EDUCATION FOR ALL (EFA)
FAST TRACK INITIATIVE (FTI)

CATALYTIC FUND STATUS REPORT

EFA-FTI Secretariat
November 2004

EFA-FTI Catalytic Fund Status Report

INTRODUCTION

1. The Catalytic Fund (CF) is a multi-donor trust fund established by the Education For All, Fast Track Initiative (EFA/FTI) donor agencies in December 2003. The fund helps to finance endorsed country education sector plans that mobilize insufficient resources due to the presence of an inadequate number of donors. It provides transitional grant financing over a maximum of two to three years to enable such low-income countries to scale up their programs, and establish a track record that may leverage longer-term support. Given its transitional role, the CF is expected to remain small relative to support provided by the development partner community as a whole. However, the CF provides important backing to the FTI commitment that realistic financing needs in all qualifying countries will be met.

2. The fund targets developing countries which are endorsed by the EFA-FTI. Endorsement requirements include: (a) a sector program, endorsed by partners at the country level, that prioritizes the achievement of the Millennium Development Goals for primary education and for which there is a financing gap, (b) a Poverty Reduction Strategy in which this priority is embedded; and (c) demonstration of reasonable country effort tracked by common indicators.

3. Criteria for selection of eligible countries to be supported by the fund and the amount of resources to be allocated include:

- Demonstrated strong commitment on the part of the country's government;
- Strong performance by the country's government towards achievement of the goal of universal primary school completion for girls and boys by 2015;
- Capacity to implement the endorsed Education Sector Plan;
- Exceptional limitations in the external donor funding available for the country's primary education program.

4. The four categories of eligible recipients are:

- governments of eligible countries;
- country-specific trust funds established to support education in the recipient country;
- aid agencies of governments providing assistance to eligible countries; and
- any such other recipients as may be determined by the strategy committee.

5. This report presents a summary of activities and results of the Catalytic Fund since its inception in December 2003.

PLEDGES AND RECEIPTS

6. At inception, pledges were made by four donors – Belgium, Italy, Norway and the Netherlands – to a total amount of approximately US $236. During the year, the United Kingdom joined the group and pledged an additional US $18million bringing the amount to approximately US$265 million. Table 1 presents a breakdown of the estimated amounts pledged by calendar year and by donor.

Table 1 . Catalytic Fund Donor Pledges 2003-2007 (in USD millions)*

Donor	2003	2004	2005	2006	2007	Total
Netherlands	10	29	52	58	70	219
Norway		7	3	3	3	16
Italy	-	2	-	-	-	2
Belgium	-	1	1	1	1	4
UK	-	-	-	9	9	18
Sweden		5				6
Total	**10**	**35**	**56**	**71**	**83**	**265**

The dollar conversion for 2005 and beyond utilizes the exchange rate on September 30, 2004.

7. Contributions for calendar years (CY) 2003 and 2004 have been received from all donors. For 2004, total receipts into the multi-donor Catalytic Fund Trust Fund account amounted to approximately US$ 9.6million. Funds provided by the Netherlands under the Bank Netherlands Partnership Program (BNPP), and in accordance with the terms and conditions of the Standard Provisions governing the CF, amounted to US$39 million. A detailed financial statement of the Catalytic Trust Fund and the BNPP accounts is presented in **Annex 1**.

COUNTRY ALLOCATIONS AND DISBURSEMENTS

8. Country allocations made in Oslo in November 2003 to six beneficiary countries for Calendar Year (CY) 2004 with notional allocations for CY 2005 have remained the same (Table 2). Due to the time required to set up the operational procedures of the Catalytic Fund, CY03 allocations for Mauritania and Niger were disbursed respectively in March and July 2004, bringing the total allocation for both years (CY03 and CY04) to US $45million.

Table 2. Country Allocations (US $ millions) CY 2003 – 2005

Country	2003	2004	2005
Yemen	-	10	10
Niger	5	8	8
Nicaragua	-	7	7
the Gambia	-	4	4
Guyana	-	4	4
Mauritania	5	2	2
Total	**10**	**35**	**35**

9. Table 3 shows actual and planned disbursements for 2004. As of September 30, 2004, $15 million of the $35 million allocated has been disbursed to four of the six countries

(Mauritania, Nicaragua, Yemen and Niger). Grant agreements for the Gambia and Niger (2004 allocation) have been prepared with disbursements expected to begin by the end of November 2004. The amounts disbursed to date correspond to a first tranche release. Most agreements follow a model of policy-based agreements which disburse in two tranches. Guyana has opted for a report-based disbursement method under co-financing of investment operations, and pooling of funds with other donors. A multi-donor trust fund has been created at the country level for this purpose, and the funds disbursed in one tranche into the country level multi-donor trust fund.

Table 3. Country Allocations and Disbursement Schedule, 2004 (US$ millions)

			Planned Disbursements		
	Allocations	**Disbursed September 30, 2004**	**October – December 2004**	**January-March 2005**	**April-June 2005**
Yemen	10	3		7	
Niger	13	5	4		4
Nicaragua	7	3.5		3.5	
The Gambia	4	0	2.5		1.5
Guyana	4		4		
Mauritania	7	3.5		3.5	
Total	**45**	**15**	**16.5**	**9.5**	**4**

SUPERVISION FUNDING

10. A total of US$490,000 was budgeted for supervision in CY04. Of this amount, US$250,000 has been transferred to the operational regions. The remaining $24,000 will be transferred pending signature of agreements. For 2005, we would expect the funding for supervision to remain at the same level for the six countries.

SUMMARY OF KEY ISSUES, ACTION TAKEN AND RESULTS

Issue 1: Time to establish the operational mechanisms, and the type of legal agreement

11. The preparation and signing of Catalytic Fund legal agreements with governments took several months due to lack of clarity regarding the appropriate type of grant agreement to be prepared and the financing modality that would enable disbursement in the most efficient manner. Since Niger had a PRSC and an ongoing budget support program, the first grant for Niger followed the same procedures. A problem arose with the preparation of the agreements for Yemen and Mauritania which did not have a budget support financing mechanism in place. The initial agreements for these two countries were a hybrid of an agreement for an investment operation with expenditure categories and an adjustment operation with disbursement in tranches. This hybrid was problematic because it did not conform to World Bank policies and procedures.

12. ***Action:*** Advice was sought in April 2004 from the Vice Presidency of Operations Policies and Country Services (OPCS) on the structure of the grant agreements for all CF recipient countries. The main conclusions from the meeting were:

- Given the relatively small amounts, the purpose of the CF, and the criteria already applied to CF recipients, it was concluded that the most appropriate form of agreement would be a policy-based adjustment agreement with two tranche disbursements, the first upon signature of the agreement and request for disbursement, the second on receipt of a report showing satisfactory implementation progress.
- The grant agreement should reference implementation of the Government's education sector program as the activity to be funded.
- Sections in the grant agreements for Mauritania and Yemen concerning financial management, audits and procurement, and list of activities to be financed do not apply.
- A model grant agreement will be prepared by the legal department.
- There may be cases where a country meets the FTI requirements but where the macro situation is so off base that an education program could not be implemented satisfactorily. If a situation arises where the trust fund conditions are met but major macro imbalances exist, (the Secretariat and regional) staff will review the circumstances with OPCS before proceeding.

13. In a follow up meeting on April 28, 2004 with the legal, loan and Trust Fund departments, it was concluded that:

- Existing grant agreements should be amended in accordance with the model agreement.
- For auditing purposes, the Initiating Brief for the Trust Fund (IBTF) for the Catalytic Fund needs to be amended to incorporate the decisions of the CF Strategy Committee meeting in March 2004 and the above subsequent discussions.
- The loan department representative will ensure that Loan Department staff are aware of the special provisions for these funds, so that they can facilitate timely clearance of future agreements as well as speedy disbursement of funds.
- Where fiduciary risk of using government systems are high, alternative disbursement options may be used as appropriate, including traditional or report-based disbursement methods under co-financing of investment operations, and pooling of funds with other donors in the case of Sector Wide Approaches. In the case of United Nations (UN) agencies as recipient, the Bank's operational procedures for UN agencies would apply.

14. ***Results***

- A <u>model policy based agreement</u> was developed (see ***Annex 2)*** which uses a negative or positive list, with disbursements made into the government system in two or more tranches.
- Grant agreements for Mauritania and Yemen were amended according to the model.
- The IBTF was amended and approved in July, 2004. The Standard Provisions of the Administrative Agreements with donors were amended accordingly.

Issue 2: Flexibility in the application of Bank policies in financing recurrent costs under investment operations

15. The World Bank recently adopted a new policy (OD/OP 6.0) on eligibility of expenditure under investment operations which allows for the financing of recurrent costs, local costs, reasonable taxes, duties and food up to 100% where country parameters are defined and allow for this level of eligible expenditure. However Guyana did not have defined country parameters. For reasons of country specificity, the country team and Government chose a multi-donor trust fund established at the country level, set up as an investment operation to which the Catalytic Fund will be a contributor. In the absence of defined country financing parameters, old Bank policies for investment operations applied. Furthermore, although the administration agreement signed by Catalytic Fund Donors broadly provides for the financing of any activity set out in the country's education sector plan including recurrent costs, it did not specifically state 100% financing of recurrent costs, local costs taxes and food.

16. ***Action***: A meeting took place with OPCS to clarify the application of Bank policies in such cases where countries did not have financing parameters. It also sought advice on: (a) whether the application of agreements with donors, in cases where they may provide greater flexibility, take precedence over Bank operational policies, and (b) what was required from the CF donors to allow the CF to finance recurrent costs. The main conclusions were:

- Old Bank policies provide the flexibility for up to 100% financing of recurrent and local costs, reasonable taxes and duties, and food expenditure. Regions may make this determination to the extent permitted under the administration agreements with donors.
- Since the administration agreements with the CF donors was silent on the financing percentage, it was concluded that the Bank should request a written non-objection from the CF donors to finance up to 100% recurrent costs, local costs and reasonable taxes and duties.
- Further, as a matter of donor relations, the Secretariat should inform the CF donors of the new Bank policy and seek their written non-objection on the application of the policy to CF recipients.
- Regions should proceed to establish country financing parameters so as to take advantage of the flexibility introduced by the new policy.

17. ***Result.*** Two months later, the Guyana agreement was processed under the new policy. The Guyana country team was able to complete the country parameters faster than the Secretariat was able to obtain the non-objection of all CF donors, which has since been obtained.

Issue 3: Supervision Funding under the BNPP

18. The terms and conditions of BNPP did not include funding for supervision and had a higher administration fee (5% compared with 0.2% for the Catalytic Fund). The secretariat consulted the concerned departments to adjust the BNPP according to the terms and conditions of the Catalytic Fund, previously approved by the Netherlands. As a result, the accounting department is adjusting the BNPP to reduce the administration fee to 0.2% and provide supervision funding to the regions.

Issue 4 – Lack of accessible information on Catalytic Fund procedures

19. Information on the details and operational procedures of the Catalytic Fund were not readily available to donors, country recipients and staff of the World Bank. The Secretariat prepared draft operational guidelines, which are being circulated for clearance. (The guidelines are in Annex 3.)

SUMMARY OF COUNTRY STATUS AND PROGRAMS

20. Guyana -- The Trust Fund Administration Agreement was signed on June 28, 2004. The Catalytic Fund grant agreement was signed on September 28, 2004. The grant supports the Government's education sector program which sets out to: (a) improve the quality of teaching through teacher learning centers, providing housing, and remote area incentives; (b) enhance the teaching and learning environment through improved water and sanitation, introducing child-friendly instructional approaches and providing textbooks; and (c) strengthen school/community partnerships through a small grants program for school improvement and expanding the school feeding program, providing teacher housing, and remote areas incentives. The Ministry of Education has prepared bidding documents for US$1.6 million worth of textbooks, and financial mechanisms have been put in place to pay teacher incentives and provide school grants.

21. Mauritania -- Two grant agreements (one for the 2003 BNPP US$ 5 million allocation, the other for the 2004 US$ 2 million CF allocation) were signed on April 23, 2004. US$ 3.5 million were disbursed on July 31, 2004. The grants support the Government's education program which aims to: (a) improve service capacity through physical expansion, while increasing demand through the school feeding program; (b) improve service quality by strengthening decentralized support services and upgrading teachers and learning materials to scale up the introduction of new programs such as multi-grade teaching, and linguistic re-conversion; and (c) enhance the administrative, financial and pedagogic management capacity of the sector through an improved pedagogical monitoring system. To accelerate the implementation of the school feeding program, a memorandum of understanding between the Government and the World Food Program is under preparation. Financing of the education sector program will also be supported by French debt relief funds.

22. Nicaragua -- The CF agreement was signed on August 17, 2004; US$ 3.5 million was disbursed on September 27, 2004. The Nicaragua program aims to: (a) improve the quality of schooling through higher quantity and quality of books and pedagogical materials; (b) raise the performance of multi-grade teachers through professional development; (c) increase enrolment of the poor through a school meal and targeted scholarship program; and (d) strengthen decentralized management by school supervisors and management committee members. Since the original FTI project submission, the Government has prepared a Common Work Program supported by all the local donors. CF resources have been specifically targeted by the Government to support the school feeding and scholarship program aspects of the Common Work Program as these are more efficiently provided through the Government resource

management system. The commitment of the Ministry of Education to develop a Common Work Program attracted additional donors such as Canada and Denmark, increasing the external financing commitments by about US$ 12 million a year over the next three years.

23. Niger -- The 2003 allocation of US$ 5 million was disbursed in March 2004. The 2004 allocation of US $ 8 million is being processed pending verification of satisfactory performance under the 2003 grant from the task team leader and local donors. The Government's 10 year basic education development program seeks to: (a) increase enrolment in rural areas and among girls through expanded infrastructure, and increase the recruitment of trained teachers to staff the new schools; (b) improve the quality and relevance of education through curriculum reforms and a better supply of textbooks and teacher materials; and (c) strengthen institutional capacities, particularly in policy development. Donors are mobilized around the program, and are working in partnership to develop a pooled fund to which the CF would be a contributor.

24. The Gambia – The grant agreement with The Gambia for the 2004 US$ 4 million allocation was signed on November 11, 2004. Disbursement is pending receipt of the withdrawal application. The grant supports the Gambia Education Sector policy which aims to provide nine years of quality basic education for all Gambian children. The main objectives of the program are to: (a) expand basic education through maximum utilization of existing facilities, construction of additional classrooms where necessary, more trained teachers and school lunches in the most poor regions; (b) increase girls' enrolment through a scholarship program targeting the poor, increased advocacy through Mothers Clubs, and more female teachers; (c) improve the quality and relevance of the education provided through in-service teacher training, and expanding resource centers; and (d) strengthen decentralized management.

25. Yemen – The Grant agreement was signed in April 2004 for US$ 10 million for 2004. A disbursement of US$3.0 million was made on August 10,2004. The grant supports the Government's Basic Education Development program which aims to: (a) expand opportunity, particularly for girls, through infrastructure development, multi-grade teaching, and housing for female teachers in rural areas; (b) improve the quality of basic education through more and better learning materials and teacher training; and (c) build staff capacity for improved planning, monitoring and reporting. Implementation progress to date is satisfactory.

FINANCING FOR 2005

26. Pledges for 2005 are estimated at US$56 million at current exchange rates. If all current six CF recipients are carried over into 2005 at the same level of allocation, US $21 million equivalent would be available for new recipients. The CF Strategy Committee will review the status in November 2004 and make decisions for 2005 allocations.

PRIORITY WORK PLAN 2005

- Process grant agreements for new CF countries

- Evaluate results and experience of the first six CF grants
- Develop a model agreement for cases where the recipient is another agency (excluding UN agencies) or NGO
- Develop a model agreement for pooled funding
- Disseminate the operational guidelines and disbursement mechanism widely to task managers, Country Directors, and local donors
- Maintain quarterly meetings with advisory group

ANNEX 1: FINANCIAL STATEMENTS

Annex I A - CATALYTIC FUND MULTI-DONOR TRUST FUND ACCOUNT

SUMMARY OF CONTRIBUTIONS, ALLOCATIONS, DISBURSEMENTS AND FUND BALANCE

For the period November 21, 2003 (inception) to October 19, 2004 (till date)

Expressed in U.S. dollars

		UNAUDITED
		November 12, 2003 (inception) to October 19, 2004
Receipts		
Contributions	$	
Norway		5,976,394
Italy		2,364,000
Belgium		1,233,395
Total contributions		9,573,789
Investment income		64,715
Total receipts		9,638,504
Disbursements		
Project disbursements		
Mauritania		1,000,000
Supervision costs for grants to LAC countries		19,036
Total project disbursements		1,019,036
Transfer to other trust funds (Guyana)		4,000,000
Administration fee		16,681
Total disbursements		5,035,717
Excess of receipts over disbursements		4,602,787
Fund balance, beginning of period		-
Fund balance, end of period	$	4,602,787

Note

(A) Summary of allocations from Catalytic fund

Mauritania		1,000,000
Sub fund for Supervision		500,000
Child fund for supervision for AFR countries		90,000
Child fund for supervision for LAC countries		160,000
Total allocation	$	1,750,000

(B) Summary of donor pledged amount

Norway	NOK	40,000,000
Italy	EUR	2,000,000
Belgium	EUR	4,000,000

The above unaudited financial statement was prepared by the FTI Secretariat

Annex I B - BNPP EDUCATION FOR ALL (CATALYTIC FUND)

SUMMARY OF CONTRIBUTIONS, ALLOCATIONS, DISBURSEMENTS AND FUND BALANCE

For the period November 21, 2003 (inception) to October 19, 2004 (till date)

Expressed in U.S. dollars

		UNAUDITED November 12, 2003 (inception) to October 19, 2004
Receipts		
Contributions	$	39,470,951
Total receipts		39,470,951
Disbursements		
Project disbursements		
Yemen		3,000,000
Mauritania		2,500,000
Nicaragua		3,500,000
Níger		5,000,000
Total disbursements		14,000,000
Excess of receipts over disbursements		25,470,951
Fund balance, beginning of period		-
Fund balance, end of period	$	25,470,951

Note

(A) Summary of allocations for various countries

Yemen		10,000,000
Mauritania		5,000,000
Nicaragua		7,000,000
Niger		5,000,000
Total allocation	$	27,000,000

(B) Summary of donor pledged amount

Netherlands	EUR	195,000,000

The above unaudited financial statement was prepared by the FTI Secretariat

ANNEX II: MODEL GRANT AGREEMENT

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

[date]

Mr./Ms. _____
_____
_____
_____

Re: Education for All – Fast Track Initiative (EFA-FTI) Catalytic Trust Fund
Grant Number TF_____ [to be provided by ACTTF]

Dear Sir:

I am writing on behalf of the International Bank for Reconstruction and Development and the International Development Association (collectively the Bank) to indicate the Bank's agreement, as administrator of grant funds provided under the EFA-FTI Catalytic Trust Fund, to make a grant in an amount not exceeding _____ US Dollars (US$_____) (the Grant) to the _____ (the Recipient). The Bank shall pay the Grant to the Recipient in two tranches, the first in the amount of US$_____ (the First Tranche) and the second in the amount of US$ _____ (the Second Tranche) subject to the availability of funds in the EFA-FTI Catalytic Trust Fund.

The Bank has received from the Recipient a letter, dated _____, describing a program of actions, objectives, and policies designed to achieve primary education for all children in the Recipient's territory (the Program), declaring the Recipient's commitment to the execution of the Program, and requesting the Bank's assistance in supporting the Program during its execution. On the basis of the Recipient's letter, the Bank has decided to support the Program by making the Grant on the terms and conditions set forth in this Letter Agreement and its Annex.

The Recipient represents, by confirming its agreement below, that it is authorized to contract and withdraw the Grant in support of the Program on the terms and conditions set forth in this Letter Agreement and its Annex.

It is the Bank's policy to make publicly available this Letter Agreement and any information related thereto, after this Letter Agreement has become effective and the Recipient has given its consent to such disclosure. The Recipient, by countersigning this Letter Agreement, confirms its consent to such disclosure.

Please confirm your agreement to the foregoing, on behalf of the Recipient, by signing, dating, and returning to us the enclosed copy of this Letter Agreement. Upon receipt by the Bank of the copy of this Letter Agreement countersigned by you, this Letter Agreement will become effective as of the date of your countersignature.

Very truly yours,

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
(as Administrator of grant funds provided under
the EFA-FTI Catalytic Trust Fund)

By: _____
[Name]
Country Director for [Country]
_____ Region

AGREED:

_____

By: _____

Name: _____

Title: _____

Date: _____

Annex

Purposes, Terms, and Conditions of the Grant

1. The Grant

1.1. *Purposes of the Grant*. Subject to the provisions of this Letter Agreement, the Recipient may withdraw the Grant proceeds from the Grant Account [for activities in support of the Program] [to pay ____%] of the reasonable cost of the following items required for the Program: *[here, list the positive list of items to be financed]*.][1]

1.2 *Grant Account*. The amount of the Grant shall be credited to an account opened by the Bank on its books in the name of the Recipient (the Grant Account).

1.3. *Deposit Account*. The Recipient shall open, prior to furnishing to the Bank the first request for withdrawal from the Grant Account, and thereafter maintain in a financial institution acceptable to the Bank, a deposit account in a currency and on terms and conditions acceptable to the Bank (the Deposit Account).[2] All withdrawals from the Grant Account shall be deposited by the Bank into the Deposit Account.

1.4. *Withdrawals*. Whenever the Recipient desires to withdraw any amount from the Grant Account, it shall deliver to the Bank a written application for withdrawal of such amount in such form as the Bank shall specify . Withdrawal applications shall be: (a) signed on behalf of the Recipient by its *[insert title of person authorized]* or such other person as he or she shall have authorized in writing; and (b) accompanied by such evidence in support of the application as the Bank shall reasonably request, whether before or after the Bank shall have permitted any withdrawal requested in the application. Authenticated specimen signatures of the person authorized to sign withdrawal applications shall be provided not later than the first application bearing his or her signature. Each withdrawal application for an amount of the Grant and its supporting evidence must be sufficient in form and substance to satisfy the Bank that the Recipient is entitled to withdraw such amount from the Grant Account. The Bank shall pay the amounts withdrawn by the Recipient from the Grant Account only to, or on the order of, the Recipient.

1.5. *Currency of Withdrawal*. Withdrawals of the proceeds of the Grant shall be made in the currency of the Grant. The Bank, at the Recipient's request and acting as an agent of the Recipient, shall purchase with the currency of the Grant withdrawn from the Grant Account such currencies as shall be required to pay for expenditures to be financed out of the proceeds of the Grant. Whenever it shall be necessary, for the purposes of this Letter Agreement, to determine the value of one currency in terms of another, such value shall be as reasonably determined by the Bank.

1.6. *Excluded Expenditures*. [The Recipient undertakes that the proceeds of the Grant shall not be used to finance expenditures excluded pursuant to the provisions of the Attachment to this Annex.][3] If the Bank determines at any time that any proceeds of the Grant have been used to make a payment for an expenditure [so excluded][not permitted pursuant to the provisions of this Letter Agreement][4], the Recipient shall, promptly upon notice from the Bank: (a) deposit into the Deposit Account an amount

[1] Use the first bracketed text (ie., " activities in support of the Program") if the Grant will be disbursed against a negative list; use the second bracketed text if a positive list will be used.
[2] Financial institution in which the Deposit Account will be maintained, as well as the currency and terms and conditions of the Deposit Account should be agreed with the Recipient and recorded in a Disbursement Letter or other official document of the Bank.
[3] Use this bracketed text only if the Grant will finance general items subject to a negative list.
[4] Use the first bracketed text only if the Grant will finance general items subject to a negative list; use the second bracketed text only if the Grant will finance a positive list.

equal to the amount of this payment, or (b) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Grant Account for cancellation.

1.7. *Tranche Release Conditions*. After the amount of the First Tranche shall have been fully withdrawn from the Grant Account, no further withdrawals shall be made from the Grant Account unless the Bank shall be satisfied, after an exchange of views described in ____ of this Letter Agreement, based on evidence satisfactory to it, with the progress achieved by the Recipient in the carrying out of the Program. If, after this exchange of views, the Bank is not so satisfied, the Bank may give notice to the Recipient to that effect, and, if within 90 days after such notice, the Recipient shall not have taken steps satisfactory to the Bank to achieve progress in the carrying out of the Program, then the Bank may, by notice to the Recipient, cancel all or any amount of the Second Tranche.

1.8. *Closing Date*. The Bank may at any time after _____ terminate, by notice to the Recipient, the right of the Recipient to make withdrawals from the Grant Account (the Closing Date). The Bank may establish a later Closing Date, and in such case, it shall promptly notify the Recipient of such later date.

2. The Program

2.1. *Exchange of Views*. The Recipient and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program. Prior to each such exchange of views, the Recipient shall furnish to the Bank for its review and comment a report in form and detail satisfactory to the Bank, on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request. Without limitation upon the foregoing, the Recipient shall: (a) furnish to the Bank not later than [4 months after the Closing Date][_____]for the Bank's review and comment, the final such report; and (b) exchange views with the Bank on any proposed action to be taken after the final withdrawal of the proceeds of the Grant which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program.

[2.2.[5] *Procurement of Items on the Positive List.* Except as the Bank shall otherwise agree, procurement of the goods and services to be financed out of the proceeds of the Loan shall be carried out in accordance with the following procedures: *[here, add the relevant provisions from the procurement schedule of the model form of Loan Agreement, adjusted as necessary to replace Borrower and Loan with Recipient and Grant, respectively; alternatively, if other special procedures acceptable to the Bank have been agreed r} these should be listed here]*.

[2.3.[6] *Financial Management*

(a) The Recipient shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, all in a manner adequate to reflect the operations, resources and expenditures related to the Program.

(b) The Recipient shall: (i) have such financial statements for each [fiscal year] audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank; (ii) furnish to the Bank as soon as available, but in any case not later than [six months after the end of such year]: (A) certified copies of these financial statements and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and (iii) furnish to the

[5] Use this provision only if the Grant will finance a positive list.
[6] Use this provision only if the Grant will finance a positive list.

Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of a certification by the Recipient as to the use of the proceeds of the Grant so withdrawn, the Recipient shall: (i) retain, until at least one year after the Bank has received the audit report for the [fiscal year] in which the last withdrawal from the Grant Account was made, all records evidencing such expenditures; (ii) enable the Bank's representatives to examine such records; and (iii) ensure that such certifications are included in the audit for each [fiscal year].]

[2.[2][7]. *Audits*. Upon the Bank's request, the Recipient shall: (i) have the Deposit Account audited in accordance with consistently applied auditing principles acceptable to the Bank, by independent auditors acceptable to the Bank; (ii) furnish to the Bank as soon as available, but in any case not later than four months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (iii) furnish to the Bank such other information concerning the Deposit Account and its audit as the Bank shall have reasonably requested.]

3. Suspension, and Cancellation.

3.1. The Bank may at any time, by notice to the Recipient, suspend the right of the Recipient to make further withdrawals from the Grant Account if any of the following events has occurred and is continuing:

(a) the Recipient has failed to comply with any of its obligations under this Letter-Agreement;

(b) the right of the Recipient, or any other entity to which the Bank has made a loan with the guarantee of the Recipient, to make withdrawals under any agreement with the International Bank for Reconstruction and Development or any agreement with the International Development Association shall have been suspended;

(c) a situation has arisen which, in the opinion of the Bank, shall make it improbable that the Program or a significant part thereof, will be carried out; or

(d) any action shall have been taken or any omission shall have been made which would have the effect of materially reversing, in the Bank's opinion, the objectives of the Program or any action taken under the Program.

3.2. The Bank may, by written notice to the Recipient, terminate the right of the Recipient to make further withdrawals from the Grant Account at any time after the right of the Recipient to make withdrawals from the Grant Account has been suspended pursuant to the provisions of paragraph 3.1 above.

[7] Use this provision only if the Grant will be used for general purposes subject to the negative list, and NOT a positive list.

Attachment[8]

Excluded Expenditures

For purposes of Section __ of this Letter Agreement, the proceeds of the Grant shall not be used to finance any of the following expenditures:

1. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank shall have financed or agreed to finance, or which the Bank shall have financed or agreed to finance under another agreement;

2. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Recipient:

Group	Subgroup	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanu-factured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum

[8] Use this attachment only if the Grant will finance general expenditures subject to a negative list.

		group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

3. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

4. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party);

5. expenditures on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

6. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Recipient or of a beneficiary of the Grant during the procurement or execution of such contract, without the Recipient having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

ANNEX III: OPERATIONAL GUIDELINES

1.0 Introduction

1.1 The Education for All Fast Track Initiative (EFA FTI) was launched in 2002 by over twenty bi-lateral and multilateral donors and UN agencies. The FTI aims to support countries to achieve the Millennium Development Goal for primary education, which calls for completion of primary education by all children by 2015. The Catalytic Fund is one component of the FTI program.

1.2 These guidelines describe the Catalytic Fund (CF) and how it operates. Annex 1 provides the terms of reference of its decision making body, the Strategy Committee. Annex 2 summarizes the responsibilities of task team leaders and others in the processing of a Catalytic Fund grant.

2.0 Objectives

2.1 The EFA-FTI Catalytic Fund (CF) was established by the FTI donor partners in November 2003. It provides one to two, maximum three, years transitional grant financing to low-income countries with too few donors to enable them to scale up country education sector programs that aim to achieve the Millennium Development Goal (MDG) for primary education. The CF transitional financing is intended to enable such countries to bridge their financing gap, boost their performance, and attract additional and longer term financing to enable them to sustain the effort.

2.2 The EFA-FTI Catalytic Fund is open to IDA eligible countries that meet the EFA-FTI criteria and that have too few donors to finance it fully. The EFA-FTI criteria are that the country:

- has sector program, endorsed by partners at the country level, that prioritizes the achievement of the MDG for primary education,
- has A Poverty Reduction Strategy (PRS) in which the program is embedded; and
- demonstrates reasonable and effective country effort that is tracked by common indicators (indicative framework).

3.0 Eligible Recipients

3.1 Four categories of eligible recipients may receive funding from the CF as follows:

- governments of eligible countries;
- country-specific trust funds established to support education in an eligible country;
- aid agencies of governments providing assistance to eligible countries; and such other eligible recipients as may be determined by the Trust Strategy Committee.

4.0 Governance

4.1 The CF is administered by the World Bank on behalf of the FTI partnership. The FTI Secretariat, which is housed in HDNED, manages the CF on a day to day basis. A Strategy Committee, consisting of a representative from each contributing donor and a representative of

the World Bank, sets the policies and guidelines of the CF, decides upon the country allocations, and provides guidance to the FTI Secretariat during implementation. Decisions are made by consensus. The Strategy Committee is chaired by the World Bank representative who is the Sr. Vice President of HDN.

4.2 The World Bank decides which type of recipient will receive funds in a given country. It is the Bank's intention not to pursue the options above where the Bank does not supervise. However, the Bank may consider exceptions on a case by case basis as the Strategy Committee may propose. In order to ensure due diligence on the part of the Strategy Committee in recommending such cases for consideration, the following are required elements of the decision package for consideration of such requests:

- an assessment of the Administrator's and recipient's financial management systems (in cases where they are not one and same) conducted by a World Bank Financial Management Specialist, and
- clear designation of responsibilities and plans for supervision.

5.0 Administrative Fees

5.1 A fee of 0.2% is levied on the CF's principal to recover the costs of the Bank's central support units. Additionally, the CF allocates funds for its principal to cover the operational costs of grant supervision (%). In certain cases, however, CF resources will be transferred to either finance existing Bank-administered trust funds which have an established fee or to provide "seed money" to start a multi-donor trust fund. In both cases, the transferred CF funds are not subject to an administrative fee at the level of the country trust fund since the fee has already been levied at the central level. However, any new donor contributions to the country level funds incur the established fee for the fund in question.

6.0 Eligible Expenditure

6.1 In accordance with the Bank's new policy (OP 6.00) on the eligibility of local expenditures, recurrent expenses and taxes, for countries with approved Country Financial Parameters (CFPs), the CF fund may finance any expenditure – investment or recurrent – that is part of the country's endorsed education sector plan. For counties which do not yet have approved CFPs, Regions can be flexible and proceed with up to 100% recurrent cost and taxes to the extent permitted under the administration agreements with donors because this flexibility was allowed by Bank policy (i.e. para 35 of OMS 1.21, "Bank Financing of Recurrent Costs", the December 2002, OpMemo regarding income taxes under TFs and Jim Adams' waiver regarding taxes on goods with respect to the EFA TF given during the meeting) and the administration agreement with the EFA TF donors allowed the financing of these expenditures.

7.0 The Grant Agreement

7.1 The Grant Agreement sets out the terms and conditions of the grant, inter alia, that the grant funds will support a program of activities, objectives and policies designed to achieve the country's Education For All Program. **Annex 3** provides a model country grant agreement prepared by LEGOPs, June 2004. The TTL works with the country operations lawyer to prepare the grant agreement and obtains clearances from the concerned departments of the Bank (Trust Fund Operations, Disbursements, etc, list the exact ones) The grant agreement is signed by the Country Director (with copies to the Country Manager, the Country Economist, the regional HD manager and the TTL).

8.0 The Financing and Disbursement Mechanism

Preferred disbursement option

8.1 Given the relatively small individual grant allocations, the need to disburse funds in the most timely and efficient manner in order for the CF to achieve the MDG for primary education in countries with few donors, and the eligibility criteria already applied to CF recipients (a PRSP and a sector program), it was agreed that the CF grant agreements would, as a preference, be policy based adjustment agreements with the recipient governments and disbursements would be made in two or more tranches.

8.2 The first tranche disbursement would be released on the recipient's meeting the required criteria for eligibility for CF participation, that is.:

- An approved national poverty reduction strategy, or a similar national strategy that would help ensure that education strategies are anchored in country level consultative and budgetary processes;
- A sector-wide program for education agreed with in-country donors and including a strategy for HIV/AIDS, gender equality, capacity, monitoring and evaluation;
- Agreement to monitor benchmark indicators.

8.3 The tranche would be available immediately after signing the grant agreement, on submission of a withdrawal application. The second (and subsequent, if applicable) tranche would be released on a satisfactory report of implementation progress, together with a withdrawal application.

Alternative disbursement options

8.4 Where fiduciary ESW (i.e., CFAA, CPAR, PER or other analytical work) has indicated an extremely high fiduciary risk to using the recipient government's budget systems (for example in a conflict or post conflict situation), alternative disbursement options may be implemented including using a monitored Project Implementation Unit.

8.5 Other disbursement modalities may also be used, as appropriate, including traditional or report-based disbursement methods under co-financing of investment operations, and pooling of funds with other donors in the case of SWAps. This would apply also to grant agreements where the implementing agencies are NGOs or UN agencies. In these cases the grant agreements will be signed with the recipient governments with subsidiary agreements with the implementing agencies. The Bank's operational procedures for dealing with UN agencies will be followed and disbursements would be made through the Loan Department.

8.6 On an exceptional basis, grant funds may also be made available to an eligible recipient whose activities the Bank is not required to supervise and where the Bank acts simply as a paying agent. In these cases, disbursement arrangements would be limited to secure delivery of funds to the recipient and disbursements would be made through the Loan Department or ACTTF, as subsequently agreed.

9.0 Supervision costs

9.1 The Bank will enter into grant agreements with the Eligible Recipients selected to receive funds, except where the Eligible Recipient is a Bank-administered Trust Fund (which is a simple Bank transfer). The Bank will supervise the activities financed under a Grant Agreement of eligible recipients who are eligible countries and the activities financed under a Grant Agreement of other eligible recipients as the Trust Fund Strategy Committee may agree should be supervised by the Bank. The Bank has no responsibility to the Donors for an Eligible Recipient's use of grant funds transferred to an Eligible Recipient pursuant to a Grant Agreement where the Eligible Recipient is an eligible recipient whose activities the Bank is not required to supervise.

9.2 The Bank is responsible for supervising CF grants made to:

(a) Eligible countries
(b) Country specific trust funds for which the Bank acts as a trustee
(c) Other eligible recipients (as identified by the Strategy Committee) where the committee determines that the Bank will supervise

9.3 The EFA-FTI Secretariat will set aside CF funds for Bank Supervision into "child trust funds" ; there will be one per Region or Network, and the Secretariat will agree with colleagues in the VPU as to who will be the TTL of record for the child fund.
The CF finances the reasonable costs of supervision from the fund's principal. Based on Bank regional norms for the supervision of World Bank funded projects/programs, estimates in 2004 are $90,000 in AFR for both investment and adjustment operations, $80,000 in LAC, $60,000 in MENA, and $65,000 in EAP per project/program per year. Proposed budgets exceeding $100,000 are submitted to the SC for decision. On the basis of the supervision budgets approved by the Steering Committee, the Accounting Department (ACTFF) establishes one "child" trust fund (TF) per region. The child TFs are managed by the designated regional sector manager. The TTL draws down on the child TF to meet supervision expenditures which are monitored through established Bank systems for staff time recording, the consultant contract system and SOEs for travel and other expenditures.

9.4 In cases where the grant agreement is entered into between the Bank and the government of the Eligible Country to which CF funds have been allocated, the Bank shall supervise the activities financed under grant agreement. World Bank fiduciary safeguards also apply to the management of country level funds set up for FTI in countries which are Eligible Recipients when the Bank is the Administrator of such funds.

9.5 The Bank shall have no responsibility to the CF Donors for an Eligible Recipient's use of grant funds transferred to an Eligible Recipient whose activities the World Bank is not required to supervise. It is the Bank's intention not to pursue these options. However, the Bank may consider exceptions on a case by case basis as the Strategy Committee may propose. In such cases, the following shall apply:

- The proposed Administrator of the funds transferred to from the CF shall assign a qualified team leader to monitor and support implementation of the program. In addition to day to day implementation support, a review of progress in program implementation and outcomes, with the participation of all other donors that support the country's education sector development program, would be expected to take place twice a year, and in conjunction with the country's regular schedule of reviews of its sector program. Reports from the reviews would be transmitted by the responsible agency concerned to the FTI Secretariat for reporting purposes.

- The World Bank shall conduct an assessment of the proposed financial management arrangements of the Administrator and those proposed to be utilized by the executing agency, where they differ. The assessments shall be made available to the Strategy Committee as an input to its deliberations as to whether to recommend the exception.

- Should CF Donors require an audit report, the Bank will provide an audit to Donors of the transfer transactions only at the main Trust Fund level. Details on subsequent applications of the funds would not be the responsibility of the Bank. However, the Bank as Trustee of the Catalytic Fund may transmit to Donors reports received from the administrators of those non-Bank-administered funds.

9.6 The Catalytic Fund shall finance the reasonable costs of supervision. Budgets shall be proposed to the Secretariat by team leaders responsible for supervision, in consultation with their managers. The Secretariat is authorized to approve proposals under $100,000; proposed supervision budgets exceeding $100,000 shall be submitted to the Strategy Committee for decision.

9.7 The supervision funds will be transferred from the parent Catalytic Fund to a separate child Trust Fund. In cases where the Bank supervises (as the Grant Administrator), the allocation for implementation support, monitoring and reporting will be channeled as a separate task/line item in the child TF for supervision for draw down by the team leader. The Bank systems would be used to account for expenditure through recording system for staff time, contract system for consultants, and statements of expenses (SOE) for travel and other expenditure. In cases where the supervision funds are transferred to another aid agency because the Strategy Committee decides that such agency should be responsible for supervision, the Bank is not responsible for overseeing the use of the grant funds.

10.0 Accounts and Audits

10.1 Accounting and auditing requirements follow operational policies for World Bank adjustment and investment loans and credits.

11.0 Closing Date

11.1 The CF is quick disbursing so the Closing Date is set one year after the effectiveness date. In other respects, the CF follows the closing date policies for World Bank loans and credits.

12.0 Implementation Report

12.1 The Recipient prepares a report on the implementation of the Grant and its impact on the Sector Program objectives which is submitted to the FTI Secretariat not later than three months after the Closing Date.

13.0 Reports to Contributing Donors

13.1 The FTI Secretariat provides each donor with an annual report on the activities financed by the CF. The Bank will provide a standard Single Audit for the Catalytic Fund to all its Donors (A Single Audit encompasses the Bank's standard Quarterly Unaudited Statement of Receipts, Disbursements and Fund Balances along with an annual management assertion together with an

attestation from the Bank's external auditors concerning the adequacy of internal control over cash-based financial reporting for trust funds as a whole).

13.2 In those cases where the CF transfers funds to another Bank-Administered TF, the CF Single Audit would simply show a transferred amount to another TF. The Secretariat, upon request of the Donors, can ask for the Single Audit of the receiving-TF from the TTL of Record.

13.3 In cases where the CF has transferred monies outside of the Bank Group, if Donors require an audit report, the Bank will provide an audit to Donors of the transfer transactions only at the main Trust Fund level. Details on subsequent applications of the funds would not be the responsibility of the Bank. However, the Bank as Trustee of the Catalytic Fund may transmit to Donors reports received from the administrators of those non-Bank-administered funds.

Guidelines and Processing Checklist
Education For All - Fast Track Initiative Catalytic Fund

	Activity	Responsible	Date
1	Country Sector Program assessed and endorsed by FTI partnership and funds allocated	FTI Partnership/CF Strategy Committee	
2	Country notified of allocation decision	Secretariat	
3	Letter requesting preparation of Catalytic Fund agreement.	CF recipient	
4	Copy of letter sent to EFA/FTI Secretariat and country lawyer	TTL	
4	Draft Catalytic Fund Grant Agreement prepared	Country Lawyer/TTL	
5	Draft Grant Agreement sent out for clearance	Lawyer	
6	Draft Grant Agreement is cleared	FTI Secretariat; ACTTF; FMS; LOA	
7	Trust Fund number requested	TTL/Lawyer	
8	Trust Fund number is assigned	ACTTF	
9	Grant Agreement is finalized and prepared for signature	Lawyer	
10	Grant agreement signed by Country Director	TTL	
11	Grant agreement sent to recipient Government for signature	TTL	
12	Original signed copy of Grant Agreement sent to Legal Department, copy sent to FTI Secretariat, and Loan department	TTL	
13	Request is sent to ACTTF to transfer grant supervision budget to appropriate regional child trust fund account	FTI Secretariat	
14	TTL is informed of the supervision budget transfer	FTI Secretariat	
15	Country program/project is linked to TF for supervision	TTL, Regional Budget Officer	
16	Disbursement letter and withdrawal application forms are issued and sent to recipient government	LOA	
17	Implementation progress report prepared	Recipient	
18	Local donor group reviews and confirms implementation progress	Coordinating agency	
19	Progress assessment report in the form of Aide-memoire/PSR sent to FTI Secretariat.	TTL	
20	Satisfactory implementation report cleared	FTI Secretariat	

ANNEX IV. THE CATALYTIC FUND STRATEGY COMMITTEE

A Trust Fund Strategy Committee (the "Strategy Committee") will be established upon the establishment of the Fund. The Strategy Committee will define and direct the Fund's assistance strategy in accordance with the procedures set out below.

1. Composition

1.1 The Strategy Committee will be composed of one senior representative from each Donor that has committed a minimum of the equivalent of USD one million to the Fund and a senior representative from the Bank.

1.2 Each Donor and the Bank may change its representative on the Strategy Committee, or appoint an alternate to the Strategy Committee, upon the giving of reasonable notice to the other members of the committee. Each such representative, or alternate, shall be an officer, director, employee or official of the entity appointing him or her.

1.3 The Bank representative shall serve as chairperson of the Strategy Committee.

2. Powers and Duties

2.1 The Strategy Committee will have the following responsibilities:

(a) Reviewing and approving plans, submitted by the Bank, for the utilization of the Contribution Funds;

(b) Selecting which Eligible Countries should be supported by the Fund and the amount of funds that should be allocated for each country selected, such selections to be based on the criteria set out in Annex 4;

(c) Providing guidance on the preferred Eligible Recipient(s) in the Eligible Countries selected;

(d) Reviewing previous allocations of Contribution Funds to Eligible Countries to determine whether any re-allocations should be made to take account of closed or cancelled initiatives or any other circumstance affecting an Eligible Country's need for, or ability to utilize, such funds;

(e) Reviewing and approving proposals made by any member(s) of the Strategy Committee for the inclusion of an additional Eligible Recipient and determining whether the activities of such entity should be supervised and, if so, who should provide such supervision;

(f) Reviewing and approving any amendments to this Annex; and

(g) Extending the timeframe within which the Bank may enter into commitments of the Contribution Funds beyond the date on which the Administration Agreement is due to terminate, as provided for in Section 10 of the Standard Provisions.

3. Decision-making

3.1 Decisions of the Strategy Committee shall be taken by consensus.

4. Meetings

4.1 The Bank shall convene a meeting of the Strategy Committee on or about November 20, 2003 and thereafter at least once annually at such date and time and in such place as shall be determined by the Bank in consultation with the members of the Strategy Committee. Additional meetings ("Special Meetings") shall be convened as deemed necessary by the Bank, or at the request of any other member of the Strategy Committee, at a date, time and place set by the Bank in consultation with all members of the Strategy Committee.

4.2 Action required or permitted to be taken at a meeting of the Strategy Committee may be taken without a meeting if a consent in writing, setting forth the action to be so taken, has been circulated to all members of the Strategy Committee and signed, in one or more counterparts, by all members of the Strategy Committee.

4.3 At any meeting of the Strategy Committee, one or more members of the Strategy Committee may, if all of the other members participating in the meeting consent, participate by means of such telephone or other communications facilities as permit all participants to hear each other, or by other electronic means agreed by all participants. The member participating by such means shall be deemed, for the purposes of the Administration Agreement, to be present at such meeting.

5. Notices

5.1 The Bank shall provide each member of the Strategy Committee with written notice of a Strategy Committee meeting not less than thirty (30) days before the date of the meeting unless such notice has been waived by the intended recipient. Such notice shall state the date, place and time of the meeting and, in the case of a Special Meeting, the purpose(s) for which the meeting is being called. For the purposes of this provision, all members of the Strategy Committee shall be deemed to have waived the requirement for written notice in respect of the first Strategy Committee meeting, to be held in November 2003.