education, are allocated based on financing gaps and each country has an incentive to put itself in the best bargaining position possible when entering negotiations for additional resources. Moreover, countries vary in their level of knowledge of the way the CF is allocated and also in their ability and motivation to ‘play the system’, which creates an additional distortion. Since the financing gap is a residual estimate, a relatively small change in overall projected costs can lead to a large proportional change in the external financing gap that is presented.

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<sup>4</sup> In terms of encouraging unrealistic planning.

<sup>5</sup> As defined in Rose 2007

The pace at which new financial, human, and technical resources can be efficiently used in the educational system and allocated appropriately, so that there will be a sustainable improvement in educational outcomes.

K18 *Use of the financing gap as an aid allocation tool.* The use of the financing gap both as a planning tool and as an aid allocation tool involves clear contradictions. Realistic planning implies both ensuring that resources are available for the activities planned, and that they are in line with implementation capacity. On the other hand, calculation of a financing gap when serving as an aid mobilisation instrument may result in estimates which are unrealistic (especially in the short term) in relation to aid availability and/or implementation capacity. The tension between long term calculations of the financing gap and the requirement for realistic short term planning in the context of a “financed” MTEF need to be acknowledged. The use of the financing gap as an aid mobilisation instrument should be carefully designed so as not to create incentives for unrealistic planning or budgeting in such a way as to jeopardize the credibility of the MTEF process.

## **D. Global estimates of the cost of reaching EFA goals & financing gaps**

K19 Since the start of the 1990s, various studies have estimated the global cost (absolute and incremental) of reaching selected EFA goals by 2015. Many of these studies confine their estimates to the cost of achieving UPE, but often they apply different methods, assumptions and coverage of countries and so the results are not directly comparable. A selection of estimates of the annual incremental costs needed to achieve selected EFA goals can be seen in a review study commissioned on behalf of the FTI partnership by the World Bank (Gershberg & Gurria 2004; table 1 p4).

K20 The first EFA GMR (UNESCO 2002) took stock of three of the (then) most recent EFA cost studies in order to establish the basis for its own estimates. Two of these studies (Brossard & Gacougnolle 2000 and Delamonica et al 2001) use a target of 100% NER as the criterion for UPE, while the World Bank study (Bruns et al 2003) use 100% UPC.<sup>6</sup> There are various other differences in the underlying assumptions, and the resulting annual incremental cost estimates for achieving UPE in 47 low income countries vary from USD 8.4bn in the World Bank study to USD 4.3bn in the UNESCO study. In terms of the resources needed to finance these projected costs, the World Bank study also estimated incremental domestic financing for primary education over the period, and hence obtained a (residual) estimate for the incremental external financing needed. It labelled the difference between projected total costs and projected domestic financing for primary education as the (external) financing gap. The GMR decided to use the World Bank study to form the basis of its own estimates of the annual external financing gap.<sup>7</sup>

K21 The World Bank study extended its analysis to cover all 79 low income countries. On this basis, it estimated the total incremental costs of achieving UPC by 2015 as USD 9.7bn per year. Of this, an estimated USD 3.7bn per year would need to come from incremental external financing.<sup>8</sup> The 2002 GMR adapted the World Bank estimates by assuming less ambitious growth in domestic financing and by costing in some additional items. Its estimate of the external financing gap was thus substantially higher at USD 5.6bn per year (for the 47 low income countries only). This estimate was used in all of the subsequent GMRs until 2007, when a new estimate of the external financing gap was made, which covered all low income countries, and came to USD 11bn per year (in 2003 prices).<sup>9</sup> This is a step increase

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<sup>6</sup> Bruns et al highlighted that UPC was a more demanding target.

<sup>7</sup> It is often not clear whether studies are referring to incremental external financing requirements or absolute external financing requirements (the latter is equivalent to the financing gap, as defined by the World Bank study).

<sup>8</sup> This incremental external financing figure is cited on p13 of the study. However, at various other points in the study, this estimate of USD 3.7bn per year is described as the average (external) financing gap (i.e. the average absolute level of external financing that would be required per year).

<sup>9</sup> All of the previous estimates cited in this section are in 2000 USD constant prices.

on its previous estimate, because it includes costs for some additional components of the EFA goals (literacy, ECCE), as well as an adjustment for shortfalls in external aid between 2000 and 2004.

## E. Basic/primary education financing gaps in FTI endorsed countries – FTIS estimates

K22 This section provides an analysis of the financing gaps as collected by the FTI Secretariat (FTIS) and the relation between these financing gaps and the proportion of out-of-school children and GNI per capita of the countries concerned. It also compares these financing gaps with estimates of financing gap drawn from the costing study by Bruns et al.

K23 The FTIS produced a document for its Paris meeting in September 2008<sup>10</sup> which set out the primary/basic education financing framework for 2008 to 2010 for each FTI endorsed country with data available.<sup>11</sup> The financing gap in the analysis which follows is defined as the difference between the estimated cost of a country's primary/basic education program and estimated domestic resources over the three years (i.e. it represents estimated total external funding needs for the period).

K24 The financing gap per primary-school aged child (summed over the three years 2008 to 2010) varies from USD 35 per child in Ghana to USD 379 per child in Mongolia. In order to investigate some of the characteristics of the countries which have relatively low and high financing gaps per child, the 34 countries have been split into three roughly even groups, based on their relative position in the scale of financing gaps per child. Some of the differences between groups are striking as Table K1 shows. Countries in the lowest financing gap group had a gap of USD 61 per child on average, compared with USD 218 per child for the highest financing gap group. Countries in this latter group also have a much higher average income (GNI) per capita than countries in the middle and lower financing gap groups. There does not appear to be a pattern between the proportion of out-of-school children and the financing gap group.

**Table K1 Mean financing gap, GNI, proportion of out-of-school children by financing gap group**

Financing gap group <sup>1</sup>	Mean financing gap per child 2008-10 (USD)	Mean GNI per capita (USD)	Mean proportion of out-of-school primary aged children (%) <sup>2</sup>
Lowest	61	616	26
Middle	121	703	20
High	218	1019	26
<b>All</b>	<b>136</b>	<b>786</b>	<b>24</b>

Sources: (i) Financing gap data: FTIS (Sept, 2008); (ii) GNP per capita: World Bank (July 2008); (iii) Out-of-school children: GMR 2009. Notes: (1) The 34 FTI endorsed countries with financing gap data for 2008-2010, have been split into three groups of roughly the same size (low=11 countries, middle=11 countries; high=12 countries) based on their relative position in the scale of the per child funding gaps. (2) Data are missing for 4 countries, the number of countries in each financing gap group is 8 (lowest), 10 (middle), 12(high).

K25 Is the apparent pattern of higher financing gaps in higher per capita income countries what would be expected if countries were aiming to apply similar service delivery and domestic resource mobilisation standards in the calculation of their financing gaps? This is a

<sup>10</sup> A five page table headed: *Financial frameworks and financing gaps in FTI countries*.

<sup>11</sup> Of the endorsed group of countries, data were not available for Georgia or Haiti. Data for Zambia based on its CF application documents in December 2008 were added to the dataset, making 34 countries in total.

difficult question to answer theoretically. On the one hand, the cost of primary/basic education programmes per student would be expected to rise with per capita income if teachers' salaries are positively related to per capita income. On the other hand, there is upwards pressure on financing gaps per child in many relatively poor countries which have weaker tax bases and more constrained domestic financing for education. Moreover, many of the poorest countries have a high proportion of out-of-school children and thus need to finance the capital costs of system expansion. There are many other factors which also influence the expected size of financing gaps per child across countries, including demographic factors. In other words, it is not possible to say theoretically whether the association between higher average income per capita and the highest financing gap group is 'justified' by higher programme costs. However, evidence from studies which have calculated country-level financing gaps based on a standard set of target parameters can provide a useful comparison.

K26 The costing study by Bruns et al (Bruns et al 2003) estimated average annual external financing gaps between 2001 and 2015 on a per country basis, based on a common set of service delivery and resource mobilisation targets to be achieved by 2015. These financing gap estimates are available for 25 out of the 34 endorsed countries discussed above. When both the Bruns estimates and the estimates obtained by the FTIS are used to place the 25 countries into low, middle and high financing gap groups, the characteristics of the three groups in each case are quite different. With the Bruns estimates, it is the lowest financing gap group which has the highest income per capita, and it thus appears that countries with fewer children out of school have smaller financing gaps. In contrast, the FTIS's estimates for the subset of 25 countries broadly follow the patterns displayed for the 34 countries in Table K1. While this is far from conclusive evidence, it does point to a degree of arbitrariness and lack of standardisation in the financing gap estimates obtained by the FTIS from endorsed countries. This notion is supported by qualitative evidence from interviews where several respondents have discussed the difficulty of estimating financing gaps when the likely amount of external resources available is unknown. If purely objective criteria were being used to calculate financing gaps, the expectation of the size of external resources would not be relevant.

K27 The financing gaps which are presented by countries as part of their applications to the FTI CF are adjusted to take out expected external funding from bilateral and multilateral sources other than the CF. In order to analyse these adjusted financing gaps, again the 34 countries have been split into three groups according to the size of their adjusted per child financing gaps. Table K2 reveals that the average adjusted financing gap per child over all countries is just over half of the comparable unadjusted figure. Moreover, the disparity in the average size of the adjusted per child financing gap between groups is larger than before. The pattern observed above whereby the largest per child financing gaps were found in richer countries on average, no longer holds with the adjusted figures. This may be partly related to the fact that a group of 12 countries with the highest expected external aid per child over the 2008-2010 period are richer on average than the others. Turning to the right-hand panel of Table K2, it appears that countries with comparatively high adjusted per child financing gaps have a larger proportion of out-of-school children on average.

**Table K2 Mean adjusted financing gap, GNI and proportion of out-of-school children by adjusted financing gap group**

Adjusted financing gap group <sup>1</sup>	Mean adjusted financing gap per child 2008-10 (USD)	Mean GNI per capita (USD)	Mean proportion of out-of-school children (%) <sup>2</sup>
Lowest	21	695	19
Middle	63	869	24
High	138	795	28
<b>All</b>	<b>76</b>	<b>786</b>	<b>24</b>

Sources: (i) Adjusted financing gap data: FTIS (Sept, 2008); (ii) GNP per capita: World Bank (July 2008); (iii) Out-of-school children: GMR 2009. Notes: (1) The adjusted financing gap is calculated as the financing gap minus expected external funding from bilateral and other (non-FTI CF) multilateral sources. The 34 FTI endorsed countries with adjusted financing gap data for 2008-2010, have been split into three groups of roughly the same size (low=11 countries, middle=11 countries; high=12 countries) based on their relative position in the scale of the per child adjusted funding gaps. (2) Data is missing for 4 countries, the number of countries in each financing gap group is 8 (lowest), 11 (middle), 11(high).

K28 Overall, this analysis suggests that financing gaps presented to the FTI Secretariat are rather arbitrary, hence not standardised across countries, and unlikely to be a reliable basis for allocating CF funds. This is confirmed by experience drawn from country studies as outlined below.

## F. Basic/primary education financing gaps in FTI endorsed countries – evidence from country case studies

K29 *No broadly consistent approach to calculating financing gaps is evident from the country studies:* while the financing gaps underpinning the ESPs in the case study countries almost all cover the whole sector, the financing gaps presented to the CF Committee vary in coverage – they are either based on the whole sector or basic education or primary education, or on part of the primary education sector (Nicaragua<sup>12</sup>) or, in one case (Moldova), on early childhood development (ECD). There is also considerable variation in the student flow targets which underpin the costing of the programmes. In some countries, the basic education/primary education costs are based on achieving EFA/UPC targets by 2015 or before (Ghana, Yemen, Nicaragua, Rwanda, Burkina Faso in its 2002 application and Moldova). In others, these targets fall short of EFA/UPC goals by 2015 (Kenya, Burkina Faso in its 2008 application, Mali and Malawi). The degree of inclusion of existing commitments in terms of external aid also varies, from non-inclusion (Ghana 2004) to inclusion of existing firm commitments (Rwanda, Moldova, Mali, Zambia, Nicaragua, Mozambique) to estimates of future commitments based on past commitments (Burkina Faso in its 2008 application, Yemen, Malawi, Kenya). In Kenya and Burkina Faso, the estimate of the financing gap was also related to desirable levels of external funding involving considerations on aid dependency levels, and in Mozambique it was based on an achievable level of internal and external funding, while in Rwanda (2009 application) it was calculated in order to fit with the funds available for the country in the CF – broadly estimated by the local donor group.

K30 *The lack of a clear common and consistent approach to calculating financing gaps has led to significant misunderstanding and confusion.* Some early endorsed countries received substantially less than their request (Nicaragua) because funding mechanisms had

<sup>12</sup> This was the case for the FTI country proposal which was presented for endorsement. Subsequently a separate study on the financing gap was done which calculated the financing gap for the sector as a whole for 2004-2015.

not yet been established.<sup>13</sup> In Burkina Faso, Mali and Rwanda, the financing gap previously calculated was re-calculated for FTI CF purposes, with the objective to align with the FTI requirement (as it was understood) that the financing gap should be based on achieving UPC in 2015 (even if judged unrealistic by the Ministry of Education and local donors) and abide by IF benchmarks (Burkina Faso 2002, Mali, Rwanda 2006). In some cases, the country itself did not request the full amount of the financing gap calculated, either because it was felt that this amount was too high for the CF or to stimulate more local mobilisation of resource (Zambia, Rwanda 2009) or because the country did not have the absorptive capacity to use the whole amount (Cambodia) – although in the latter case dissenting voices argued that the choice of aid modalities was a potential constraint on absorptive capacity). In other cases the CF steering committee allocated less than requested for the same reasons (Mali, Burkina Faso, Kenya, Nicaragua, Ethiopia, Rwanda 2006 – see Table K3). When this occurred, the reasons were often not explained, not clearly communicated, not understood in country (Mali, Burkina Faso, Nicaragua, Moldova), or strongly disagreed with (Ethiopia).

K31 Table K4 below presents in more detail an overview of the lack of consistency in the calculation of financing gaps in this evaluation's various case study countries.

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<sup>13</sup> Before the CF was established, it was expected that in-country donors would collaborate to fill the demonstrated financing gap.

**Table K3 Country studies examples of the rationale for the CF allocation decision**

Rationale	Examples from country studies
Catalytic effect	In December 2006, Members of the Committee noted the apparent decline in both domestic and external financing in 2008 for Rwanda. They therefore decided to approve a CF allocation of USD 44 million for that year, instead of the requested amount of USD 61 million, so as to encourage local donors to increase their funding.
Absorption capacity	In Kenya, the Catalytic Fund refused to allocate a one year allocation of USD 85.4m in 2007 citing concerns regarding the country's implementation capacity, and therefore approved a USD 48.4m grant.
Realistic costing	In May 2007, Mali was allocated USD 8.7m instead of the USD 23.5 requested based on a recommendation by the FTI Secretariat to the Expanded Catalytic Fund Strategy Committee with the justification that "This would reduce risks of potential future disincentive, for the local education partners in Mali or elsewhere, to conduct proper analysis and negotiation and produce a reasonably costed plan."
	Ethiopia presented a request of USD 168m (half the estimated financing gap, because it was felt more "reasonable" by the local donor group). It got an allocation of USD 70m in December 2007. The FTI partnership explained that this was taking into account an expected catalytic effect of the approval on local donor commitments (the "scaled down formula", first used at the Dakar meeting). This was not accepted by Ethiopian officials (who believe that "the formula was applied only for Ethiopia"). They argued that the (half) gap that they had shown already took account of local donors' commitments. As a result of this exchange of views, the minutes of the CF meeting explain that Ethiopia can request a second grant of USD 98 million any time within three years, provided that it can demonstrate progress in implementing the first grant and clarify a number of issues about: (i) the modality used for the CF funding; (ii) absorptive capacity, and; (iii) a "more coherent evaluation of program costs in line with projected results and targets".
Step down formula	In Burkina Faso, USD 102m was granted instead of USD 125 requested, in December 2008. The minutes of the meeting mentions that the amount endorsed was determined through a "revised step-down formula", without further explanation. Other explanations for this revised amount, provided by interviewees during the mission, are changes in other donor commitments, and changes in exchange rates.

**Table K4 Calculation of financing gaps in country studies.\***

	<u>KENYA</u>	<u>GHANA</u>	<u>YEMEN</u>	<u>MOZAMBI- QUE</u>	<u>CAMBODIA</u>	<u>BURKINA FASO</u>	<u>NICARAGUA</u>	<u>ETHIOPIA</u>	<u>ZAMBIA</u>	<u>MALI</u>	<u>RWANDA</u>	<u>MOLDOVA</u>
<i>Endorsed in</i>	2005	2004	2003	2003	2006	2002	2003	2004	2008	2006	2006	2005
<i>Time coverage</i>	Until 2009/10	Until 2015	Until 2015	2008-2010	2006-2010	2008-2010	2003-2014	2007-2013	2008-2010	2006-2008	Until 2015	
<i>Based on which targets/objectives</i>	Based on realistic aid mobilization levels	Based on EFA	Based on EFA	Based on EFA	Based on EFA	UPC in 2020	Based on EFA	GEQIP targets	NIF targets, inc. EFA	IF benchmarks (UPC in 2015)	IF benchmarks (UPC in 2015)/ fast tracked objectives	Based on EFA
<i>External aid included</i>	Estimates	No	Estimates	Firm commit.	Projections	Projections	Firm commit.	Estimates	Firm commit.	Firm commit.	Firm commit.	Firm commit.
<i>Sector coverage (presented to CF)</i>	Education sector	Education sector	Basic education	Education sector	Education sector	Basic education	Education sector	Education sector	Basic education	Primary education	Education sector / basic education	ECD
<i>Amount requested (USD)</i>	24.2+85.4+48.4	n/a	32+32+32	79	422m calculated but 57.4 requested	144 initially but down to 125	106	336 calculated but 168 requested	81 initially but down to 60	23.5	87+35	13.3
<i>Amount allocated (USD)</i>	24.2+48.4+48.4	8+11+14.2+7.1	10+10+20	79	57.4	102	7+7+10	70 (+98)	60	8.7	70+35	4.4

\* Covers case studies for which country was endorsed by FTI and received a CF allocation.

## G. Financing gap as a CF criterion

K32 The underlying approach to allocating the CF is to base allocations on the financing gaps approved at the country level. (But it should be noted that calculations of financing gap for the FTI CF are made with at best only a partial reckoning of the picture of donor funding, and that the CF allocations are not conditional on commitments by FTI donors to provide complementary funding for an approved ESP.)

K33 Nevertheless, the CF Committee (CFC) has had to make decisions balancing the merits of cases put forward in country requests with the amount of money available and has attempted to leave room for catalysis of additional bilateral funding which might be encouraged by the CF allocation. Both these factors have influenced the way allocation decisions have been made over time by the CFC and the various formulas used to support these decisions. None of these formulas has stood the test of time. The purpose of this section is to present the evolution over time of the different approaches used by the CFC for allocating funds.

**Table K5 Use of allocation formulas by the CFC**

Prioritisation	<p>A prioritisation formula was designed and used in 2005 in order to deal with the fact that requests were larger than the funds available.<sup>14</sup> Over the course of 2005, the FTIS produced various prioritisation formulae ranging from a simple version which included only two variables (financing gaps and population), to a more complicated formula which used 10 variables. In December 2005, the CFC agreed on a simple version of the formula and used this to make allocation decisions on this occasion. It appears that this formula was never used again as the basis for allocating the CF.</p> <p>This concern was emphasised again in 2008 in view of the shortfall in projected CF compared to expected applications.</p>
Catalysis of donor funding—step-down formula	<p>In order to ensure that the CFs remain additional and do not crowd out other donor financing at country level, a step-down approach to allocation was formalised at the CFC meeting in May 2007. The step-down formula assumes that local donor funds increase by 25% in year two and 50% in year three compared with their year one level, with the CF allocation adjusted accordingly to meet the residual funding gap – hence leading to the decision not to completely fill the financing gap.</p> <p>The step-down formula has been used since May 2007 although not applied to all countries (December 2007, December 2008). The CFC did, however, express some concern (December 2007) that the strict application of the step-down formula might be creating perverse effects. It was argued that it might discourage countries from accepting some bilateral and multilateral aid, particularly if it did not expect the scaling up to occur. In addition, there is a clear incentive for countries to overstate their financing gaps and understate their expected external funding in the first year. One country applicant also complained that the step-down approach is incoherent because, as part of the endorsement process, agreements have already been made with local donors about levels of aid that will be provided in the coming three years.</p>
Needs and Performance	<p>The CFC requested the FTIS to look at new ways of improving the CF resource allocation framework to take explicit account of country performance and need in May 2007. In September 2007,<sup>15</sup> the FTIS presented a prioritisation formula for the CF which combined a needs and performance index; each index is calculated on the basis of standardised cross-country</p>

<sup>14</sup> FTI 2005l, FTI 2005m, FTI 2005c.

<sup>15</sup> FTI 2007n

	<p>variables (this approach is more generally known as a ‘quantitative consistency framework’).<sup>16</sup> This needs and performance framework (NPF) was intended to provide the CFC with an ‘indicative reference point’ to assist in allocation decisions, but not to in itself to determine allocations. It was used in this way to present allocation options for the CFC to consider at the December 2007 meeting, but in the event the step-down formula played more of a role in the allocation decisions.</p>
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K34 The CFC set up a task team on prioritisation (TTP) to further the work on how the CF takes its allocation decisions. The TTP presented a proposal to the CFC at its meeting in April 2009. Table K6 below sets out the main features of the proposed model and compares these with the current approach. The TTP firmly rejected the idea of moving to CF allocations decisions based uniquely on a quantitative consistency framework (such as the NPF).<sup>17</sup>

K35 The TTP provides comments on the definition of financing gaps, arguing that the lack of objectivity and/or negotiation of the financing gap is a major concern: *“Funding gaps should be defined in each proposal by the Government and the Local Education Group (LEG) based on reviewed and clarified guidelines for how it should be done. The funding gap presented should take both micro and the broader macroeconomic picture into account as well as implementation capacity and the distance from universal primary education or EFA goals. Clear indications and information should be given to countries informing them that presenting an unrealistic funding gap would serve to prolong the process as the application would be sent back for revision”* (FTI TT 2009).<sup>18</sup> In order to address the lack of objectivity of financing gaps, the TTP proposes to (i) ask the Secretariat to cross check whether funding gaps are “realistic” on the basis of the NPF and previous levels of absorptive capacity,<sup>19</sup> and (ii) ask the External Quality Review to provide an assessment of capacity and needs.<sup>20</sup>

K36 The TTP also raises the possibility of disclosing indicative allocations to applicants in advance, in order “to enhance predictability and give countries a chance to adopt resource-based planning”. The idea of an 18 month allocation cycle should help to reduce the inconsistency in allocations at least for the countries within a

<sup>16</sup> The Education Needs Index (ENI) variables are: primary completion rate, number of school-age children, per capita income, and the volume of current external funding for education. The Education Performance Index (EPI) variables are: a policy and institutional indicator (based on selected variables from the World Bank’s country performance index (CPIA)); and a primary completion rate progress indicator. *Source: EFA-FTI catalytic Fund Needs and Performance Framework draft proposal*

<sup>17</sup> A number of bilateral and multilateral donors use quantitative consistency frameworks in their allocation processes. Some, like IDA or EDF, make allocation decisions primarily on this basis, although there are substantial sums reserved for cases or objectives that the frameworks can’t cover.

<sup>18</sup> FTI Task team on prioritisation: report to the catalytic fund committee and the steering committee – April 2009 p.7

<sup>19</sup> It should be noted that a proposal by the FTIS to use a criteria on “quality of the gap” was rejected in 2005, the majority of donors emphasising that this would be second guessing the appraisal of the LDG - FTI 2005c.

<sup>20</sup> Since 2009, the CF Steering Committee has sought to strengthen the quality of the assessment of country requests through the creation of an External Quality Review mechanism, which was first applied on Rwanda’s April 2009 request. It is a desk based review, and aims at assessing the fit between needs and demands, the rationale for CF resources rather than more bilateral funds, the robustness of the funding gap equation, the contribution of the CF grant to aid effectiveness and the soundness of the connection between the CF requests and education sector plans.

particular cycle. Of course, the ability of the CF to make useful indicative allocations relies on reasonably accurate forecasting of the CF's own receipts over a far longer period than has so far been possible.

K37 The explicit rejection of the step-down approach in the TTP's proposal is interesting in that there is recognition that the model proposed may well result in allocations which fill countries' financing gaps,<sup>21</sup> and thus potentially displace other external sources. The TTP also pointed out that in some situations the displacement of a disparate set of bilateral programmes by CFs (provided via an aligned and harmonised modality) may be desirable.

K38 The CFC did not reach agreement on the TTP's proposal and the work was set to continue.

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<sup>21</sup> Or even that go beyond the requested financing gap if the country is considered as a high performer.

**Table K6 Features of the current proposed model for prioritisation of CFs**

Aspect	Existing approach as of Sept 09	Proposed model (based on TTP proposals)	Rationale for proposed model
Eligible countries for CF	All IDA countries in category I and II, as well as small island economies, with priority given to category I. <i>It is not clear how the stated priority is being operationalised.</i>	Category I IDA countries and IDA countries in category II which have the greatest educational needs (defined as a low EDI rank). <i>In practice this would mean that category II countries with a medium or high EDI rank would not be eligible.</i>	Limiting eligibility to category I IDA countries is too restrictive, and does not take account of the possibility that there may be some category II countries with greater educational needs than category I countries.
Size of CF 'pot' to be allocated	Size of CF 'pot' is estimated for each CFC meeting. <i>This results in a first-come-first-served approach.</i>	18 month forecast on the size of the CF 'pot'	Using a longer term forecast of the size of the CF 'pot' will result in less lumpy estimates of available CFs, and enhance cross country consistency (fairness) and predictability in allocations.
Size of country allocations	Financing gaps; ad-hoc adjustments by the CFC on the basis of data in submission documents; selected use of the step-down formula (NPF provides indicative allocations for information).	Prioritisation formula based on the size of financing gaps, a 'needs' variable and an adjustment for performance; the step-down formula is abandoned.	Continue to be firmly based on countries' own sector plans, but also to ensure that countries most in need are reached and to create incentives for improved results.
Indicative allocations	The NPF used to calculate indicative allocations for countries applying to the CF at each CFC meeting; <i>these are used by the CFC for information only.</i>	The NPF used to calculate indicative allocations for all countries expected to apply to the CF in the 18 month period.	To strengthen cross-country consistency in allocations. The indicative allocations for countries expected to apply later in the 18 month period (2 <sup>nd</sup> & 3 <sup>rd</sup> rounds) will be taken into account when determining actual allocations for 1 <sup>st</sup> round applicants.

Sources: (i) Information on proposed model: FTI Task Team on Prioritisation, FTI TT 2009; (ii) Information on existing approach: minutes of CFC meetings and interviews with FTIS.

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