

Education for All – Fast Track Initiative

Accelerating progress towards quality universal primary education

EXPANDED CATALYTIC FUND

CONCEPT NOTE

APRIL 2007

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Expanded EFA-FTI Catalytic Fund

A. INTRODUCTION

1. Established in 2003, the current Fast Track Initiative Catalytic Fund (the “Catalytic Fund”) is a multi-donor, multi-recipient trust fund designed to help low-income countries finance funding gaps for primary education identified in education sector plans. The Catalytic Fund provides transitional short term funding for a maximum of three years to enable such low-income countries to scale up their education sector programs and to establish a performance record that could attract longer-term bilateral support. However, experience has shown that donors have not stepped in to transit countries from the Catalytic Fund to more sustainable and predictable education sector financing at the end of the three year period to the extent anticipated. This note details a proposal for creating a mechanism to provide more long term predictable financing. The EU has created a single-donor trust fund, the (“EFA-FTI Catalytic Trust Fund- EC”), TF No. 070518, which parallels the Catalytic Fund and for which allocations are made by the Catalytic Fund Strategy Committee. The EU has agreed with the World Bank that the changes to the Catalytic Fund outlined below will also be made to the EFA-FTI Catalytic Fund-EC.

B. BACKGROUND

2. At its meeting in Beijing in late 2005, the FTI Partnership endorsed a proposal put forward by the Netherlands to explore the possibility of creating a financing mechanism that could provide long term predictable financing to countries with FTI-endorsed education sector plans but with insufficient domestic or external aid resources to implement them. The FTI Partnership created a Task Team for this purpose. The Task Team’s mandate was to explore options and ways of designing such a mechanism, preserving the basic principles of FTI and building upon the experience of the Catalytic Fund.

3. The Task Team met for the first time in The Hague in February, 2006 at which time it prepared a report that was presented to the FTI technical meeting in Moscow in March 2006. A second meeting was held in London from May 23-24, at which it developed the parameters of an expanded funding mechanism, taking into account the inputs received on the report it presented in Moscow. The outcomes and subsequent comments of this second meeting were presented to the FTI Steering Committee, which met in the margin of the EFA Working Group Meeting in Paris, July 21st. Further guidance was received from the FTI Steering Committee on the proposed concept note including the way forward regarding decision making on eligibility for funding beyond the initial 3 year period. At its

October 9 meeting in Brussels, the FTI technical meeting provided comments on a draft concept note for the expanded funding mechanism and on October 10, the Catalytic Fund Strategy Committee (the “CF Strategy Committee”) agreed on certain amendments to be made to the draft concept note for finalization and presentation to the Partnership Meeting in Cairo.

4. The Technical meeting supported the Task Team’s conclusion that an expanded financing mechanism could and should be achieved by revising the Catalytic Fund and renaming it the “Expanded EFA-FTI Catalytic Fund” (referred to below as the “Expanded Catalytic Fund - ECF”) so as to permit it to provide both short term and long term funding. Apart from this change, which brings with it a need to provide for strengthened assessment of the sector plan and review of a recipient country’s progress and other agreed factors before allocating any country funds beyond the three-year period allowed under the current Catalytic Fund, some changes are being proposed in the implementation of the eligibility and allocation criteria. The standard conditions and governance structure of the Catalytic Fund would remain substantially unchanged for the Expanded Catalytic Fund.

5. The FTI partnership meeting in Cairo endorsed the proposal as presented by the Task team and asked the Task team and FTI Secretariat to finalize the concept note including the necessary changes in eligibility and allocation criteria by early 2007. Following through on this proposal means that the existing Catalytic Fund will become the Expanded Catalytic Fund. New commitments will be made into and from the Expanded Catalytic Fund and any resources remaining in the Catalytic Fund will become the resources of the Expanded Catalytic Fund, subject to the agreement of the current donors to the Catalytic Fund. The goal is to create a smooth and seamless transition both for the recipients and for the donors.

C. KEY FEATURES OF THE EXPANDED CATALYTIC FUND

6. **Basic Principles.** Building upon the current Catalytic Fund, the Expanded Catalytic Fund remains fully in line with the guiding principles of the Fast Track Initiative: country-ownership, benchmarking, support linked to performance, lower transactions costs and transparency. The goal is for the Expanded Catalytic Fund funding to be available as a predictable source of funding that will enable eligible recipients to engage in long term planning for their education programs. It is especially important that the medium-term financing gap, as determined by the recipient country and its local donors, and as articulated in its education sector plan, accurately reflects not only the financial need but also the capacity to implement its education program.. At the same time, the primary and preferred source of funding for education sector plans will remain domestic and bilateral and multilateral sources from in-country donors. Therefore, the FTI Secretariat will request periodic updates from the Local Donor Group on their commitments and delivery of increased contributions through their regular channels.

7. **Eligibility Criteria.** All countries with an EFA FTI-endorsed education sector plan can be considered for support from the Expanded Catalytic Fund. However, the

Expanded Catalytic Fund is targeted at providing assistance to countries whose primary education programs receive little, inadequate or no external funding. The ECF Strategy Committee selects which countries will receive funding and determines how much funding each selected country will receive. In doing so, the ECF Strategy Committee takes account of several criteria, including (i) demonstrated strong commitment on the part of the country's government, (ii) strong performance by a country's government towards achievement of UPC, (iii) capacity to implement the EFAFTI endorsed education sector plan; and (iv) exceptional limitations in the external donor funding available for a country's primary education program. These criteria are set out in the Trust Fund Administration Agreements entered into between the Bank as Trustee of the Expanded Catalytic Fund and the donors. The Secretariat will provide information to the Strategy Committee on the degree to which these criteria are met by proposed recipients.

8. To date, the Strategy Committee has adopted an operational guideline, that "exceptional limitations" would be interpreted to mean having fewer than five bilateral donors in the education sector who provide more than \$1 million each per annum. Reflecting on the experience of the Catalytic Fund, the CF Strategy Committee has agreed that this operational guideline should be adjusted for the Expanded Catalytic Fund to refer to the financing need rather than the number of donors¹.

9. It has been proposed to adopt a new operational guideline for the Expanded Catalytic Fund that links the "exceptional limitations" criterion more closely to identified financing needs. Specifically, countries that have unmet basic education program costs of 50% or more of the support they receive from donors at the time their education sector plan is endorsed, will meet this criterion. According to this guideline, each proposal for funding from the Expanded Catalytic Fund will detail the recipient country's basic education program cost, the amount of domestic funding available to meet such costs and the amount of external support (consisting of financing in the form of loans, grants and credits) already committed to meet such costs. The size of the difference between the amount of the identified basic education program costs and the amount of the combined domestic and external funding available to meet such costs, i.e. the "financing gap," will determine whether there are "exceptional limitations in the external donor funding available for the country's basic education program".

10. If, for example, a country's basic education program presents a financing gap of \$20 million or more when total external resources available to meet that gap amount to \$10 million, then that country meets the "exceptional limitations criterion. The financing gap² would be confirmed by the Local Donor Group. This operating guideline would take account of the reality that donors are unlikely to be able to collectively increase their total bilateral external assistance to a country's education sector by more than an

¹ Catalytic Fund Strategy Committee: December 2006.

² Donors in country would be required to confirm the financing gap to the FTI Secretariat after conducting the necessary public expenditure analysis. Where a current public expenditure review exists for a country that would be relied upon to verify the financing gap. Where no such review exists, such a review would be conducted by the donors in country, with guidance and input from the Secretariat as needed. In country donors would also provide an assessment of absorptive capacity at the country level.

additional 50 percent in the short term. At the same time, it would favor countries with relatively low levels of aid.

11. **A funding source of last resort.** The CF Strategy Committee has reaffirmed that the Expanded Catalytic Fund, like the Catalytic Fund, should make reducing financing gaps that cannot otherwise be filled, its primary goal. FTI-endorsed countries are expected to increase domestic funding and to identify education as a priority for new finance from all bilateral as well as multilateral donors. This approach is important for other funding sources, such as IDA, which determines both its priority sectors and level of financial support based on explicit funding requests from governments.

12. **Phases of Funding.** Funding from the Expanded Catalytic Fund would be available in one or more distinct and sequential phases. Countries would generally qualify for extended funding unless assessments indicate mismanagement, very little progress compared to the country's own baseline, the withdrawal of the government's commitment to the endorsed education sector program or the increased availability of aid from external sources, making funding from the Expanded Catalytic Fund inappropriate or superfluous.

13. Phase 1 would be a three-year period of initial funding, corresponding to the maximum period of funding currently allowed under the Catalytic Fund. This first period of funding gives the recipient country an opportunity to build a performance record. It would be carefully monitored by the Local Donor Group in the context of annual sector reviews. An assessment of the recipient country's progress, measured against the baseline agreed upon at the time of FTI endorsement, or as modified during the joint annual sector review, and taking into account efficiency, harmonization and any changes in the financing gap for the country's education program, will be performed at the end of three years. Such an assessment will be aligned with in-country assessment processes. A similar assessment would be carried out at the end of each three-year period of extended funding.

14. **Allocation** If the available resources are less than the total required by all eligible countries the following three-step process will be applied to divide the available resources:

- (1) *Dividing resources evenly (pro rata) on the basis of identified and confirmed funding gap among all applications; then*
- (2) *Adjusting the initial pro rata allocations to arrive at a final allocation by (a) setting a minimum amount for allocations to small countries (defined by population size) so as to maximize the possibility that the funding would be adequate to make a difference in those countries' performance; (b) giving for initial allocations a higher weight to countries that are further removed from UPC (key objective of the FTI); and*
- (3) *Applying such other objective comparable criteria as the Committee may agree upon (if some such objective, comparable criteria can be identified).*

15. The discussions and the decisions of the Expanded Catalytic Fund Strategy Committee will be reflected in the Committee's minutes. Allocation decisions by the Strategy Committee for any particular country should be aligned as much as possible with the planning and budgeting cycle in that country and should take into account the conclusions of the reviews of the Poverty Reduction Strategies where they exist enable proper timing of allocation decisions, the Strategy Committee will meet at least twice a year and more often if necessary.

16. **Use of Fund Resources.** The policies and procedures governing the use of funds made available from the Expanded Catalytic Fund would be the same as those that apply under the Catalytic Fund. Briefly, the Strategy Committee selects from amongst the pool of Eligible Countries, the countries who will actually receive assistance and makes an allocation of fund resources to such countries. Then, the Bank, in consultation with the Local Donor Group and the country, and taking into account the guidance of the Strategy Committee, selects the entity who will serve as the recipient of the funds. The range of Eligible Recipients includes; (i) Eligible Countries, (ii) country-specific trust funds established to support education in an Eligible Country (in which case, the funds would be transferred to the administrator of such a trust fund), (iii) aid agencies of governments providing assistance to Eligible Countries; and (iv) such other Eligible Recipients as may be determined by the Strategy Committee.

17. The Bank, as Trustee of the Expanded Catalytic Fund, will enter into an agreement with the Eligible Recipient selected to receive funds (except where such recipient is a Bank-administered trust fund, in which case the Bank would make a simple transfer of funds to such trust fund). The Bank, taking into account the guidance of the Strategy Committee, will make every effort to channel all funds through the most aligned modality as agreed upon by the local donor group in the education sector in the recipient country. In cases where the Bank proposes not to use the most aligned modality, a full justification/explanation will be given to the Strategy Committee.

18. Subject to the availability of funds, Phase 1 funding could be made available for a maximum period of up to three years, disbursed in increments based upon an exchange of views with the country and evidence of satisfactory progress in the country's carrying out of its program. The assessment of progress in the education sector will be carried out during the joint annual sector review or its equivalent.

19. **The in-country monitoring mechanism.** In no case, should there be any parallel processes for performance monitoring and evaluation. At a minimum, each FTI-endorsed country should go through an Annual Sector Review conducted jointly by all key partners. The World Bank, as a member of the Local Donor Group, will participate in these reviews. Consistent with the basic FTI Principles, monitoring and annual reviews should focus on agreed performance, aid effectiveness indicators and development results rather than following a year-to-year micromanagement and project-type approach.

20. **Responsibility for Monitoring Use of Fund Resources.** As under the Catalytic

Fund, the Bank will supervise the activities financed under Grant Agreements with Eligible Countries, and the activities financed under Grant Agreements entered into with such other Eligible Recipients as the Strategy Committee may agree should be supervised by the Bank. The Bank will have no responsibility to the donors with respect to the use of funds by an Eligible Recipient whose activities are not supervised by the Bank.

21. The current Catalytic Fund recipient countries become eligible for funding from the Expanded Catalytic Fund at the end of Catalytic Fund support. Countries currently receiving funding from the Catalytic Fund will be required to go through the year 3 assessment. This requirement will need to be communicated to these countries and their Local Donor Groups as soon as possible.

22. The Closing Date of the Expanded Catalytic Fund would be December 31, 2015.

D. ADMINISTRATIVE MATTERS

23. The World Bank and donors have agreed to proceed on the basis of the following:

- (i) Full Agreement of Donors: All donors to the Catalytic Fund have agreed to extend it to become the Expanded Catalytic Fund.
- (ii) Status Quo on Fees: The administrative fee for the Expanded Catalytic Fund is the same as the fee that applies for the Catalytic Fund.
- (iii) Status Quo on Donor Payment Modalities: Currently, donors to the Catalytic Fund make their contributions by means of cash payment. All donors have agreed that this payment modality will, for the moment, remain the same for the Expanded Catalytic Fund. However, the fact that the WB currently requires that all funds have to be available in cash before entering into a commitment with partner countries, will mean that the WB's ability to enter into multi-year grant agreements will be limited by actual cash flow. In line with the desire to make the ECF more predictable, certain donors have indicated that they will pursue their dialogue with the WB to either amend this requirement or to permit donors to choose to make their contributions by means of promissory notes.”

24. The Bank, in its role as Trustee, will prepare the necessary legal agreements covering the changes needed to convert the Catalytic Fund into the Expanded Catalytic Fund for signature by each Donor.

25. The Expanded Catalytic Fund should be in place by mid-2007, the time when the first batch of Catalytic Fund beneficiaries will have completed implementation of their current three-year Catalytic Fund allocations.