Fast Track Initiative
A global partnership to achieve Education For All

FTI CATALYTIC FUND

ANNUAL STATUS REPORT[1]

ROME, ITALY
NOVEMBER 5, 2009

Prepared by the FTI Secretariat for the CF Committee Meeting

[1] Please note that figures in this report are as of October 5, 2009. Some of the figures in this report—especially disbursements—might be substantially different from what is stated in the *Quarterly Reports for 2009* and the Replenishment Document "*A Fast Track to 2015: Educating the world's children for a better future*" due to the time lag. An update will be provided at the meeting in Rome.

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EFA-FTI Catalytic Fund
Annual Status Report

SUMMARY OF KEY MESSAGES:

- **Overall: The Catalytic Fund is in the paradoxical situation of having high cash liquidity of over $700 million, needed to cover existing commitments, but almost no funding available to make new commitments. Some donors are finding it difficult to provide significant additional financing under these circumstances and the issue of high liquidity has been raised at several recent FTI meetings, including the roundtable that took place during the IMF/World Bank Annual Meetings in Istanbul. Current disbursement performance has been positive, with a lag of about 9% overall on the three-year grants approved since May 2007 (Bonn). For grants prior to May 2007, the undisbursed amount is $74 million, or about 12%, though disbursement lags had earlier been as high as 50%.**

- ***Disbursement performance***. As of October 5th, disbursements have reached US$171 million in 2009, as compared to US$214 million in 2008, and US$126 million in 2007. Overall disbursements since the fund's inception amounted to US$639 million (i.e. 44% of grant allocations). It is projected that US$153 million additional will be disbursed by end-December, bringing to US$324 million the total for 2009; and the cumulative disbursements to US$792 million.

- ***Cash receipts from donors***. Since the last CF annual financial report presented at the Oslo meeting in December 2008, cash receipts from donors have increased from US$1,018 million to US$1,317 million. Almost all donors with outstanding commitments have paid, with the largest amount received from Spain (US$165 million) in two payments. Please refer to Annex 1—Table A1 for details by donor.

- ***Cash liquidity***. Cash liquidity is US$740 million, of which US$30 million were transferred to the Supervising Entity for Zambia (the Netherlands). This total includes a disbursement lag of (i) $90 million for current operations; (ii) $202 million for two suspended operations in Guinea and Madagascar; and (iii) about $400 million held against future operations for which disbursements are not yet due.

- ***Financing Mechanism for Fragile States***. An agreement has not yet been reached on a financial mechanism for countries with low capacity or those with Interim Education Plans. While progress has been made, it will take time before such an agreement is reached. In the meantime, the FTI Board has recommended in that "the Catalytic Fund Committee (CFC) be asked to allow these countries to request funding from the CF".

- ***Need for increased predictability and financial risk management:*** There is an urgent need for increased predictability and firm commitments in donor pledges to match the 3-5 year planning cycles of recipient countries. Since 2008, only donor pledges backed by signed agreements have been recorded for the purpose of making allocations; interest income earned by the CF trust fund is excluded from the balance available for allocations. On this basis, the projected deficits are US$574 million by spring 2010; and US$1.2 billion by end-2010 (Table 1).

- ***FTI replenishment mechanism and proposal for a virtual trust fund***. In line with the need for increased predictability and the on-going replenishment exercise, a Task team was established at the CF Committee meeting in December 2008, and specific recommendations were approved by the CFC in April 2009. In September 2009, the FTI Board of Directors agreed on a broad strategic outline for the replenishment campaign of FTI funds (decisions ***BOD/2009/9-09 and BOD/2009/9-10***). A proposal for the creation of a single FTI virtual trust fund has been prepared for approval by the FTI Board. A copy of the Concept Note for the FTI One Fund will be sent to you for information when available.

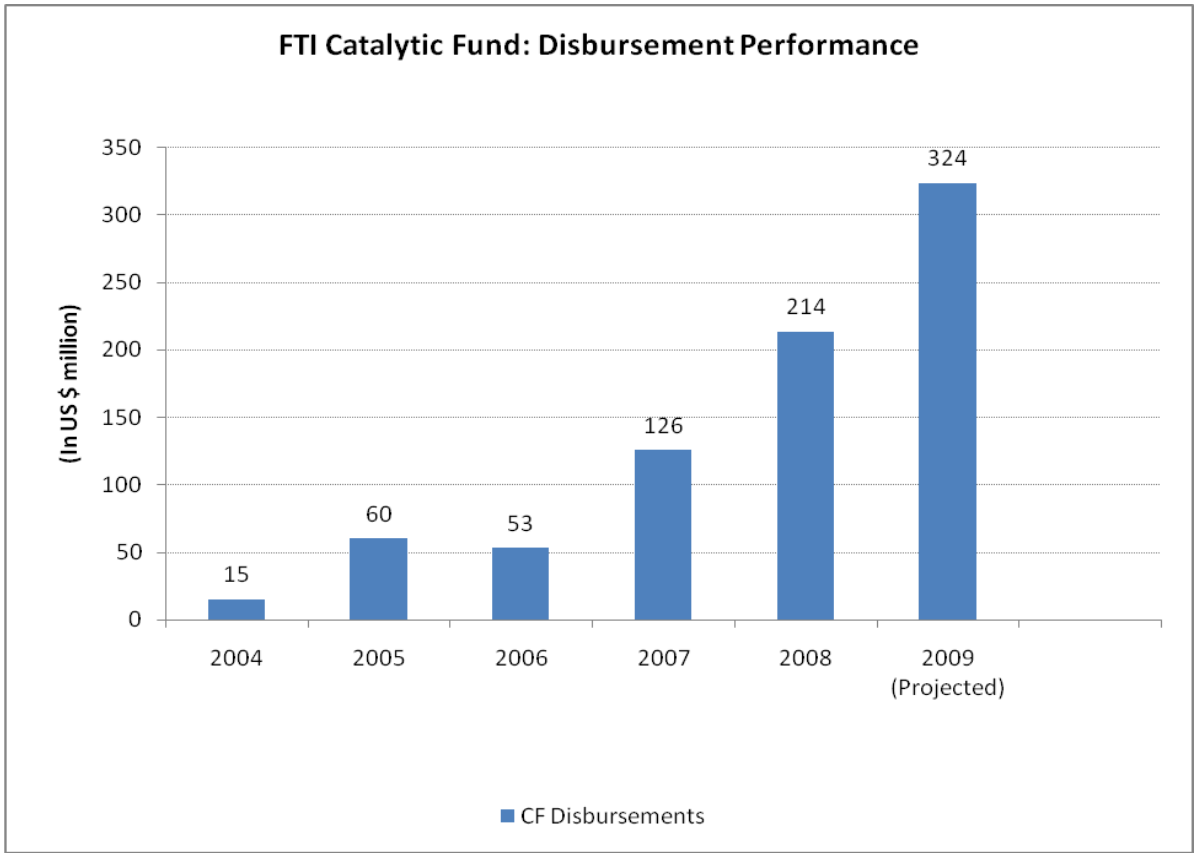
- ***Prioritization of CF beneficiaries and rolling approval of grants***. Recommendations were made by the FTI Task team on Prioritization of CF beneficiaries (final report dated June 2009). Both the Board and the CFC are asked to approve in principle these recommendations while operational details are being worked out. In the meantime, many countries are expected to request funding, and close to a dozen are considered fragile. In addition to agreeing that these countries would seek CF funding, the CFC is also asked to agree on a rolling approval of these requests, and on a basis of indicative allocations communicated to countries beforehand (see Annex 4).

A. FUND OVERVIEW AND STATUS

1. **CF Trust Fund Status**. Donors have signed pledges totaling US$1,628 million; of which US$201 million represent financial pledges for the period 2010-13. Disbursements for 2009 to date are US$171 million, projected to reach US$324 million by end-2009. Overall disbursements since the fund's inception amount to US$639 million (44% of allocations). Annex 1 Table A3 provides actual and projected disbursements until the end of 2010 based on current allocations only. If the rate of grant approval is sustained at around US$250-300 million per annum, it is projected that additional US$100 million could be disbursed in 2010.

2. **Recent disbursement performance.** Delays in grant signings in 2007 led the FTI partners to change procedures: (i) preparation of documents and safeguard reviews prior to grant allocations; (ii) adoption of more flexible grant modalities when warranted (i.e., use of pooled-funds in Mozambique, Benin, and Ethiopia; and budget support instruments in Rwanda and Burkina Faso); and (iii) closer collaboration among stakeholders of the CF portfolio, including more focus on CF operations by the World Bank. These changes appear to be producing positive results: the lag between allocation and grant-signature dropped from 12.8 months for 2007 allocations to 5.5 months for the 2008 allocations. The pre-Bonn disbursement lag is approximately 50% while the post-Bonn lag is 9% (excluding the two countries under suspension).

Chart 1: Catalytic Fund—Overview and Status
Graphic Illustration of Grant Disbursements
(In US$ million)



3. **CF cash position**. The liquidity situation of the CF is US$740 million. This consolidated balance includes (*as shown in Annex 2: Unaudited Financial Statement*) (i) a transfer of US$30 million to the Supervising Entity for Zambia (the Netherlands); and (ii) another transfer of US$12 million to the Guyana Multi-Donor Trust Fund, which have not yet been shown as disbursed.

4. **Working with de facto governments.** The World Bank has clear guidance and rules on how to work with *de facto* governments, as in the cases of Guinea, Madagascar, and until recently, Mauritania. In each case, assessments have been made with the objective of adopting concrete measures and recommendations. An update on progress will be made by the Bank for these countries with specific recommendations. A summary by country is as follows:

5. **Mauritania.** The country was allocated a three-year grant in the amount of US$14.0 million in May 2007 (Bonn). This was a follow up grant to fund Mauritania's revised Education Sector Plan for a second three-year phase. A grant agreement was signed with the World Bank on April 8, 2008. As a result of a military coup, the Bank Operational Policy 7.30 on working with de facto government was applied; and Bank operations were suspended. Since then, elections have been organized; a new government has been installed. Disbursement has started and an update will be provided at the CFC meeting in Rome.

6. **Madagascar.** The country was allocated a three-year grant in the amount of US$85.1 million in April 2008 (Tokyo). This was a follow up grant to fund Madagascar's revised Education Sector Plan for a second three-year phase. As a result of a military coup which installed a new government, the Bank Operational Policy 7.30 on working with de facto government applies, and Bank operations are suspended. A proposal has been brought forward for a $15 million emergency grant to be administered by UNICEF.

7. **Guinea.** The country was allocated a three-year grant in the amount of US$117.8 million at the CFC meeting in December 2007 (Dakar). A grant agreement was signed with the World Bank on August 13, 2008. At the death of the former president, a military coup resulted in a de facto government and World Bank operations were suspended.

8. **New funding requests.** Three countries will request funding from the CF: Lesotho (three-year grant); Nepal (three-year grant) and Tajikistan (one-year bridge funding). Lesotho is requesting US$30 million; Nepal is requesting US$120 million; and Tajikistan US$13.5 million; for a total of US$163.5 million. The CF has currently an uncommitted balance of US$160 million for allocation, excluding interest income earned by the CF since inception, which is estimated at US$66 million to date. A new financial pledge from Norway estimated at US$23 million is on schedule for signing by the end of October 2009. Therefore, it is projected that enough resources will be available for the three requests, if approved by the CFC.

9. **Projected FTI endorsement of Education Sector Plans by end-2010.** Over the past few months, the FTI Secretariat has worked with Coordinating Agencies to determine a likely timeframe for ESP endorsement and CF applications. Based on responses from the ministries of education, some 13-14 countries/states are expected to have endorsed Comprehensive Education Sector Plans (C-ESP) or Interim Education Sector Plans (I-ESP) by end-2010; these are Afghanistan, Bhutan, Burundi, Chad, Comoros, Congo DRC, Cote d'Ivoire, Guinea-Bissau, Malawi, Nigeria (3 states), Papua New Guinea, North Sudan, South Sudan, and Togo.

10. **Country programs requesting CF funding by end-2010.** Some 25-30 countries/states are projected to seek CF funding by the end of 2010; these are: (i) the 13-14 countries/states listed above in paragraph 12; (ii) 13 countries which are currently CF beneficiaries returning for additional support, which are Cameroon, Djibouti, Ethiopia, Ghana, Kenya, Kyrgyz Republic, Lesotho, Mali, Nicaragua, Niger, Rwanda, Tajikistan and Yemen; and finally (iii) two countries with endorsed ESPs but not yet CF beneficiaries (Lao PDR and Liberia). A number of these countries are considered 'fragile' states.

Table 1. Financial Pledges Required for Allocations (US$ million)

	Availability
1. Total pledges to date	1,628
(memorandum item only: Net investment income)	(66)
2. Less cumulative allocations to date	1,468
3. Balance available for allocation 1/	**160**
Less : Projected allocation requests :	
4. Total requests for November 2009 meeting	163.5
5. Projected deficit after Nov 2009 2/	**(3.5)**
6. Projected requests by spring 2010	600
7. Projected deficit by spring 2009	**(604)**
8. Projected requests by fall 2010	600
9. Projected deficit by fall 2010	**(1,204)**

Source: Estimates and projections by the FTI Secretariat.
1/ Excludes an estimated US$66 million in cumulative interest income earned since inception.
2/ Please note that projected deficits assume that all requests would be approved by the CFC. For the CFC meeting in November, a new financial pledge estimated at US$23 million is on schedule for signature by end-October 2009. This would guarantee that enough resources are available to cover the three requests. An update will be provided in Rome.

11. **Resource flows into existing beneficiary countries**. As of October 5, 2009, a cumulative total of US$639 million has been disbursed to benefit 30 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. Based on country level information and historical trends, it is projected that disbursements would reach US$324 million in 2009; and cumulative projected disbursements would amount to US$792 million by end-2009.

C. ITEMS FOR DISCUSSION AND DECISION

12. **Agreement that grant implementation periods are indicative**. It is proposed for financial and operational audit reasons that the CFC should agree that "the implementation period for all CF grants—past and future—be considered indicative. Experience shows that actual implementation period are, on average, longer than recorded in the minutes of each CFC meeting.

13. **Update and agreement on Madagascar**. It is expected that the Local Education Group and the World Bank would provide an update on the situation, with recommendations for approval by the CF Committee.

14. **Update and agreement on Guinea**. It is expected that the Local Education Group and the World Bank would provide an update on the situation, with recommendations for approval by the CF Committee.

15. **Support to fragile states**. Agreement on operational steps for the Board recommendation that the CF be asked to support fragile states over the 2009/2010 period while a funding mechanism for them is being developed. The FTI Secretariat would communicate this final agreement to relevant countries promptly.

16. **CF Liquidity Management**. This is an opportunity for donors to discuss ways to manage the CF liquidity situation better. On the basis of current instruments, donors provide funds through cash transfers. The on-going effort by the Secretariat for timing better those transfers on the basis of liquidity needs, funds continued to be received well ahead of time. It is proposed that donors should discuss and find a way to (i) better sequence their cash payment; and (ii) possibly hold on their cash payments as long as possible, without suffering any losses.

17. **FTI Single Fund Concept**. With the objective of resolving the liquidity situation, the Secretariat and the World Bank are working at restructuring FTI funds, in response to the Board decision on replenishment. This effort is timely in the light of the restructuration of the EPDF, and the search of viable options for funding countries with weak capacity (i.e. fragile states). This work will revolve around the creation of a single FTI "virtual" fund: the One Fund) for which a Concept Note has been drafted; and it will be sent for information to members of the CF Committee when available. This initiative will propose ways to make pledging instruments more flexible for better cash management.

18. **Lesotho CF Grant Proposal**. On behalf of the Government, representatives of the Local Education Group are presenting a request for US$30 million for the period 2010-2012. The World Bank is the agreed Supervising Entity. In addition, Irish Aid is providing an additional amount of US$10 million in co-financing.

19. **Nepal CF Grant Proposal**. On behalf of the Government, representatives of the Local Education Group are presenting a request for US$120 million for the period 2010-2012. The World Bank is the agreed Supervising Entity. There is also an IDA operation in the amount US$130 million.

20. **Tajikistan CF Grant Proposal**. On behalf of the Government, representatives of the Local Education Group are presenting a request for bridge funding in the amount of US$13.5 million for the period 2010-2011. This is the last year of funding under the country's first three-year phase of CF support. The World Bank is the agreed Supervising Entity.

21. **Prioritization of CF beneficiaries and rolling approval of grants.** Based on the work and recommendations of the Task team, three important decisions are submitted for CFC approval as follows:

- **Approval of the new model**. Approval in principle of the new prioritization model, to be operationalized by end-2010. Indicative amounts based on the current NPF will be communicated to all countries projected to come forward for allocations.

- **Adoption of rolling approvals for CF grants**. Agreement that for countries requesting funding over the 2009/10 period, a rolling approval process (by e-mail, audio/video conference, or face-to-face, as necessary) will be used to examine their funding applications for approval.

- **Evaluation of the EQR Process**. Agreement on how to organize evaluation of the EQR process, which has now been piloted for one year as agreed.

Annex 1—Table A1: Summary of performance
(In millions of US dollars; as of October 5, 2009)

	CF Donor Countries	Total 2004-2007	Calendar Years 2008	2009	2010	2011	2012	2013	Total 2003-2013	CF Donors Receipts
1	Australia	-	1.4	9.6	9.6	9.6	-	-	30.2	1.4
2	Belgium	6.5	1.4	1.3	1.5	1.5	-	-	12.1	9.2
3	Canada	17.4	-	8.2	9.2	9.2	9.2	9.2	62.3	25.6
4	Denmark	5.0	14.4	26.7	-	-	-	-	46.1	46.1
5	EC (ACP) Part 1	40.3	24.7	22.9	-	-	-	-	87.9	65.0
6	EC part 2	13.7	6.4	11.3	11.3	-	-		42.7	20.2
7	France	-	14.6	8.7	-	-	-	-	23.3	23.3
8	Germany	-	6.2	7.3	7.3	7.3	-	-	28.0	10.6
9	Ireland	19.2	21.9	-	-	-	-	-	41.1	29.1
10	Italy	10.4	4.4	12.6	-	-	-	-	27.4	27.4
11	Japan	-	1.2	1.2	-	-	-	-	2.4	2.4
12	Netherlands	430.5	43.0	-	-	-	-	-	473.5	430.5
13	Norway	61.5	8.6	-		-	-	-	70.1	70.1
14	Romania	0.5	-	-	-	-	-	-	0.5	0.5
15	Russia	3.0	1.0	2.0	2.0	2.0	-	-	10.0	4.0
16	Spain	80.3	76.9	87.9	87.2		-	-	332.3	245.1
17	Sweden	15.7	14.6	5.7	11.4	14.2	-	-	61.5	30.3
18	Switzerland	-	2.5	-	-	-	-	-	2.5	2.5
19	UK	129.1	132.0	12.6	-	-	-	-	273.7	273.7
	TOTAL	**833.1**	**375.1**	**217.9**	**139.4**	**43.7**	**9.2**	**9.2**	**1,627.6**	**1,316.9**

Source: FTI Secretariat.

Annex 1—Table A2: CF Disbursements from Inception until October 5, 2009
(In millions of US dollars; as of October 5, 2009)

	Beneficiary Countries	Total 2004-2006	Annual Disbursements 2007	2008	2009	Total 2004-2009
1	Benin	-	-	-	21.3	21.3
2	Burkina Faso				22.0	22.0
3	Cambodia	-	-	1.0	2.3	3.4
4	Cameroon	-	11.3	11.2	-	22.5
	CAR				2.9	2.9
5	Djibouti	3.0	3.0	-	2.0	8.0
6	Ethiopia				36.5	36.5
7	Ghana	14.0	5.0	-	8.6	27.6
8	Guyana	8.0	4.0	-	4.4	16.4
9	Kenya	24.2	48.4	48.4	-	121.0
10	Kyrgyz Republic	-	0.5	6.3	1.7	8.5
11	Lesotho	1.8	2.4	3.3	0.5	8.0
12	Madagascar	17.0	10.0	33.0	-	60.0
13	Mali	-	-	2.2	2.5	4.7
14	Mauritania	8.0	1.0	-	-	9.0
15	Moldova	0.3	1.3	3.4	2.0	6.9
16	Mongolia	-	8.2	8.9	8.0	25.1
17	Mozambique			28.0	30.0	58.0
18	Nicaragua	10.5	3.5	-	10.0	24.0
19	Niger	9.0	-	4.0	-	13.0
20	Rwanda	-	13.0	57.0	-	70.0
21	Sao Tome and Principle	-	-	-	0.8	0.8
22	Sierra Leone	-	-	-	3.0	3.0
23	Tajikistan	3.1	6.0	3.1	4.4	16.6
24	The Gambia	8.0	5.4		5.6	19.0
25	Timor Leste	1.5	2.6	4.1	2.4	10.6
26	Yemen	20.0	-	-	-	20.0
27	Zambia	-	-	-		-
	Total	**128.4**	**125.6**	**213.9**	**171.0**	**638.8**

Source: FTI Secretariat.

Annex 1—Table A3: Projected disbursements

(In millions of US dollars; as of October 5, 2009)

	Allocations 2003-2011	Grant agreements signed to date	Grant agreements expected to be signed by December 2010	Total disbursements till date (A)	Projected disbursements			Total Disbursements projected till December 2010 (A+B+C+D)
					October - December 2009 (B)	January-June 2010 (C)	July-December 2010 (D)	
Benin	76.1	76.1		21.3	4.3		16.2	41.8
Burkina Faso	102.0	22.0	80.0	22.0		45.0		67.0
Cambodia	57.4	57.4		3.4	2.8	12.9	10.0	29.1
Cameroon	47.3	22.5	24.8	22.5	12.4		12.4	47.3
CAR	37.8	37.8		2.9	6.5	8.4	7.0	24.8
Djibouti	8.0	8.0		8.0				8.0
Ethiopia	70.0	70.0		36.5		33.5		70.0
Ghana	33.2	33.2		27.6		5.6		33.2
Guyana	32.5	32.5		16.5	5.2	4.0	4.0	29.7
Guinea	117.8	117.8						-
Haiti	22.0		22.0			11.0		11.0
Kenya	121.0	121.0		121.0				121.0
Kyrgyzstan	15.0	9.0	6.0	8.5		3.0	3.5	15.0
Lesotho	11.9	11.9		8.0	1.1	2.8		11.9
Madagascar	145.1	60.0	85.1	60.0				60.0
Mali	8.7	8.7		4.7	1.9		2.1	8.7
Mauritania	9.0	9.0		9.0				9.0
Mauritania	14.0	14.0			-			-
Moldova	8.8	8.8		6.9	1.9			8.8
Mongolia	29.4	29.4		25.1	4.3			29.4
Mozambique	79.0	79.0		58.0		21.0		79.0
Nicaragua	24.0	24.0		24.0				24.0
Niger	21.0	13.0	8.0	13.0	-	3.5	4.5	21.0
Rwanda	105.0	70.0	35.0	70.0	35.0	-		105.0
Sao Tome and Principe	3.6	3.6		0.8	1.3	1.5	0.0	3.6
Senegal	81.5	81.5			35.0		23.0	58.0
Sierra Leone	13.9	13.9		3.0	3.7	2.9	3.0	12.6
Tajikistan	18.4	18.4		16.6	1.7	0.1		18.4
The Gambia	41.4	41.4		19.0		2.8	4.2	26.0
Timor Leste	13.1	13.1		10.6	1.2	1.3		13.1
Yemen	40.0	40.0		20.0	5.0	5.0	5.0	35.0
Zambia	60.0	60.0			30.0		30.0	60.0
Sub-Total	1467.9	1207.0	260.9	638.9	153.3	164.3	124.9	1081.4

Source: FTI secretariat.

Annex 2: Catalytic Fund – Unaudited Financial Statements from inception to October 5, 2009

UNAUDITED SUMMARY OF CONTRIBUTIONS, DISBURSEMENTS AND FUND BALANCE		
Receipts		
Contributions		$'000s
	Australia	1,354
	Belgium	9,200
	Canada	25,600
	Denmark	46,000
	European Commission	65,000
	European Commission Part II	20,200
	France	23,200
	Germany	10,600
	Ireland	29,100
	Italy	27,400
	Japan	2,400
	Netherlands	430,500
	Norway	70,100
	Romania	500
	Russia	4,000
	Spain	245,100
	Sweden	30,300
	Switzerland	2,500
	United Kingdom	273,700
	Total contributions	1,316,754
	Investment income	66,600
	Total receipts	1,383,354
Disbursements		
	Benin	21,300
	Burkina Faso	22,000
	Cambodia	3,400
	Cameroon	22,500
	Central African Republic	2,900
	Djibouti	8,000
	Ethiopia	36,500
	Ghana	27,600
	Guyana*	16,400
	Kenya	121,000
	Kyrgyz Republic	8,600
	Lesotho	8,000
	Madagascar	60,000
	Mali	4,800
	Mauritania	9,000
	Moldova	6,918
	Mongolia	25,100
	Mozambique	58,000
	Nicaragua	24,000
	Niger	13,000
	Rwanda	70,000
	Sao Tome & Principe	869
	Sierra Leone	3,000
	Tajikistan	16,700
	The Gambia	19,000
	Timor Leste	10,600
	Yemen	20,000
	Supervision costs for grants to Middle East & North Afri	168
	Supervision costs for grants to Africa countries	1,368
	Supervision costs for grants to Europe and Central Asia	222
	Supervision costs for grants to East Asia and Pacific	130
	Supervision costs for grants to Latin America & Caribbean	355
	Total project disbursements	641,430
	Administration fee	2,353
	Total disbursements	643,783
Excess of receipts over disbursements		739,571
Fund balance, beginning of period		-
Fund balance, end of period		739,571

Annex 3: Financing Mechanisms for Interim Plans

1. Introduction and Background. The Steering Committee (now FTI Board of Directors) agreed in April 2008 (Tokyo) to design procedures to welcome countries with low institutional capacity in the EFA-FTI Partnership[2]. Subsequently, it was agreed in September 2008 (Paris) that low-income countries, including those considered to be fragile states (FS), could join FTI and be supported through a single and consistent process. The Partnership would provide access to FTI financing for countries unable to meet full endorsement criteria because of lack of capacity to fully articulate and implement comprehensive plans due to fragility or for other reasons. In another word, countries could join FTI with an Interim Plan endorsed by its in-country partners.

2. The Education Transition Fund. In order to distinguish between FTI funding mechanisms for plan implementation, the Board decided to create the Education Transition Fund, with UNICEF as Trustee and Fund Manager. A Task Team was created, composed of the United Kingdom, Netherlands, Spain, Australia and the European Commission. After further discussions and negotiations, UNICEF didn't agree to undertake the Trustee role in a way that matched the FTI's expectations; and the discussions were discontinued in July 2009.

3. Recent Developments. The FTI Secretariat prepared and submitted to the Board of Directors in September 2009 (Paris) a paper entitled "*FTI Education Transition Funding Mechanism Draft Concept Note*" that outlines an alternative approach. It was based on previous work for the CF Committee produced in 2008 by FTI Fragile States Task Team. The result of this work led to an outline of both the nature and processes envisaged, and trustee related issues. The following three options were proposed:

***Option 1**-- Donors make contributions to the existing Netherlands-funded, UNICEF executed "Transition Fund" for fragile states.*

***Option 2**-- Develop a separate Education Transition Fund, as planned, with an alternative Trustee other than UNICEF. Aside from UNICEF, there are other alternatives such as UNDP or a private foundation.*

***Option 3**--Adapt existing FTI process for fragile state; and use an adapted Catalytic Fund approach for fragile states. This option offers clear logistical and strategic advantages.*

4. FTI Board Decision. The FTI Board meeting on September 10, 2009 in Paris agreed on the following:

5. BOD/2009/9-11 – Education Transition Fund : Creation of a Task Team, composed of the Netherlands, United Kingdom, GCE represented by Save the Children, European Commission and Canada (to be confirmed) to explore Option 2.

6. BOD/2009/9-12 – Education Transition Fund: Until alternate options have been explored and a new decision taken, the Catalytic Fund Committee will be asked to accommodate new requests from fragile states (e.g. as in the case of Haiti).

[2] Tokyo Steering Committee Minutes: *"It was agreed that the FTI needs to be able to respond better to fragile states. Preference was expressed for the position that no new fund would be initiated, but that current instruments would be enhanced to apply to the fragile states context…"*

7. **BOD/2009/9-13** – Education Transition Fund: Approval that the Secretariat will continue to work as proposed under Option 3 to develop operational guidelines by the end of 2009.

8. **Update on progress for BOD/2009/9-11.** The Task Team started with a conference call facilitated by the FTI Secretariat on September 30th. It was agreed to hire a consultant to help identify the pros and cons of different organizations that could act as Trustee for the ETF (option 2). The initial terms of reference were prepared by the Netherlands, and revised by the Task Team. The consultant working period was established between October 19th and November 23th. Once a report is prepared, the group will review it and presents some key recommendations by the end of 2009; and Board approval would be sought virtually.

9. **Operational guidelines (BOD/2009/9-13)**. The Secretariat is developing operational guidelines, which could be used under option 2 or option 3. These guidelines make reference to the Progressive Framework and to important aspects to take into account, such as eligibility, supervising entities, implementing agencies, fiduciary arrangements, the role of the government, quality monitoring, etc. It is expected that a draft progress report would be presented to the FTI Board meeting in November (Rome). At that point, it will be decided if the track taken is good to move it forward, and what the next steps would be. It important to note that the option 2 being explored further should take into account the proposal to create a Single Virtual Fund for FTI; the concept of which will be presented in Rome.

10. **Operational steps for BOD/2009/9-12.** The FTI Board decided that "*Until alternate options have been explored and a new decision taken, the Catalytic Fund Committee will be asked to accommodate new requests from fragile states*" In that regard, a number of specific country cases have been outlined below. Most have already been informed about this Board Decision, and also that it may take some 6-8 months before agreement is reached on a funding mechanism to support countries with weak implementation capacity and/or Interim Education Plans.

11. **Country progress and milestones.** Over the past few months, the FTI Secretariat has reinforced its support to country partners and country-level processes. The number of staff appointed as country focal has increased from two to seven. This has lead to better information on key milestones such as plan preparation/update, appraisal and reviews, and dates for CF applications. Based on that work, it projected that about a number of countries will request FTI funding between November 2009 and December 2010.

12. **Preliminary agreement on specific country cases.** Below is a brief summary of progress for each country. A preliminary decision is sought from the CFC that these countries would be allowed to apply for CF support until a new mechanism has been found to fund FTI developing country partners with low implementation capacity and/or Interim ESPs.

13. **Afghanistan.** A virtual meeting was recently organized between the FTI Secretariat and in-country partners. Progress has been made in the finalization of the second National Education Sector Plan (NESP II). The Education Development Board (EDB) hired a consultant to prepare an Education Sector Analysis and make an Assessment of the NESP II; and this work is expected to be completed by February 8th 2010. The current schedule is to have the plan endorsed shortly after that; and then to apply for FTI funding in 2010.

14. **Congo, Democratic Republic**. The country has made strong progress in recent months. A draft ESP has been prepared for finalization and validation within the next few months, and by end-2009 at the latest. More work will be needed in that regard, and the LEG intends to seek financial support from the Education Program Development Fund (EPDF); and the FTI secretariat

is in close contact with the Coordinating Agencies (UNESCO and DfID) for regular updates on progress. And the current schedule is to have the plan endorsed by the middle of 2010; and then to apply for FTI funding shortly thereafter.

15. **Cote d'Ivoire**. Several exchanges have taken place recently between the FTI Secretariat and in-country partners and the Coordinating Agency (UNICEF). Progress has been made in the finalization of the Education Sector Plan (ESP). In-country partners are coordinating their effort to appraise the government's plan as soon as ready. Even though detailed milestones have not been submitted, the current schedule is to have the plan endorsed by the end of 2009; and then an application for FTI funding would follow. An important element likely to impact this schedule would be the outcome of the general elections currently planned for the end of November 2009.

16. **Guinea-Bissau**. Several exchanges have taken place recently between the FTI Secretariat and in-country partners and the Coordinating Agencies (UNICEF and World Bank). Progress has been made in the finalization of the Education Sector Plan (ESP). Even though detailed milestones have not been submitted formally, the current schedule is to have the plan endorsed within the next few weeks; and then an application for FTI funding would follow shortly after.

17. **Lao PDR**. The country's National Education as successfully appraised and endorsed by in-country donors in April 2009. That endorsement was seconded by the broader FTI Partnership and a welcome letter was issued in March 2009. The Secretariat is working closely with the Coordinating Agencies (AusAid and UNICEF) and the agreed Supervising Entity (the World Bank) to prepare a CF funding request by the end of 2009 or in early 2010. An official correspondence was received in June and it provided details steps and key milestones for FTI processes at the country level.

18. **Liberia**. In March 2007 the Education Development Partners (EDPs) appraised the Liberian Primary Education Recovery Program (L-PERP). Subsequently, Liberia was admitted to the FTI Partnership. The country applied for Catalytic Fund in May 2007 (Bonn), but it wasn't approved on the grounds that it did not meet the minimum standards for the CF. In response, UNICEF and the Netherlands contributed funds from the "Education in Emergencies and Post-Crisis Transition" Program Fund.

19. **The Liberia Education Pool Fund**. A pooled fund arrangement was established, to which UNICEF provided US$12.0 million; and the Open Society Institute (George Soros) US$4.25 million. The Liberia Education Pooled Fund (EPF) was launched in May, 2008 with a total amount of US$16.25 million. Over a period of nine months the EPF disbursed US$12.25 million for three major activities to procure textbooks, build and rehabilitate schools and teacher training institutes. The government is currently using EPDF resources to develop and appraise its new 10-year comprehensive Education Sector Plan. The government and its partners are discussing the opportunity to re-apply for Catalytic Fund support in 2010.

20. **Sudan (North)**. The Concept Note Review Meeting for the ESP took place on Feb 20, 2009; and there was unanimous support for the timeliness and significance of undertaking a more rigorous analysis of the draft ESP. The FTI Secretariat has not received any recent update on progress; but it has stayed in close contact with the Coordinating Agencies (World Bank and UNICEF). Even though detailed milestones have not been submitted formally, the current schedule is to have the plan endorsed in 2010; and then an application for FTI funding would follow shortly after by the middle of the year 2010.

21. **Sudan (South)**. The government sent an official letter in April 2009 to express its interest in joining FTI. The Secretariat is in contact with the Coordinating Agencies (EC, World Bank and USAID) for an update on progress at the country-level. Based on earlier exchange, the current schedule calls for the finalization of the ESP by the middle of 2010; and then an application for FTI funding would follow shortly after. An update will follow when new information becomes available.

22. **Togo**. Several exchanges have taken place recently between the FTI Secretariat and in-country partners and the Coordinating Agency (AFD-France). The FTI Secretariat has also participated in several review meetings with the World Bank team, and has also received a number of field mission reports and background documents on progress. Good progress has been made in the finalization of the Education Sector Plan (ESP); and clear milestones have been received from the country. The current schedule is to have the plan endorsed within the next few weeks; and then an application for FTI funding would follow by the middle of November 2009.

23. **Burundi, Chad, Comoros, and Papua New Guinea**. For these countries, the FTI Secretariat is working closely with governments and Coordinating Agencies to develop credible milestones at country-level. Apart from earlier indication that they will finalize their Complete and/or Interim Education Sector Plans in 2010 and request FTI financial support, their schedules have yet to be finalized. An update will be provided as soon as available.

Annex 4. Prioritization of CF Beneficiaries And Rolling Approvals for CF Applications

A. INTRODUCTION AND DECISIONS

1. **Eligibility for CF Support.** In a historical perspective, the CF instrument went through various reforms such as duration of its support, its governance, and its resource mobilization strategy. The most frequent changes have been around rules for eligibility and allocation formula. These frequent changes were due, in part, to the lack of a credible replenishment tool; which has meant that new rules came up in response to insufficient funds to satisfy the potential demand. Some of these rules of eligibility and allocation have been (i) the Donor Orphan criteria; (ii) the step-down formula; and (iii) the restriction to the poorest countries classification (IDA I and II—see Annex 6). This note seeks the approval of the CFC in principle to adopt the new model as recommended by the Task team.

2. **Rolling Approval of grants.** In addition to the lack of clarity around eligibility, grant allocations are made typically twice a year (fall and spring) during face-to-face CFC meetings. Countries that fail to make a given application deadline are obliged to wait for at least 6 months for the next meeting to take place. As a result, they rush to meet artificial deadlines set by donors. This note proposes a "rolling approval mechanism" whereby a country's application would be examined as promptly as possible, without the need to meet a donor-driven deadline for submitting funding requests. If this is motion is approved, specific proposals and recommendations should be made for immediate operational steps.

B. MAIN FEATURES OF THE NEW MODEL

3. **Recent Developments.** In light of the major replenishment exercise launched in 2008, and the development of the Needs and Performance Framework presented to the CF Committee, a Task Team on Prioritization (TTP)—was formed in December 2008 (Oslo). It was asked to come up with a better way to allocate limited funds more efficiently, and in a fairer and more transparent manner. Chaired by Sweden, the TTP was created to develop a mechanism to assist in determining the prioritization of beneficiary countries, with the following key principles (Decision no CF/2009/4-06):

- (i) A new approach or model must balance attention to educational needs with attention to capacity and ability to achieve results; whereas needs can be compared across countries, and results should be context specific;
- (ii) It must have a strong country focus and remain sensitive to context;
- (iii) It shall contribute to strengthening country ownership, harmonization, alignment and aid effectiveness; and
- (iv) The model shall be transparent and create possibilities to enhance predictability. The TTP held its final meeting in June 2009 (Stockholm), where it produced proposals for approval by the CF Committee (*see FTI Task Team on Prioritization—Final Report June 2009*). The final model has not been approved because of it has yet to be fully developed and made operational.

4. **Summary of the model's three-step process**. More specifically, it is proposed that new model be applied within a three-step process as follows:

- *Step #1*: Decide which countries are eligible to apply for CF support: "*Small island economies as well as IDA countries that are, or have been in category 1 and 2 during the last two years, are eligible for FTI funding, except blend countries in Category 2."*
- *Step #2:* Determine and disclosure indicative allocations—not legally binding entitlements—to countries that have announced their firm intention to apply for CF support based on the simulation results. Such intention to participate in a given funding round is expressed through a

formal letter to the FTI Secretariat and the Chair. However, this step cannot not be completed for any funding round until the size of funds available to allocate is known, i.e. a replenishment mechanism has become fully operational; and

- *Step #3:* Determine if a country application is approved or not; and if yes, what is the size of the allocation. A special emphasis should be applied to implementation capacity and performance, overall quality, feasibility and readiness, and commitment to the endorsed Education Sector Plan. As usual, an External Quality Review (EQR) should be applied to help the CFC make its final decision on all country applications.

5. **Recommendations of the Prioritization Task Team**. The main recommendations of the Task team were summarized in its final report, which is scheduled to be presented for endorsement by both the FTI Board and the CF Committee in November 2009 (Rome). For more information and easy reference, please refer to the copy of that report is also inserted in the CFC meeting binders for Rome.

Annex 5: FTI Country Level Process and Milestones 2009-2010
(As of October 5, 2009)

	A. COUNTRIES WITH ENDORSED SECTOR PLANS		B. COUNTRIES EXPECTED TO HAVE ENDORSED ESP OCT 2009-DEC 2010		D. COUNTRIES APPLYING FOR CF FUNDING IN NOV 2009	E. AMOUNTS REQUESTED ($ million)
1	Albania	1	Afghanistan	1	Lesotho (three years)	30.0
2	Benin	2	Bhutan	2	Nepal (three years)	120.0
3	Burkina Faso	3	Burundi	3	Tajikistan (one year)	13.5
4	Cambodia	4	Chad		**TOTAL**	**163.5**
5	Cameroon	5	Comoros			
6	Central African Republic	6	Congo, Democratic Republic			
7	Djibouti	7	Cote d'Ivoire			
8	Ethiopia	8	Guinea-Bissau			
9	Georgia	9	Malawi			
10	Ghana	10	Nigeria (3 states)			
11	Guinea	11	North Sudan			
12	Guyana	12	Papua New Guinea		F. COUNTRIES EXPECTED TO APPLY IN 2010	G. INDICATIVE AMOUNTS BASED ON THE NPF 1/
13	Haiti	13	South Sudan			
14	Honduras	14	Togo		**I. One-year grants:**	
15	Kenya		C. OTHER ELIGIBLE COUNTRIES	1	Cameroon	....
16	Kyrgyz Republic			2	Djibouti	....
17	Lao PDR			3	Ethiopia	....
18	Lesotho	1	Bangladesh	4	Kyrgyz Republic	....
19	Liberia	2	Congo Republic		**II. Three-year grants:**	
20	Madagascar	3	Eritrea	5	Burundi	....
21	Mali	4	India	6	Chad	....
22	Mauritania	5	Kiribati	7	Comoros	....
23	Moldova	6	Myanmar	8	Cote d'Ivoire	....
24	Mongolia	7	Pakistan	9	Ghana	....
25	Mozambique	8	Solomon Islands	10	Guinea-Bissau	....
26	Nepal	9	Somalia	11	Kenya	....
27	Nicaragua	10	Sri Lanka	12	Lao PDR	....
28	Niger	11	Tanzania	13	Liberia	....
29	Rwanda	12	Tonga	14	Malawi	....
30	Sao Tome and Principe	13	Uganda	15	Mali	....
31	Senegal	14	Uzbekistan	16	Nicaragua	....
32	Sierra Leone	15	Vanuatu	17	Niger	....
33	Takijistan	16	Zimbabwe	18	Nigeria (3 states)	....
34	The Gambia			19	North Sudan	....
35	Timor Leste			20	Papua New Guinea	....
36	Vietnam			21	Rwanda	....
37	Yemen			22	South Sudan	....
38	Zambia			23	Togo	....
				24	Vietnam	....
				25	Yemen	....
					TOTAL	**1200**

Sources: FTI Secretariat; and country-level information collected by country focal persons; update as of October 5, 2009.

Annex 6: IDA Classification—World Bank OP 3.10 Annex C
(As of July 2009)

IBRD/IDA and Blend Countries: Per Capita Incomes, Lending Eligibility, and Repayment Terms

A. IBRD Only[1]			
Category iv (over $6,725)			
Korea, Rep. of	21,360	Chile	9,400
Trinidad and Tobago	16,540	Venezuela, RB de	9,230
Equatorial Guinea	14,980	Turkey	9,030
Antigua and Barbuda	13,790	Palau	8,600
Croatia	13,740	Uruguay	8,260
Poland	11,880	Romania	7,930
Libya	11,590	Brazil	7,450
St. Kitts and Nevis	10,920	Malaysia	7,260
Seychelles	10,290	Gabon	7,240
Mexico	9,980	Argentina	7,200
Russian Federation	9,680		
Category iii ($1,135 - $6,725)			
Botswana	6,470	Belize	3,790
Montenegro	6,440	Ecuador	3,640
Mauritius	6,400	Thailand	3,640
Lebanon	6,350	El Salvador	3,480
Panama	6,180	Jordan	3,310
Kazakhstan	6,140	Tunisia	3,290
Costa Rica	6,060	Ukraine	3,210
South Africa	5,820	China	2,940
Serbia	5,690	Marshall Islands	2,890
Bulgaria	5,490	Turkmenistan	2,840

Belarus	5,380	Guatemala	2,680
Suriname	5,010	Morocco	2,580
Jamaica	4,870	Swaziland	2,520
Colombia	4,660	Micronesia, Fed. Sts.	2,340
Dominican Republic	4,390	Syrian Arab Republic	2,090
Algeria	4,260	Paraguay	2,070
Namibia	4,200	Indonesia	2,010
Macedonia, FYR	4,140	Philippines	1,890
Peru	3,990	Egypt, Arab Republic	1,800
Fiji	3,920	Iran, Islamic Republic	NA
Albania	3,840	Iraq	NA
B. Blend[2]			
Category iii ($1,135 - $6,725)			
Grenada	5,730	Azerbaijan	3,830
St. Lucia	5,530	Armenia	3,350
St. Vincent and the Grenadines	5,140	Cape Verde	3,130
Dominica	4,760	Georgia	2,480
Bosnia & Herzegovina	4,500	Bolivia	1,480
Category ii ($1,135 or less)			
India	1,070	Pakistan	980
Papua New Guinea	1,050		
Category i ($975 or less)			
Uzbekistan	910	Zimbabwe[3]	NA
C. IDA[2]			
Category iii ($1,135 - $6,725)			
Maldives	3,630	Honduras	1,800

Angola	3,450	Sri Lanka	1,790
Samoa	2,680	Mongolia	1,690
Tonga	2,560	Moldova	1,500
Timor-Leste	2,460	Guyana	1,460
Vanuatu	2,330	Solomon Islands	1,180
Kiribati	1,990	Nigeria	1,160
Congo, Republic of	1,970	Cameroon	1,150
Bhutan	1,900	Kosovo	NA
Category ii ($1,135 or less)			
Djibouti	1,130	Nicaragua	1,080
Sudan[3]	1,130	Sao Tome and Principe	1,020
Lesotho	1,080	Cote d'Ivoire	980
Category i ($975 or less)			
Senegal	970	Madagascar	410
Yemen, Rep.	950	Rwanda	410
Zambia	950	Nepal	400
Vietnam	910	Togo	400
Kyrgyz Republic	780	Gambia, The	390
Kenya	770	Guinea	380
Lao PDR	770	Mozambique	370
Comoros	750	Niger	330
Benin	690	Sierra Leone	320
Ghana	670	Eritrea	300
Haiti	650	Malawi	290
Cambodia	600	Ethiopia	280
Tajikistan	600	Guinea-Bissau	250

Mali	580	Liberia	170
Chad	530	Congo, Democratic Republic	150
Bangladesh	520	Burundi	140
Burkina Faso	480	Afghanistan	NA
Tanzania	440	Mauritania	NA
Uganda	420	Myanmar[3]	NA
Central African Republic	410	Somalia[3]	NA

Key

NA = Estimates are available in ranges only

1. World Bank Atlas methodology; 2008 per capita GNI (Gross National Income, formerly GNP) figures are in U.S. dollars.

2. Countries are eligible for IDA on the basis of (a) relative poverty and (b) lack of creditworthiness. The operational cutoff for IDA eligibility for FY10 is a 2008 GNI per capita of US$1,135, using Atlas methodology. To receive IDA resources, countries must also meet tests of performance. An exception has been made for small island economies. In exceptional circumstances, IDA extends eligibility temporarily to countries that are above the operational cutoff and are undertaking major adjustment efforts but are not creditworthy for IBRD lending.

3. Loans/credits in nonaccrual status as of June 30, 2009. General information on countries with loan/credits in nonaccrual status is available from the Credit Risk Department in Finance (FINCR).

Changes during previous fiscal year

1. November 20, 2008: The Slovak Republic graduated from the IBRD.

2. June 29, 2009: The Republic of Kosovo joined the IBRD, IDA, IFC, MIGA and ICSID.