

FTI TASK TEAM ON PRIORITISATION:
REPORT TO THE CATALYTIC FUND COMMITTEE
AND THE STEERING COMMITTEE - APRIL 2009

FOREWORD

At the FTI meetings in Oslo in December 2008 two task teams were formed, one on replenishment and one on prioritisation. The members of the task team on prioritisation (TTP) are: Canada, the European Commission, the Netherlands, the FTI Secretariat, Germany, Norway, Spain, Sweden, UNESCO, UNICEF, and the World Bank.

The overall objective of the TTP has been to present a suggestion on how the Catalytic Fund Committee should make priorities when deciding on which countries should receive allocations and the size of allocations to different countries.

Dissatisfaction with the current approach to allocating resources from the Catalytic Fund stems from its ad hoc character. The first-come-first-served approach and use of the step-down formula leads to inequitable allocations that bear too little relationship to the countries' needs and performance. There is a high element of chance involved: an application that reaches the committee at a moment when ample resources are available may get the full amount requested, whereas in rounds with a scarcity of funds the amounts allocated are reduced without basing the allocation decision on a transparent model for prioritisation and allocation.

The task team, with some hesitance, recommends a model for prioritisation in this report. It is a model that most, if not all, task team members find acceptable, but it is a result of compromises. We could have suggested more than one model, but we could not even reach a consensus on two models. We have had long discussions around "the gap", "the pot", needs vs performance, how to measure performance, global vs country based, and around weights and percentages. In a way the report raises almost as many questions as it delivers solutions.

The merit of this report is, as I see it, that we have managed to identify a number of very important issues that are at the core of the FTI in general and of the Catalytic Fund in particular. It has helped us to see where we agree and where we disagree and it has also highlighted some of the problems in the way we operate; the "rules of the game" are not entirely clear and decision making is not always easy or consistent.

The report covers the Task Team's recommendations on

1. key principles for prioritisation;
2. a new model for prioritisation with country examples; and
3. issues of significant relevance to prioritisation on which a decision can be made in Copenhagen

The report also lists

4. issues of significant relevance to the prioritisation model that require continued work before a decision is made

*David Wiking, chair of the Task Team on
Prioritisation, 26 March 2009*

KEY PRINCIPLES FOR PRIORITISATION

A number of key principles underlie the new approach to prioritisation that is proposed in this report from the Task Team on Prioritisation:

1. An approach is needed to handle a situation where demand is greater than supply;
2. A new approach or model must balance attention to educational needs with attention to capacity and proven ability to achieve results;
3. It must have a strong country focus and remain sensitive to context;
4. It shall contribute to strengthening country ownership, harmonisation, alignment and aid effectiveness;
5. The model shall be easy to understand and thus transparent and create possibilities to enhance predictability;

During the Task Team on Prioritisation's (TTP) deliberations in Paris 5 March, it was agreed that a new approach to prioritisation *should continue to be firmly based on the countries' own education sector plans*. Members of the TTP not only want to ensure that the countries in most need are reached, but also to create incentives for improved results. *Many TTP members feel that a mechanical and quantitative approach to prioritisation is problematic, and potentially even dangerous*, e.g. because the CFC risks getting lost in a scientific exercise that may have little to do with reality as educational statistics are unreliable and because it may not be able to take country level, qualitative aspects into account. It is also felt that such an approach risks creating undesired incentives for countries. Consequently, the Needs and Performance Framework, or any other quantitative tool, can be very useful as a reality check but it should not be used as the model for prioritisation.

The new model for prioritisation that is proposed in this report does, therefore, combine an assessment of performance that can be compared between countries with the local education group's assessment of the need and the capacity to implement a programme as expressed in the funding gap stated in the proposal. For the sake of fairness and predictability it is proposed here to apply this model in 18-month cycles, not as today on a first-come-first-served basis. The new proposed model also abandons the step-down formula.

This model, therefore, take a country's education sector plan as the starting point. Based on the plan, the Local Education Group identifies the funding gap. In doing so, the Local Education Group considers what the country is realistically able to achieve, the distance from universal primary education or EFA goals as well as the country's own commitment as shown in the level of investment in education. The next step is to compare the educational needs of the country with other countries applying for CF-funding during an 18 months period. A country far from achieving educational goals will get a slightly higher allocation. The third step is a qualitative assessment of performance. If a country is making progress on its educational goals, this will further increase the allocation. The model thus rewards a country that has great educational needs and that at the same time is able to use its resources efficiently.

THE NEW MODEL

As stated in the introduction, the objective of the TTP is to present a recommendation on how the Catalytic Fund Committee should make priorities when deciding on which countries should receive allocations and the size of allocations to different countries. Therefore, the model for prioritisation recommended here is divided into two steps. Step one concerns the first part of the TTP objective: determining which countries should receive allocations. Step two is used to calculate the size of allocations to different countries.

STEP 1: WHICH COUNTRIES SHOULD RECEIVE CF SUPPORT?

As was stated by the Catalytic Fund Committee in Tokyo, all IDA countries in category 1 and 2, as well as small island economies, are formally eligible for FTI funding, with priority given to category 1. This model adds an aspect of educational needs to the equation of prioritisation, meaning that *category 1 countries as well as the countries that have the greatest needs in education among IDA category 2 countries and small island economies will be prioritised*¹.

The Global Monitoring Report presents tables using the Education Development Index (EDI) to rank countries as high EDI, medium EDI and low EDI. EDI is here adopted to determine educational needs, meaning that countries ranked as low EDI are the countries with the greatest educational needs. However, it is recommended that it is done leaving out the Gender-specific EFA index (GEI) or to find an alternative way to include a gender aspect in the needs assessment. (See discussion in issue 7 below.)

During its deliberations, the TTP has identified a need for the Steering Committee to clarify criteria for which countries or categories of countries should be directed directly to the Transition Fund, and thus not be considered for Catalytic Fund support.

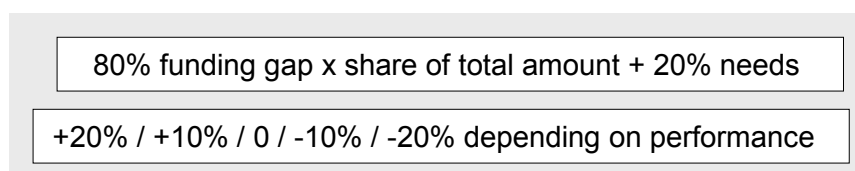
STEP 2: THE SIZE OF ALLOCATIONS TO DIFFERENT COUNTRIES

1. The local education group assesses the Education Sector Plan. Based on this assessment, the local education group presents the country's funding gap. If the funding gap is not considered realistic by the Secretariat, who will use the Needs and Performance Framework as a reality check, the proposal will be sent back to the Local Education Group for revision. There will thus be an incentive to present a realistic funding gap as outlined in issue 2 below.

¹ *An alternative approach to prioritisation between countries would be to limit eligibility to IDA Category 1 countries only, to avoid that the performance assessment excludes the countries most in need. However, the TTP considers this option to be too extreme. It disregards the possibility that there may be category 2 countries with greater educational needs than some category 1 countries. A second problem with this alternative approach is that countries tend to move between the categories. Thirdly, a category 1 country may have many bilateral donors, while a country in category 2 may have none or very few. Therefore, this alternative was rejected by the TTP, concluding that using data related to needs in education to prioritise between countries is more fair and relevant.*

2. Within an 18-month round of applications, a single country's share of the total amount is calculated based on the number of applications. At this stage, the calculation of the allocation amount gives 80% weight to the funding gap times the proportion of the total amount, and 20% weight to a needs assessment using the Needs index part of the Needs and Performance Framework (appendix A).

3. The External Quality Review makes an assessment of capacity and performance, rating countries as very high, high, medium, slightly below expectations and below expectations. *Performance is measured as results in relation to main objectives in the Education Sector Plan and the country's own commitment as shown in the share of the government budget spent on education.* The performance index will be a mix of quantitative and qualitative indicators that may vary depending on the context. A high score in the external quality review leads to an increase in the allocation as calculated before the quality review assessment. Medium leaves it unchanged and a low rating leads to a decrease in the allocation². For first time applicants, the model can be illustrated as follows:



The model will increase the weight given to performance in a second or third round of applications by raising the percentage from maximum 20% to 40%³. The CFC will have to make the final decision on allocation, guided by the recommendations from the External Quality Review.

As the model is applied in an 18 month cycle, allocations made during the first and second CFC meetings in the period, will have to take applications expected to be treated in the third meeting into account. In order to establish a country's indicative share of the pot, the Secretariat will make use of the Needs and Performance Framework and previous implementation capacity to calculate an indicative allocation. This indicative allocation, which serves as a "reality check", should not be mistaken for an early allocation decision (see issue 6 below).

² This introduces a new task for the External Quality Review, a feature that has certain similarities to the Global Fund on Aids, TB and malaria. As pointed out in issue 7 below, more guidance on how to define high and low performance is necessary, even though this is primarily a qualitative assessment.

³ There is no consensus on the numbers used in the model. It is the view of the chair of the TTP, however, that the figures used best reflect the different views of the members of the TTP.

EXAMPLES: 4 COUNTRIES

In order to visualise the consequences of the recommended model for prioritisation, four countries applying in the same 18-month period are used as examples:

Country 1: A category 2 country that lacks EDI statistics, but states great needs. Unless the Secretariat can make a reasonable estimation the country will be directed to the EPDF.

Country 2: A category 2 country that is ranked as medium according to the Education Development Index. This country will not be considered eligible for funding.

Country 3: A category 2 country that has submitted an application, which is considered to include an unrealistic funding gap in relation to Needs and Performance Framework and previous absorptive capacity. The application is therefore sent back after a pre-assessment by the Secretariat and/or External Quality Review, which delays the application process. The country is ranked low on EDI, and is therefore prioritised for funding. The allocation amount is first calculated by giving the revised funding gap 80% weight and a needs assessment 20%. However, due to a “below expectations” performance rating, the allocation is cut by 20 per cent. Had this been a reapplication, the allocation would have been cut by 40 per cent.

Country 4: A category 1 or 2 country that is ranked as having a low EDI and is rated as a very high performer. The country is prioritised for funding. The funding gap presented is deemed realistic, and after an initial calculation of the allocation amount based on the funding gap and a needs assessment, the allocation is increased by 20 per cent.

RECOMMENDATIONS ON ISSUES OF RELEVANCE

Before agreeing on a new model for prioritisation, the task team considered the following important issues with great implications for both prioritisation and replenishment:

ISSUE 1: The definition of the education sector

Should the Catalytic Fund support the 2 relevant areas outlined in MDG 2 and 3, should it support the areas falling under the six EFA goals, or should the Fund give support to the whole education sector?

Recommendation: Legally, according to the FTI Framework, the CF can fund the whole sector as long as the goal/objective is Universal Primary Education (UPE). This will be looked at in a separate session by the Steering Committee at the Copenhagen meeting in April. Most TTP members want the Steering Committee to make a decision in line with the FTI Framework.

ISSUE 2: Funding gaps

Recommendation: The responsibility to calculate the funding gap should rest with the Local Education Group. 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 macro economic 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.

The size of the funding gap is dependent on the decisions on sector coverage, and must be decided upon in conjunction with a formal decision on what the CF can fund.

ISSUE 3: Eligibility

Recommendations: The task team agreed that current procedures on Catalytic Fund eligibility should not be changed. As was stated by the Catalytic Fund Committee in Tokyo, all IDA countries in category 1 and 2, as well as small island economies, are formally eligible for FTI funding, with priority given to category 1. This model adds an aspect of educational needs to the equation,

meaning that *category 1 countries as well as the countries that have the greatest needs in education among IDA category 2 countries and small island economies will be prioritised.*

It is also recommended by the task team that the Catalytic Fund should be formally open for several rounds of applications, but with the provision that the demands on performance will be higher in second rounds than in the first. The Fund should stick to three year cycles in each round.

ISSUES THAT REQUIRE FURTHER INVESTIGATION

ISSUE 4: The size of “the pot”

The way the total sum of available funds, “the pot”, is calculated, needs to be made clear. The recommendation from the TTP is for the Secretariat to present 18 month forecasts on the availability of funds. This places significant expectations both on the replenishment process and on the Secretariat’s ability to present accurate and regular information to countries interested in applying as well as to donors.

If the total sum of available funds in “the pot” is to be divided, it is only possible to allocate funds to as many high performing countries as there are low performing countries receiving allocations. As the CF may receive several high performing countries in the same 18 month period, there may be a need to establish a “buffer” of funds not allocated in each round – but it is not necessary for the model to work.

An Option to the 18 month period, during which there would be three CFC meetings, would be to go for one meeting every 12 months which will make it easier to ensure that demand meets supply.

ISSUE 5: Disclosing indicative allocations

The model for prioritisation may be used to present indicative sums of allocations to countries applying for CF support. However, a formal decision should be made as to whether early, indicative allocations will be disclosed to applicant countries or not, as there are differences in views within the TTP regarding this issue.

The rationale for doing so may be to enhance predictability and give countries a chance to adopt resource-based planning. Resource-based planning, i.e. planning on the basis of (likely) resources is more effective and efficient than planning in the hope of resources and then having to adjust planning to allocated resources. Resource-based planning requires an *early allocation*.

The counter-argument is the opposite: that it is better to encourage countries to plan on the basis of needs and policy, than on the basis of expected resources. An early allocation that for some reason needs to be adjusted may also create false expectations and a sense of being constrained by this information.

ISSUE 6: How to determine high, medium and low performers

It has previously been expressed that the Catalytic Fund Committee should give more explicit attention to performance and at likely expected effectiveness of use of funds. The model for prioritisation recommended in this report includes an assessment of capacity and performance, rating countries as high, medium or low performers. The model outlines that performance should be measured as results in relation to main objectives in the Education Sector Plan and the country's own commitment as shown in the share of the government budget spent on education – and that the performance index will be a mix of quantitative and qualitative indicators that may vary depending on the context. Due to time constraints, the TTP has not been able to investigate this issue further. The recommendation is therefore to adopt the model for prioritisation at the Copenhagen meeting, but to defer the issue on how this assessment of high, medium and low performers will be made to the fall meeting.

ISSUE 7: Level of educational needs

The Global Monitoring Report presents tables using the Education Development Index (EDI) to rank countries as high, medium and low EDI. The same ranking system, using the EDI, is recommended to be used here to prioritise between countries as outlined in Step 1 of the model above.

It is recommended here to further investigate the possibilities and effects of leaving out the gender-specific EFA index (GEI). The use of GEI in this context to measure need in education, risks penalising category 2 countries that perform well in terms of gender equality. Such a country may be ranked as medium rather than low EDI on account of their track record on gender equality, thus excluding it from the possibility to receive CF support. An alternative to leaving out the GEI would be to find another way that does not have undesired effects, to include the gender-aspect in the needs assessment. It is felt by the TTP that gender is such an important issue that completely removing it from the equation is wrong.

A potential problem with using the EDI is that the information needed to measure all EDI indicators is not available in all countries that have previously applied for CF funds. As a remedy to this problem it is proposed that if a country does not have the information required to measure one or more of the EDI indicators, the ranking would be done using the available one or more of the indicators that compose the EDI (e.g. NER).

An alternative is to perform the ranking using the Needs index presented in the Needs and Performance Framework (see appendix 1).

ISSUE 8: A need to review how funding gaps are calculated

Funding gaps should be defined in each proposal by the Government and the Local Education Group (LEG). There is a need for reviewed and clarified guidelines for how this should be done.

ISSUE 9: The risk of crowding out bilateral aid

There is a risk that Catalytic Fund allocations crowd out bilateral aid when a model for prioritisation is adopted that potentially fills the whole funding gap.

To avoid this, the Local Education Group may be asked to ensure that bilateral aid when available, using the most aligned modality, is given preference.

Before deciding to give that recommendation to the Local Education Group, there is, however, a need to consider the benefits of pooling in terms of greater effectiveness in line with Paris and Accra declarations, and lower transaction costs. In some cases, CF funds replacing a set of disparate bilateral programmes may be desirable.

ANNEX A: NEEDS & PERFORMANCE FRAMEWORK INDEX

EFA-FTI Performance Index (EPI)

The second component of the framework, the EFA-FTI Performance Index, seeks to measure each country's performance in two dimensions: the set of policies, institutional development, and programs that are likely to have a substantial impact on implementation of primary education programs; and actual results achieved. It is composed of one indicator of each dimension:

(a) The Policy and Institutional Indicator (PII) is the average of those indicators of the World Bank's country performance index, the "CPIA", that appear directly relevant to primary education. These include the indicators in the clusters for "policies for social inclusion/equity" (except for environment), "economic management" (except for debt management), and "public sector management and institutions". The relevance of policies for social inclusion is evident. The relevance of economic management and public sector management and institutions is indicated by the importance of primary education in government budgets and employment, and its heavy reliance on government systems for public finance, public administration, and transparency and corruption (e.g. whether teachers get paid or numbers of ghost workers). The PPI is robust in that minor changes – addition or elimination of a CPIA indicator – would not materially change the average.

(b) The PCR Progress Indicator (PPI) measures the progress made by the country in meeting the MDG target. Since progress gets harder as countries get closer to the target, the measure used is the percentage decline in the remaining gap over the most recent three year period for which reliable cross-country data are available. The PCR Progress Index is a measure of results rather than of inputs, reflecting a broad range of lagged policy and institutional factors. As such it is a useful complement to the Policy and Institutional Index, with its focus on policy and institutional inputs.

Determining the coefficients of the Needs and Performance Indices:

The preliminary recommendations here for specific coefficients, or elasticities, are based partly on precedent, in those cases where donors have already agreed on comparable coefficients in IDA's Performance Based Allocations. In some other cases they take account of comparable coefficients implicit in past CF allocations. An "elasticity" measures the percentage change in a country's NPF indicative allocation brought about by a 1% change in the needs or performance indices (or in one of their components). The coefficients suggested here will be further reviewed in the context of preparing recommendations for the next round of program submissions.

EFA-FTI Needs Index (ENI):

- *The size of the country, measured by the number of children of school age (CSA):* The IDA PBA provides the same *per capita* level of assistance in countries as population increases. Past CF allocations have shown an

elasticity of 0.75, a significant “small country bias”; for example, a country with twice as many children as another would get an allocation per child 16% smaller. The suggested coefficient of 0.9, would reduce this differential per child to 7%.

- *The distance from the goal, measured by how far the country is from a 100% Primary Completion Rate.* There is no ex-ante basis for setting the elasticity (coefficient) of this variable. Given the lack of past precedent, the suggested elasticity, is set at a modest level of 0.25. (For CF countries to date, the country with the lowest PCR gap would receive twice the indicative allocation, other things equal, that the country with the highest PCR.)
- *The poverty of the country, measured by its per capita income (PCI):* The IDA PBA has a moderate poverty elasticity of -0.125. Given that this elasticity has been agreed by IDA donors and does not seem contentious, it is also suggested for use here. (For CF countries to date, the maximum difference per capita income could make would be 20%.)
- *The extent to which country needs for external financing for primary education are already being met by other donors, measured by external financing (EXT) for primary education.* Although some donors have tried to take account of other-donor assistance in setting their own allocation levels, there is no precedent to rely on here. A moderate elasticity of -0.25 is proposed for the next round of allocations, reflecting the “catalytic”, or balancing, role that was at the origin of the CF. A very high negative elasticity would serve as a disincentive to support from other donors. (For CF countries to date, the maximum difference other donor financing could make would be 60%.)

EFA-FTI Performance Index (EPI):

- *The Policy and Institutional Indicator (PII):* The IDA PBA for IDA XIV uses an elasticity of 2. That proposed for IDA XV is significantly higher (although more complex and harder to reduce to a single elasticity.). Past CF allocations have shown no consistent weight to the PII (or the CPIA from which it is derived.) The elasticity suggested here is 2.0 (For CF countries to date, the maximum difference the PII could make would be 50%.)

The PCR Progress Indicator (PPI): Analysis of past FTI allocations suggests an elasticity of 1. (For CF countries to date the maximum difference the PCR Progress Indicator could make would be 50%.)