

FTI CATALYTIC FUND

INTERIM STATUS REPORT¹

**PARIS, FRANCE
SEPTEMBER 17, 2008**

Prepared by the FTI Secretariat for the CF Committee Meeting

¹ This report updates performance and achievements since the last CFC meeting in Tokyo (Japan). All figures and projections are as of end-August 2008. An update will be provided in Paris, if necessary.

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EFA-FTI Catalytic Fund Interim Status Report

SUMMARY OF KEY MESSAGES:

- ***Disbursement performance.*** Since the CFC meeting in Tokyo, overall disbursements to existing country beneficiaries under the old rule (i.e. before the CFC meeting in Bonn) have increased by US\$76 million to reach US\$345 million. However, disbursement progress to countries which received support in Bonn and Dakar continues to be slow. Under the new rule, the Bonn recipients have disbursed US\$3.2 million out of US\$249 million allocated; and no disbursement has occurred for the Dakar recipients which received US\$270 million.
- ***Progress on grant processing for the Bonn and Dakar recipients.*** (i) Five out of six Bonn recipients have signed a grant agreement with the World Bank; and only Sierra Leone remains. New allocations were made to four countries at the CFC meeting in Dakar; and only Guinea has signed its grant agreement with the World Bank. A separate update on grant processing and implementation for the Bonn and Dakar recipients has been prepared by the World Bank.
- ***Cash receipts from donors.*** Since the CFC meeting, cash receipts from donors have increased from US\$825 million to US\$994 million due largely to receipts from the UK and the EC, and from two new donors to the fund (Australia and Japan).
- ***Need for increased predictability:*** There is a need for increased predictability and firm commitments in donor pledges to match the 3-5 year planning cycles of recipient countries. In this update, only donor pledges with signed agreements have been recorded. Projected deficits amount to about US\$400 million by end-2008; and US\$1.2 billion by spring 2009 (see table 1).
- ***Progress on developing a CF replenishment mechanism.*** In response to the increased financial pressure on the CF trust fund, a separate update on progress and issues for the proposed CF replenishment mechanism has been prepared.

A. INTRODUCTION

1. **Introduction and background.** Established in 2003, the FTI Catalytic Fund (CF) is a multi-donor, multi-recipient trust fund originally designed to provide transitional funding to low income countries for up to three years. Such support was expected to enable countries to scale up their Education Sector Program with the aim of establishing a strong performance record that could attract longer-term support through regular channels. However, experience has shown that donors have not stepped in to make that happen, and long-term funding for basic education remains a source of concern. In response, the FTI Partnership approved a revised instrument to provide longer term predictable financing to FTI-endorsed plans with insufficient resources. With the on-going effort to strengthen the country-level process and CF operations, a unique FTI Process Chart has been designed for approval. It provides clarity and coherence in both procedures and processes from endorsement to financial support from the CF trust fund.

B. FUND OVERVIEW AND STATUS

2. **CF Trust Fund Status.** Overall, donors have pledged a total of US\$1,171 million; of which US\$337.5 million represent financial pledges for the period 2008-11. Unlike in the past when all pledges announced publicly had been included in the fund's status reports, a more conservative approach has been adopted for recording donors' financial contributions. Only firm donor pledges that are backed with signed administrative agreements are included in this report. This risk management measure has led to a reduction of donor pledges by about US\$140 million as compared to the interim report for the April 2008 meeting in Tokyo.

3. **Disbursement performance.** Out of the amount pledged, US\$1,157 million has been allocated to 27 recipients. Over the past four months since Tokyo, the grant processing rate (ratio of amounts of signed agreements out of amounts allocated) has increased sharply 30% to 66%. Large grant amounts signed with four countries (Cambodia, Benin, Mozambique and Guinea) explain this performance. However the signing of grant agreements has not led to any substantial disbursement of funds into country programs because of: (i) unmet effectiveness conditions; or (ii) small fund advances to countries as specified in disbursement letters with the World Bank. As shown in Table A2 (Annex 1), cumulative disbursements have reached US\$345 million, and increase of US\$76 coming largely from three pre-Bonn recipients (Madagascar, Cameroon and Kenya).

4. **Projected financial pressure on the fund.** As previously noted, the move towards enhanced predictability for a larger number of partner countries has not yet been matched by predictability in terms of donor contributions. A large number of countries are becoming CF beneficiaries for longer periods of time (three-year grant agreements), but donor pledges are usually short term and drop sharply after 2008. Of the cumulative pledges to date, 99 percent is already allocated, and the fund's investment income accounts for most of the available balance that can be allocated. The projected deficits are about US\$400 million by the end of 2008; and US\$1.1 billion is projected by spring 2009.

5. **Looking forward to the CFC meeting in December 2008.** The basic assumptions behind the liquidity statement sent to donors as of July 15, 2008 have not changed. It is still projected that until the end of this year (including the December 2008 meeting): (i) seven countries would apply for CF support either for the first time or for phase II support (Guyana) for a projected amount of US\$395 million²; and (ii) three countries in transition would apply for a one-year bridge funding for a projected amount of US\$55 million. As shown in table 1 below, the currently available donor pledges for allocations amount to US\$51 million, taking into account net investment income earned by the CF trust fund.

6. **Looking forward to the CFC meeting in spring 2009.** We project that about 17 countries will apply for support at the CFC meeting in spring 2009 for a total amount of US\$758 million. Detailed country-by-country need estimates are still tentative and will be revised as necessary. Based on current information, five countries in transition would come forward for one-year bridge funding; six countries would be first time CF applicants; and another six countries would apply for either a top up funding (Ethiopia) or phase II support.

² These include Guyana whose application in the amount of US\$20.5 million is ready and has been tabled for the CFC meeting in Paris on September 17, 2008.

Table 1. Pledges Required for Allocations in 2008 (US\$ million)

	Availability
1. Total pledges to date	1,171
2. Add investment income	40
3. Less Administrative fees	1
4. Less cumulative allocations to date	1,158
5. Balance available for allocation	<u>51</u>
Less : Projected allocation requests :	
6. Projected requests for December 2008 meeting	450
7. Projected deficit at end-2008 1/	(399)
8. Projected requests for the Spring 2009 meeting	758
9. Projected deficit by spring 2009 1/	(1,157)

Source: Estimates and projections by the FTI Secretariat.

1/ Please note that projected deficits assume that all requests would be approved by the CFC.

7. **Resource flows into existing beneficiary countries.** As of end-August 2008, a cumulative total of US\$345 million has been disbursed to benefit 20 country programs (see Annex 1, table A2). Table A3 of the Annex 1 provides a projected disbursement schedule against existing allocations over the next twelve months. Cumulative projected disbursements would amount to US\$720 million at the end of 2009, excluding any disbursements from future allocations.

C. ITEMS FOR DISCUSSION AND DECISION

8. **Catalytic Fund Replenishment mechanism.** At its meeting on April 22, 2008 in Tokyo, the CFC endorsed the Concept Note for a Catalytic Fund (CF) Replenishment Mechanism. In endorsing such a document, the CFC recognized the urgency of establishing a mechanism for mobilizing long term and predictable resources to benefit endorsed country programs. Furthermore, it was agreed that the FTI Secretariat take the leadership in supporting the development of the CF replenishment mechanism. In that regard, a separate update on progress and issues has been prepared for the CFC meeting in Paris. Agreement is sought from the CFC at its meeting in Paris.

9. **Catalytic Fund processing chart and External Quality Review.** The SCLP task team will update the Committee on the CF-related segments of the Process Chart. At its last meeting in Tokyo, the CFC endorsed two key recommendations: (i) an optional FTI Secretariat Quality Support Review (SQSR) before endorsement, which is iterative in nature; and (ii) a mandatory External Quality Review (EQR) of the CF application package before it is submitted to the CFC. In that regard, the Secretariat has prepared a note to help clarify the nature and scope of the EQR. Once agreement has been reached on issues raised, the Secretariat will prepare and submit the final terms of reference and recommendations for approval by the CFC.

10. **Catalytic Fund modalities and choice of instruments:** At the last CFC meeting in Tokyo it was agreed that the Secretariat will finalize a guidance document, targeted at the Local Education Group on the choice of modality and supervising entity. A draft modality paper was discussed in Tokyo. A final agreement on the modality guidelines will be requested at the meeting in Paris.

11. **CF Transfer Agreement.** The World Bank has prepared a draft transfer agreement which is intended to serve as the legal document to support a possible transfer of Catalytic Trust Fund (TF051061) resources to an organization other than the World Bank approved to be Supervising Entity of the grant. This document will be presented by the World Bank, and its approval will be sought from the CFC at its meeting in Paris.
12. **Fragile states:** A background paper on financing education programs in fragile states has been prepared by the Fragile States task team. This document will be presented for discussions at the meeting in Paris. An agreement will be sought from the CFC on how to proceed with further design work on an interim financing mechanism for fragile states.
13. **Guyana CF allocation Request.** On behalf of the Government, the Lead Coordinating Agency (World Bank) and the Local Education Group in Guyana, the Secretariat has submitted (i) a re-endorsement package including its new Education Sector Plan (2008-13) for information and comments; and (ii) a CF application package to the CFC for an allocation decision on September 17, 2008. Guyana's CF application supported by the local donor group amounts to US\$20.5 million to be implemented over the three-year period 2009-11.
14. **Other business.** One agenda item have scheduled for discussions under other business, i.e. issues and proposals for the Chairmanship of the Catalytic Fund Committee. The World Bank will make a short presentation, followed by discussions by the CF Committee, with the objective of getting proposals on the way forward.

Annex 1: Summary of performance**Table A1 Catalytic Fund: Pledges and receipts (US\$ million)**

Country	2004-2007	2008	2009	2010	Total 2003-2010	Receipts
Australia	-	1.4	10.6	20.0	32.0	1.4
Belgium	6.5	-	-	-	6.5	6.5
Canada	17.0	-	-	-	17.0	17.0
Denmark	4.9			-	4.9	4.9
EC (ACP) Part 1	40.3	24.7	21.4	-	86.4	65.0
EC part 2	15.4	12.3	3.1	-	30.8	0
France	-	14.9	8.3	-	23.2	7.9
Ireland	19.2	21.0	-	-	40.2	19.2
Japan	-	1.2	-	-	1.2	1.2
Germany	-	3.0	4.2	-	7.2	3.0
Italy	10.4	4.2	-	-	14.6	14.6
Netherlands	430.5	45.0	-	-	475.5	430.5
Norway	61.2	-	-	-	61.2	61.2
Russia	3.0	1.0	-	-	4.0	4.0
Romania	0.5			-	0.5	0.5
Spain	80.3		-	-	80.3	80.3
Sweden	15.7	-	-	-	15.7	15.7
UK	129.1	141.2	-	-	270.3	261.1
TOTAL	834.0	269.9	47.6	20	1,171.4	994

There are 2 EC contributions one earmarked for ACP (Asia Caribbean and Pacific) countries and the other non-earmarked fund for allocations made to countries for which the Bank is the sole supervising entity.

Table A2 : Catalytic Fund Disbursements till August 31, 2008 **In US\$ millions**

	Disbursement in 2004	Disbursement in 2005	Disbursement in 2006	Disbursement in 2007	Disbursement in 2008	Cumulative disbursement till date
Cambodia					1.0	1.0
Cameroon	-	-	-	11.3	11.2	22.5
Djibouti	-	-	3.0	3.0		6.0
Ghana	-	4.0	10.0	5.0		19.0
Guyana	-	4.0	4.0	4.0		12.0
Kenya	-	24.2	-	48.4	24.2	96.8
Kyrgyz Republic	-	-	-	0.5	2.3	2.8
Lesotho	-	-	1.8	2.4	2.7	6.9
Madagascar	-	6.0	11.0	10.0	18.0	45.0
Mali					2.2	2.2
Mauritania	3.5	3.5	1.0	1.0		9.0
Moldova	-	-	0.3	1.3	2.7	4.2
Mongolia	-	-	0	8.2	5.0	13.2
Nicaragua	3.5	3.5	3.5	3.5		14.0
Niger	5.0	4.0	-	-	4.0	13.0
Rwanda				13.0	13.0	26.0
Tajikistan	-	-	3.1	6.0	1.2	10.3
The Gambia	-	4.0	4.0	5.4		13.4
Timor Leste	-	-	1.5	2.6	4.1	8.2
Yemen	3.0	7.0	10.0	-		20.0
Total	15.0	60.2	53.2	125.6	91.5	345.4

Table A3: Projected disbursement Report for EFA FTI Catalytic Trust funds – August 31, 2008
In US\$ millions

	Allocations 2003-2009	Grant agreements signed to date	Grant agreements expected to be signed by December 2009	Total disbursements till date (A)	Projected disbursements		Total Disbursements projected till December 2008 (A+B+C+D)
					July 2008- June 2009 (C)	July- December 2009 (D)	
Cameroon	47.3	22.5	24.8	22.5	12.4	12.4	47.3
Djibouti	8.0	6.0	2.0	6.0	2.0		8.0
Ghana	33.2	19.0	14.2	19.0	14.2		33.2
Guyana	12.0	12.0		12.0	0		12.0
Kenya	121.0	121.0		96.8	24.2		121.0
Kyrgyzstan	15.0	9.0	6.0	2.8	4.0	2.2	9.0
Lesotho	11.9	11.9		6.9	5.0		11.9
Madagascar	60.0	60.0		45.0	15.0		60.0
Mauritania	9.0	9.0		9.0			9.0
Moldova	8.8	8.8		4.2	3.3	1.3	8.8
Mongolia	29.4	17.1	12.3	13.2	3.9	6.0	23.1
Nicaragua	24.0	14.0	10.0	14.0	10.0		24.0
Niger	21.0	13.0	8.0	13.0	8.0		21.0
Rwanda	70.0	26.0	44.0	26.0	22.0	22.0	70.0
Tajikistan	18.4	18.4		10.3	8.1		18.4
The Gambia	13.4	13.4		13.4			13.4
Timor Leste	8.2	8.2		8.2			8.2
Yemen	40.0	20.0	20.0	20.0	10.0	5.0	35.0
Sub-Total	550.6	409.3	141.3	342.3	142.1	48.9	533.2
Cambodia*	57.4	57.4		1.0	17.0	10.0	28.0
Benin*	76.1	76.1			15.2	7.6	22.8
Madagascar*	85.1		85.1		0	8.5	8.5
Mali*	8.7	8.7		2.2	6.5		8.7
Mauritania*	14.0	14.0			5.0	5.0	10.0
Mozambique*	79.0	79.0			15.2	7.6	22.8
Sierra Leone*	13.9		13.9		2.8	1.4	4.2
Ethiopia*	70.0		70.0		14.0	7.0	21.0
Guinea*	117.8	117.8			23.6	11.8	35.4
Sao Tome and Principe*	3.6		3.6		0.8	0.4	1.2
Senegal*	81.5		81.5		16.4	8.2	24.6
Sub-Total*	607.1	353.0	254.1	3.2	116.5	67.5	187.2
Total	1,157.7	762.3	395.4	345.4	258.6	116.4	720.4

* Allocations made to countries under the new rules of the Catalytic Fund (3 year grant agreement with funds required only for the first installment). Hence grant agreements expected to be signed for them are 3 year agreements.

Annex 2: Catalytic Fund – Unaudited Financial Statements For the period November 21, 2003 (inception) to August 31, 2008

CATALYTIC FUND MULTI-DONOR TRUST FUND ACCOUNT	
UNAUDITED SUMMARY OF CONTRIBUTIONS, DISBURSEMENTS AND FUND BALANCE	
Receipts	
Contributions	\$'000s
Australia	1,354
Belgium	6,500
Canada	17,000
Denmark	4,900
European Commission	65,000
France	7,900
Germany	3,000
Ireland	19,200
Italy	14,600
Japan	1,200
Netherlands	430,500
Norway	61,200
Romania	500
Russia	4,000
Spain	80,300
Sweden	15,700
United Kingdom	261,100
Total contributions	993,954
Investment income	41,000
Total receipts	1,034,954
Disbursements	
Cambodia	1,000
Cameroon	22,500
Djibouti	6,000
Ghana	19,000
Guyana	12,000
Kenya	96,800
Kyrgyz Republic	2,800
Lesotho	6,900
Madagascar	45,000
Mali	2,200
Mauritania	9,000
Moldova	4,200
Mongolia	13,200
Nicaragua	14,000
Niger	13,000
Rwanda	26,000
Tajikistan	10,300
The Gambia	13,400
Timor Leste	8,200
Yemen	20,000
Supervision costs for grants to Middle East & North Africa	150
Supervision costs for grants to Africa countries	1,110
Supervision costs for grants to Europe and Central Asia	118
Supervision costs for grants to East Asia and Pacific	55
Supervision costs for grants to Latin America & Caribbean	379
Total project disbursements	347,312
Administration fee	1,770
Total disbursements	349,082
Excess of receipts over disbursements	685,872
Fund balance, beginning of period	-
Fund balance, end of period	685,872

**Annex 3: Countries with Endorsed Education Sector Plan and Estimated Schedule of Endorsements
(As of August 2008)**

Endorsed Countries (35)	Countries expected in 2008 (3)	Countries expected in 2009 (18)	Other Eligible Countries (12)	Countries where UPE is achieved (14)
2002 Burkina Faso Guinea Guyana Honduras	Bhutan Burundi Zambia	Angola Bangladesh Comoros Congo, Dem. Rep. Congo, Rep. of Eritrea Guinea-Bissau Lao PDR Nigeria (3-4 states) Papua New Guinea Solomon Islands Tanzania Togo Tonga Vanuatu Chad Malawi Uganda	Afghanistan Côte d'Ivoire India Indonesia Kiribati Myanmar Nepal Nigeria (other) Pakistan Somalia Sri Lanka Sudan Zimbabwe	Armenia Azerbaijan Bolivia Bosnia & Herzegovina Cape Verde Dominica Grenada Maldives Samoa Serbia Montenegro St. Lucia St. Vincent Uzbekistan
2003 The Gambia Mozambique				
2004 Ghana				
2005 Kenya Lesotho Madagascar				
2006 Albania Cambodia Cameroon Djibouti Kyrgyz Rep.				
2007 Benin Georgia				
2008 Central African Republic Haiti				

Source: FTI Secretariat, as of end-august 2008.