

EFA-FTI Catalytic Fund Activity Update July 2005

1. Progress made since March 2005:

- ❖ Catalytic Fund allocation of \$10m made to Madagascar by non-objection on May 12, 2005. Grant agreement under preparation.
- ❖ Second tranches for 2004 allocations disbursed to Yemen, Mauritania and Nicaragua.
- ❖ Disbursement of first tranche for Niger's 2004 allocation being processed.
- ❖ Signature of Administration Agreement for Italy's contribution pending.
- ❖ Administration Agreement for Spain's contribution to the Catalytic Fund currently under discussion.
- ❖ 2005 contributions received from Belgium and part payment received from Netherlands.
- ❖ A draft model agreement for pooled funding has been prepared (See Annex 4).

2. Status of the Catalytic Fund

Since the March meeting, Catalytic Fund contributions have increased by \$22.96million as a result of contributions from the Netherlands. Table 1 shows the breakdown of the funds pledged and actual amounts received. The table also shows the total pledges for 2005 – 2007 (see Annex 1 for pledges in donor's currency from 2005 – 2007).

Table 1: Catalytic Fund Pledges and receipts in Estimated US\$ Millions.

| | 2005 | Actual | Outstanding | 2006 | 2007 | Total Pledged 2005 - 2007 |
|--------------|--------------|--------------|--------------|--------------|--------------|---------------------------|
| Belgium | 1.33 | 1.33 | 0 | 1.23 | 1.23 | 3.79 |
| Italy | 2.46 | 0.00 | 2.46 | 0.00 | 0.00 | 2.46 |
| Netherlands | 56.89 | 22.96 | 33.93 | 61.50 | 73.80 | 192.19 |
| Norway | 8.10 | 8.10 | 0 | 2.95 | 2.95 | 14.00 |
| Spain | 6.15 | | 6.15 | 0.00 | 0.00 | 6.15 |
| Sweden | 5.30 | 5.30 | 0 | 0.00 | 0.00 | 5.30 |
| UK | | | 0 | 7.65 | 7.65 | 15.30 |
| Total | 80.23 | 37.69 | 42.54 | 73.33 | 85.63 | 239.19 |

So far four out of the six initial Catalytic Fund beneficiary countries have completely disbursed their CY04 allocations (Guyana, Mauritania, Nicaragua and Yemen). Disbursement of the Gambia's second tranche and Niger's first tranche are currently underway. The undisbursed CY04 allocation currently stands at US\$9.5million (\$1.5m for

the Gambia and \$8 million for Niger). So far only Ghana has disbursed the first tranche of its CY05 allocation. Table 2 summarizes the current allocation and disbursement status for CY04 and CY05.

Table 2. Country Allocations and disbursements to date in US\$ millions

| | 2003/4 | | 2005 | |
|--------------|-----------|-------------|-----------|-----------|
| | Allocated | Disbursed | Allocated | Disbursed |
| Ghana | | | 8 | 4 |
| Guyana | 4 | 4 | 4 | 0 |
| Mauritania | 7 | 7 | 2 | 0 |
| Nicaragua | 7 | 7 | 7 | 0 |
| Niger | 13 | 5 | 8 | 0 |
| The Gambia | 4 | 2.5 | 4 | 0 |
| Yemen | 10 | 10 | 10 | 0 |
| Madagascar | 0 | 0 | 10 | |
| Total | 45 | 35.5 | 53 | 4 |

Table 3 shows that \$31.2 million is currently available for allocation in CY05. This fund balance takes into account the \$4million carried forward from CY04 receipts and the pledges less current allocations for CY05. A full financial statement of fund balances are attached in Annex 2.

Table 3: Balance available for allocation in 2005 US\$ millions

| | 2003/2004 | 2005 |
|--|-----------|-------------|
| Opening balance (a) | | 4.0 |
| Pledges/Receipts (b) | 49.01 | 80.2 |
| Allocations (c) | 45 | 53 |
| Pledges/receipts less Allocations (b) – (c) | 4.0 | 27.2 |
| Amount available for allocation (a) + (b) – (c) | | 31.2 |

3. Summary of Country Status

Yemen – Yemen has disbursed the full amount allocated for CY04. However due to the short duration of the grant period they have extend the grant closing date from August 31, 2005 to December 30, 2005. According to Yemen’s implementation status report on the Catalytic Fund dated March 31, 2005, 97 percent of the resources had been committed and 40 percent actually disbursed.

Niger -- Niger has experienced serious delays in disbursing its 2004 allocation. The 2003 allocation closing date was extended from April 30 – June 30, 2005. The CY04 grant agreement was signed in January 2005 but due to a change of government after the Presidential and Legislative elections, the new team has taken some time to work on the

request for funds. However, the Bank finally received the request at the end of June and the disbursement procedure is underway.

Nicaragua -- The full CY04 allocation for Nicaragua has been disbursed but the grant period has been extended from June 30 – October 31, 2005.

The Gambia -- The grant agreement was signed in November 2004 and the closing date is April 30, 2006. The first tranche of 2.5million has been disbursed and a request for the second tranche of US\$1.5million is being prepared.

Guyana -- The full amount for CY04 has been transferred to Guyana and the closing date is scheduled for December 31, 2007

Mauritania -- Mauritania has disbursed the full amount of its CY2004 allocation. However it has extended its grant closing date from October 31, 2005 to March 31, 2006.

4. Issues for Discussion:

Issue 1: Delays in CY04 and CY05 disbursement

Catalytic Fund grant allocations have been made to seven countries and grant agreements have been signed between IDA and all the governments of recipient countries. Six of the seven grants are policy based with disbursement in two tranches during the grant period of one year. Disbursement of the second tranche is contingent on a satisfactory report of program implementation. Over the past year, we have come to realize that the one-year period is too short for the countries to disburse utilize and report on two tranches of the Catalytic fund allocation. Almost all the initial beneficiary countries have requested an extension of their grant period beyond one year. Ultimately, CY05 disbursements are all behind schedule. Furthermore, because the Catalytic fund resources are allocated for a one year period, planning the use of the CF resources is not aligned to countries' budget cycles. In order to expedite disbursements to the recipients the following options are proposed.

Options

- (i) Release allocated funds in one tranche for a grant duration of one year. The upside of this option is that the Bank will disburse CF resources as soon as the grant agreement is signed and countries would receive all their allocated funds at once. The down side is that any concerns about performance and/or fiduciary accountability cannot be controlled or addressed after the upfront disbursement of the funds.
- (ii) Prepare one grant agreement that covers a two year allocation with the overall disbursement period increased from one year to approximately three years with the disbursement of the second year allocation contingent upon satisfactory report on the utilization of the first year's allocation. For example the first year allocation could be disbursed over period 18 months. The second year allocation could cover a period of 12–18months. The upside of this option is that countries can include align Catalytic Fund resources with their national budget plans and there will be sufficient time to absorb the resources and ultimately reduce the number of extensions.

Recommendation: In order to balance accountability with responsiveness, option 2 is recommended.

Issue 2: Confirmation of second year allocation for Ghana and Madagascar:

Ghana was allocated US \$ 8million in Brasilia last November and Madagascar was allocated US \$10 million by non objection in May, 2005. At the March meeting the Strategy committee agreed to the policy of awarding grants for at least two years to new beneficiaries. These two countries have been informed of a one year allocation. There is therefore the need for the Strategy committee to align the allocation to the two year allocation decision.

Options:

(i) Confirm the second year (CY06) allocation for Ghana and Madagascar during the July meeting. The upside of a July confirmation is that the countries would be able to align this allocation with their FY06 country education budget plan. The down side is that allocation for CY06 will be made before than the general CY06 allocation decision scheduled for November.

(ii) Delay the confirmation to the annual meeting in November alongside with other CY06 allocations.

The upside is that the decision will be made with all the other candidates for CY06.

However the downside is that the countries will not be able to include proceeds from the Catalytic fund grant into their CY06 budget plans.

Recommendation: Option (i) is recommended because it will also assure the countries of the predictability of the funds which is in line with FTI goals.

Issue 3: Resources pledged and received for CY05 are still available for allocation.

There is a balance of US\$ 31.2million still available for allocation in CY05. The non allocation of these resources can be attributed to the unanticipated slow pace at which countries are being endorsed into the FTI. Between March and July, 2005, only one country (Madagascar) has been formally endorsed. Two other countries (Lesotho and Kenya), are currently completing the appraisal process and will soon be ready for consideration.

For the remainder of 2005, shall the Strategy Committee continue to allocate these resources on a non-objection basis?

5. Proposed Allocation formula (see Annex 1 for a detailed description)

A simple algorithm has been developed to calculate the allocation of Catalytic Fund resources particularly when there are many countries competing for a limited amount of resources. The allocation is based on the following choice parameters:

- ❖ The total amount to be allocated. (This can take any positive value)
- ❖ The financing gaps in each country (This can take any positive value)
- ❖ The population in each country (This can take any positive value)

- ❖ The minimum allocation you want to give to each state . (This can take any reasonable small value, but less than the total amount to be allocated divided by the number of countries)
- ❖ The percentage weight you want to give to the financing gap criterion and to the population criterion. (these two weights must add up to 100). This allows you to raise the importance given to small states and to vary the weights given to population versus financing gap as allocation criteria.

The user of the formula inputs the data in the yellow cells provided and the model calculates the amounts to be allocated to each country. The formula helps to transparently allocate fund resources once orphans and gaps have been identified

Decisions requested

Does the Strategy Committee agree with this formula to allocate resources for 2006 and beyond

6. Continuation of exit strategy discussion:

A decision was made at the March meeting to continue discussions on exit strategy options in July. As a reminder, the options proposed were as follows:-

Exit Strategy:

The Catalytic Fund is designed to support donor orphan countries during a two to three year transitional period to close their financing gaps. Countries would make progress in closing their financing gaps at different rates. Some will emerge after one year of catalytic funding with a fully financed plan and would need no additional support. Others will have problems in closing their financing gaps and would require a lengthened period of support. Three key questions that need to be answered in order to formulate an exit strategy are:

- What are the criteria for exiting from the Catalytic Fund?
- What would be the timetable towards an exit from Catalytic Fund support?
- What will happen to countries that are unable to exit after the agreed transitional period?

(a). Exit Criteria and timetabling:

- Country is no longer a donor orphan
- Country no longer has financing gap.
- Country is not making satisfactory implementation progress

Year 2 Renewal Strategy

- (i) Allocate the same year 1 amount in year 2
- (ii) Adjust year two amount depending on the size of the financing gap resulting from changes in need/donor contribution

Year 3 Renewal Strategy

- a. Allocate same amount as in first year
- b. Allocate 50 percent of initial amount

(b) Year 4 or at the end of transitional period:

- (i) Exit Catalytic Fund Program
- (ii) Reconsider as new country
- (iii) Move to sustenance Fund¹

¹ To be created if idea is accepted.

Annex 2: Catalytic Fund Financial Statement**Annexure 2 A - Financial statements**

CATALYTIC FUND MULTI-DONOR TRUST FUND ACCOUNT
SUMMARY OF CONTRIBUTIONS, ALLOCATIONS, DISBURSEMENTS
AND FUND BALANCE

For the period November 21, 2003 (inception) to June 30, 2005

Expressed in U.S. dollars

| | November 12, 2003 (inception) to June 30, 2005 |
|---|--|
| Receipts | |
| Contributions | \$ |
| Norway | 14,047,419 |
| Italy | 2,364,000 |
| Netherlands | 22,964,509 |
| Sweden | 5,313,092 |
| Belgium | 2,549,391 |
| Total contributions | <u>47,238,411</u> |
| Investment income | 391,350 |
| Total receipts | <u>47,629,761</u> |
| Disbursements | |
| Project disbursements | |
| Mauritania | 2,000,000 |
| Ghana | 4,000,000 |
| Supervision costs for grants to MENA countries | 54,244 |
| Supervision costs for grants to AFR countries | 190,685 |
| Supervision costs for grants to LAC countries | 103,019 |
| Total project disbursements | <u>6,347,948</u> |
| Transfer to other trust funds (Guyana) | 4,000,000 |
| Administration fee | 94,477 |
| Total disbursements | <u>10,442,425</u> |
| Excess of receipts over disbursements | 37,187,336 |
| Fund balance, beginning of period | - |
| Fund balance, end of period | \$ <u>37,187,336</u> |
| Note | |
| (A) Summary of allocations from Catalytic fund | |
| Mauritania | 2,000,000 |
| Ghana | 8,000,000 |
| Child fund for supervision for MENA countries | 60,000 |
| Child fund for supervision for AFR countries | 360,000 |
| Child fund for supervision for LAC countries | 160,000 |
| Total allocation | <u>\$ 10,580,000</u> |
| (B) Summary of donor pledged amount | |
| Norway | NOK 128,000,000 |
| Italy | EUR 4,000,000 |
| Belgium | EUR 4,000,000 |
| Netherlands | EUR 195,000,000 |
| Sweden | SEK 35,000,000 |
| United Kingdom | GBP 8,500,000 |
| Spain | EUR 5,000,000 |

The above financial statement was prepared by the FTI Secretariat

Annexure 2 B - Financial statements

BNPP EDUCATION FOR ALL (CATALYTIC FUND)

**SUMMARY OF CONTRIBUTIONS, ALLOCATIONS, DISBURSEMENTS
AND FUND BALANCE**

For the period November 21, 2003 (inception) to June 30, 2005

Expressed in U.S. dollars

| | UNAUDITED |
|---|--|
| | November 12, 2003 (inception) to June 30, 2005 |
| Receipts | |
| Contributions | \$ 39,470,951 |
| Total receipts | <u>39,470,951</u> |
| Disbursements | |
| Project disbursements | |
| The Gambia | 2,500,000 |
| Yemen | 10,000,000 |
| Mauritania | 5,000,000 |
| Nicaragua | 7,000,000 |
| Niger | 5,000,000 |
| Total disbursements | <u>29,500,000</u> |
| Excess of receipts over disbursements | 9,970,951 |
| Fund balance, beginning of period | - |
| Fund balance, end of period | \$ <u>9,970,951</u> |
| Note | |
| (A) Summary of allocations for various countries | |
| Yemen | 10,000,000 |
| Mauritania | 5,000,000 |
| Nicaragua | 7,000,000 |
| Níger | 5,000,000 |
| Níger Phase 2 | 8,000,000 |
| Gambia | 4,000,000 |
| Total allocation | \$ <u>39,000,000</u> |

The above financial statement was prepared by the FTI Secretariat

Annex 3: Description of Catalytic Fund Allocation Formula.

Allocation of Catalytic Fund Resources to Potential Beneficiary Countries

1. Introduction

The following describes how a given amount of money in the fund may be allocated among a number of deserving countries. There is, to be sure, more than one criterion that can be applied to make such an allocation. For each country, a ‘financing gap’, which is an estimate of the amount of money, needed to meet defined outcome targets in education, is highlighted in the appraisal report. One way to make the allocation would be to allocate to each country an amount proportionate to the size of its gap. So, for example, if Uganda’s financing gap was \$20 million, and the financing gaps of all countries amounted to \$200 million, then Uganda would receive 10 percent of the total fund. This may seem a reasonable way to proceed, but it has a couple of drawbacks. The main one is that countries with large financing gaps would be favored. If the group included one country that accounted for 90 percent of the financing gaps of all countries, the said country would take the lion’s share of resources. Second, the financing gap is one measure of need, which may be uneven across countries. So another measure of need, perhaps reflecting actual educational indicators and population could be preferred.

To address these, two adjustments to a financing gap based allocation are proposed. First we can specify the minimum amount that each country in the group must receive, subject to it not exceeding the financing gap. Thus suppose a country had a financing gap of, say \$8 million, which amounted to 2 percent of the sum of all financing gaps. Suppose further that the amount to be allocated was \$80 million. Proportionately, the country would then receive only \$1.6 million (2 percent of \$80 million), which may be considered unfair, compared to what a large country would get. In order to avoid this we can place a minimum allocation of, say, \$5 million, subject to that not exceeding the size of its financing gap.

The other adjustment is to allow for more than one rule for making the allocation. If the financing gap is one rule, the other could be constructed from variables like population. The actual allocation can then be based on a weighted combination of the two rules.

Application

In this application we have developed a model that allows for two allocation criteria plus a minimum allocation rule. It is designed to have the following features:

1. Up to 13 countries can be accommodated. Fewer than 13 countries can be analyzed but not more.
2. The analyst must specify:
 - a. The total amount to be allocated. (This can take any positive value);

- b. The financing gap for each country (This can take any positive value);
- c. The value of the second criterion for each country (This can take any positive value);
- d. The minimum allocation you want to give to each state. (This can take any reasonable small value, but less than the total amount to be allocated divided by the number of countries);
- e. The percentage weight you want to give to the financing gap criterion and to the second criterion. (These two weights must lie between one and 100 and together they must add up to 100).

The model then calculates the allocations to each country of the total. In the numerical example that is presented below, the second criterion is the population. But that can be modified once a more sophisticated alternative is created.

Table One gives the parameters that have been chosen to determine the allocation:

Table One: Parameters to be chosen by analyst

| | |
|-----------------------------|-----|
| Min. Allocation = \$Mn. | 5 |
| Weight to Population | 50 |
| Weight to Financing Gap | 50 |
| Total to be Allocated \$Mn. | 250 |

The highlighted cells are the ones that have to be filled. The other data that have to be inserted are the values of the financing gaps for each country and the value of the population for each country. The resulting table looks like this:

Table 2: Allocations of Fund to Each Country

| Country | Allocation of Funds \$Mn. | Pop Mn. | F. Gap US\$ Mn. |
|--------------|------------------------------|------------|--------------------|
| | Weighted | | |
| Bangladesh | 50 | 136 | 256 |
| Burundi | 5 | 7 | 22 |
| Congo Rep. | 5 | 4 | 11 |
| Ethiopia | 32 | 67 | 205 |
| Kenya | 12 | 31 | 59 |
| Nepal | 12 | 24 | 86 |
| Nigeria | 44 | 133 | 189 |
| Sudan | 12 | 33 | 63 |
| Tanzania | 19 | 35 | 135 |
| Togo | 3 | 5 | 3 |
| Uganda | 14 | 25 | 98 |
| Vietnam | 35 | 80 | 212 |
| Yemen. | 8 | 25 | 37 |
| Total | 250 | 605 | 1376 |

Again, it is only the highlighted cells into which data are entered. If you want to work with fewer than 13 countries, simply insert a zero in the 'Pop' and 'F. Gap' columns corresponding to that country row.

Table 2 gives the allocation of \$250 million to the 13 countries listed, with a 50 percent weight to population and a 50 percent weight to the financing gap, and with a minimum allocation of \$5 million or the financing gap, whichever is the lesser. Uganda, for example, receives \$14 million, for a financing gap of \$98 million.

Annex 4: Draft Model Agreement for pooled funding

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 TFxxxxxxx

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), subject to the availability of funds in the EFA-FTI Catalytic Trust Fund. 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).

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 and Schedule.

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.

The Recipient intends to obtain from various Pooled Funding Partners (as hereinafter defined) grants or loans to assist in financing the Program.;

the Recipient, the Bank and the Pooled Funding Partners have entered into a Memorandum of Understanding providing for common arrangements and procedures on procurement, disbursement, accounting, monitoring, reporting, auditing, coordination and exchange of information required for the implementation of the Program.

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: _____

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].*]²

1.2. Definitions:

“Grant Account” means an account opened by the Bank on its books in the name of the Recipient (the Grant Account).

“Memorandum of Understanding” means the memorandum dated [], entered into between the Recipient and the Pooled Funding Partners, providing for common arrangements and procedures on procurement, disbursement, accounting, monitoring, reporting, auditing, coordination and exchange of information required for the implementation of the Program.

“Operational Manual” means the manual adopted by the Recipient in form and substance satisfactory to the Bank comprising, collectively, the following documents to be used in the carrying out of the Project: [(i) the Financial Management Manual; (ii) the Procurement Manual; (iii) the Grants Facility Operational Manual; (iv) the Operational Guidelines to the MOU specifying terms of reference and formats for Program reviews, reports and audits;] and (v) such other administrative, financial, technical and organizational arrangements as shall be required for the Project;

“Pooled Account” means the account that the Recipient shall, for the purposes of the Project, open and maintain in United States Dollars an account in the name of [](the Pooled Account) in a commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Pooled Account shall be made in accordance with the provisions of Part B of Schedule 1 to this Letter Agreement.

“Pooled Funding Partners” means, collectively, [] (as hereinafter defined) and the Bank, and any other national or international agency or organization pooling at least a part of their funds for the Program into the Pooled Account and having signed the Memorandum of Understanding;

1.3 [“Project Account” means the account that the Recipient shall open in a commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, or purposes of providing its counterpart contribution for the Project;]

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 accordance with Part B of Schedule 1 to this Letter Agreement in such form as the Bank shall specify (which may include withdrawals subject to the subsequent provision of certification as to actual expenditures). 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,

² 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.

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 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. Where the Recipient has entered into a Memorandum of Understanding, or equivalent document, governing the implementation of its education sector with the Pooled Funding Partners and such other parties as may be the appropriate parties under the EFA-FTI process, the Recipient may fulfill this requirement by providing the Bank with such progress reports on the activities financed by the grant funds as may be stipulated in any such Memorandum of Understanding or other document. 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

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.

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, 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 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 Pooled Account [and the Project 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;

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.

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

(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.

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:

| <u>Group</u> | <u>Subgroup</u> | <u>Description of Items</u> |
|--------------|-----------------|---|
| 112 | - | Alcoholic beverages |
| 121 | - | Tobacco, unmanufactured, 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 group metals (except |

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

watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)

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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.

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

Part A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Grant, the allocation of the amounts of the Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

| <u>CATEGORY</u> | Amount of the Grant Allocated | % of Expenditures <u>to be Financed</u> |
|-----------------|----------------------------------|---|
| (1) | | Such percentage of Eligible Expenditures as the Bank may determine for each Fiscal Year |
| (2) | Unallocated | |
| Total | ===== | |

2. For the purposes of this Schedule the term "Eligible Expenditures" means [].
3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:
 - (a) payments made for expenditures prior to the date of this Agreement except that withdrawals, in an aggregate amount not exceeding the equivalent of [], may be made on account of payments made for expenditures before that date but after []
 - (b) payments under Category (1), unless the Annual Work Plan and Budget has been approved by the Bank; and
 - (c) Excluded Expenditures as specified in Attachment 1.
4. The Recipient may request withdrawals from the Grant Account to be made on the basis of reports specified in Part B.2 of this Schedule to be submitted to the Bank, in form and substance satisfactory to the Bank, in accordance with the provisions of Part B of this Schedule (Report Based Disbursements).

Part B. Pooled Account

1. After the Bank has received a copy of the Operational Manual and evidence satisfactory to it that the Pooled Account has been opened in accordance with paragraph 1.[] of Annex 1 of this Letter Agreement, withdrawals from the Grant Account under Category (1) set forth in the table in paragraph 1 of this Schedule shall be deposited by the Bank into the Pooled Account in accordance with the provisions of this Part B.
2. Each request for withdrawal from the Grant Account shall be made on the basis of the reports referred to in Part A.4 (a) of this Schedule, such reports to include the Financial Management Report and other information as the Bank shall specify by notice to the Recipient; provided, however, that in the case of the first request for withdrawal submitted to the Bank, before any withdrawal has been made from the Grant Account, the Recipient shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.
3. Upon receipt of each request for withdrawal of an amount of the Grant, the Bank shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Pooled Account an amount equal to the lesser of: (a) the amount so requested; or (b) the amount which the Bank has determined, based on the reports referred to in Part B.2 of this Schedule applicable to such withdrawal request accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.
4. Amounts deposited by the Bank into the Pooled Account shall be used exclusively to make payments for Eligible Expenditures. For each payment made by the Recipient out of the Pooled Account using Grant proceeds, the Recipient shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.
5. Notwithstanding the provisions of Part B.1 of this Schedule, the Bank shall not be required to make further deposits into the Pooled Account:
 - (a) if the Bank, at any time, is not satisfied that the reports referred to in Part B.2 of this Schedule adequately provide the information required for Report Based Disbursements;
 - (b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Recipient directly from the Grant Account; or

(c) if the Recipient shall have failed to furnish to the Bank, within the period of time specified in Section [] of this Letter Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Pooled Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Report Based Disbursements.

6. The Bank shall not be required to make further deposits into the Pooled Account in accordance with the provisions of Part B.1 of this Schedule if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Pooled Account may be made and what procedures should be followed for making such deposits, and shall notify the Recipient of its determination.

7. (a) If the Bank determines at any time that any payment out of the Pooled Account using Grant proceeds was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Recipient shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Pooled Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Pooled Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any Grant proceeds on deposit in the Pooled Account will not be required to cover payments for Eligible Expenditures during the six month period following such determination, the Recipient shall, promptly upon notice from the Bank, refund to the Bank such proceeds.

(c) The Recipient may, upon notice to the Bank, refund to the Bank all or any portion of the Grant proceeds on deposit in the Pooled Account.

(d) Refunds to the Bank made pursuant to subparagraph (a), (b) or (c) of this paragraph 7 shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.

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