MAIN RECOMMENDATIONS

This report comes at an important point in time for the FTI. Governance reforms are about to take place and a replenishment process has been initiated. The members who have worked on this report believes that the report will enable us to allocate funds more efficiently, more fair and more transparent and it is therefore a timely contribution to the reforms taking place within the FTI.

It is our suggestion that the model is approved as it is presented in this report. The report should be precise enough to give the Secretariat and the Catalytic Fund Committee the guidance they need. However, during our deliberations we have come across some additional issues where we feel that the Steering Committee may want to make additional decisions:

1. The model is likely to produce excess funds during each round (unless all applicants are “high performing”). Should these funds be used to “top-up” allocations made at the end of each round or should they be carried forward? Maybe a combination is possible but it suggested that the Secretariat looks into the technical aspects of this before a decision is taken.

2. In the model it is suggested that the NPF is complemented by an indicator for literacy. The TTP has not, however, been able to make any simulations with regard to this new indicator and therefore we have not yet given literacy any weight. It is suggested that the Secretariat, with input from UNESCO, make the appropriate simulations which would guide the SC or the CFC in making a decision on if and how to include literacy in the NPF.

3. Populous countries. Step one in the model deals with this issue indirectly, but there may be reasons to have a more in depth discussion within the SC. One suggestion that came up during the Stockholm meeting was to acknowledge that eligible populous countries may not receive support because of their size, though federal states within them could be supported.

4. In the report it is suggested that a minimum threshold of 10 MUSD is introduced for all applicants. Some members felt, however, that small island economies should be excluded from this threshold. A decision on this only indirectly impacts on the model.

5. It is recommended that the SC look into the issue of who does the presentation before the Catalytic Fund Committee of the application to the FTI. In the interest of ownership, it should normally be the government that does the presentation and not the coordinating agency.

It is the opinion of the TTP that the model works, especially when complemented by decisions on point 1-2 above. However, the TTP also feel that it is important to closely monitor how the model works and, if needed, adjust it. This is particularly the case for step 3 in the model where the EQR, indicators for capacity and quality and the CFC comes into the picture.
Finally, in Copenhagen the TTP was also asked to come up with a model that would ease decision making at the fall meeting in Rome. Our suggestion is that the NPF and the performance indicators as presented in this report should be used for allocation purposes at the fall meeting of the CFC.

On behalf of the task Team on Prioritisation

David Wiking, Chair of the TTP

INTRODUCTION

In Oslo (December 2008) a task team, chaired by Sweden, was created to develop a proposal for a mechanism to assist in determining the prioritization of beneficiary countries. The task team reported back to the Steering Committee and Catalytic Fund Committee (CFC) in Copenhagen (April 2009). The CFC endorsed a set of key principles as developed by the task team (decision no CF/2009/4-06):

1) A new approach or model must balance attention to educational needs with attention to capacity and ability to achieve results. Whereas needs can be compared across countries, results should be context specific;

2) It must have a strong country focus and remain sensitive to context;

3) It shall contribute to strengthening country ownership, harmonisation, and alignment and aid effectiveness;

4) The model shall be transparent and create possibilities to enhance predictability

The task team held a final meeting on 10-11 June in Stockholm, where it produced the present proposal.

Combining the newly launched replenishment process with this proposed new approach to prioritization enhances consistency, predictability and equitable distribution of resources in order to achieve the best possible outcomes on EFA goals.

When resources are scarce the need to allocate them equitably and efficiently is even more pressing. Therefore the main objective of the new model is to distribute available resources better enforcing the above mentioned key principles.

The proposed model provides a way to put Catalytic Fund (CF) money where it is (a) most needed and (b) best used (i.e. produces most results). Moreover, the

1 The members of the Task Team were: Canada, the European Commission, Germany, the Netherlands, Norway, Spain, Sweden, UNESCO, Unicef, the World Bank and the FTI-secretariat.
The proposed model enhances both predictability and transparency and rewards performance. At the same time, the CF allocations continue to strongly support FTI principles of aid effectiveness (country ownership, harmonization and alignment, management for results, mutual accountability).

The previous practice of applying an allocation formula (e.g. step-down) to country-specific financing gaps was problematic because those financing gaps were difficult to compare. Moreover, in order to move away from a first come, first served approach, a cross-country allocation mechanism had to be devised. To redress these problems the new model does not take the financing gap as its point of departure. Instead, it performs an assessment of the educational needs and performance in a given country based on a cross-country analysis and in-country achievement within a defined group of applicants.

The Needs and Performance Framework\(^2\) (NPF) that the FTI secretariat presented during the Tokyo meetings in April 2008, with an additional indicator relating to literacy, is considered to be suitable as a component of the allocation process. It is proposed that the NPF is used as the first step in the allocation process, leading to countries receiving information early on in their planning process on resources likely to be available from the CF (i.e. indicative amounts). In a subsequent step, at the time of actual allocation decision, this quantitative framework is complemented by a qualitative country-specific assessment.

For the sake of fairness and predictability it is proposed here to initially apply the new model in 18-month cycles. The period should be aligned with the replenishment process, and thus move into a 3-year cycle once replenishment does so. The new proposed model also abandons the step-down formula.

The model works best in a situation of predictable availability of funds. Some of the benefits of the model can also be realized if it is applied to funding rounds with a much shorter horizon (i.e. allocation round during the Rome meetings in November 2009).

The impression of the TTP is that no major changes need to be made to the FTI process chart and the country-level guidelines to ensure that they correspond to the recommended prioritisation model. However, we suggest that the FTI Secretariat investigate this further, paying particular attention to paragraph 5 and the section on CF application in the FTI process chart as well as the country-level guidelines. Later in the replenishment process a need to revise aspects of the new model may arise.

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\(^2\) See Annex 1
THE NEW MODEL

This is the new proposed model for how the Catalytic Fund Committee should make priorities when deciding on which countries should receive allocations, and the size of allocations to different countries.\(^3\)

WHICH COUNTRIES ARE ELIGIBLE FOR CF SUPPORT?

**Step one** is deciding which countries are eligible for Catalytic Funds:

*Small island economies as well as IDA countries that are, or have been in category 1 and 2 during the last two years, are eligible for FTI funding, except blend countries in Category 2\(^4\).*

Prioritisation between these countries will be handled in step two and three of the model. Formal eligibility does not mean that a country’s application automatically will be approved and prioritised for funding. It can still be rejected on formal grounds by the Secretariat or by the CFC.

To establish a reference group of applicants the CFC announces “funding rounds”, i.e. a period of time in which a defined amount of funding is up for allocation.

WHICH COUNTRIES WILL RECEIVE SUPPORT AND THE SIZE OF ALLOCATIONS TO DIFFERENT COUNTRIES

**Step two and three** decide which applications are approved or deferred, as well as the size of the final allocation to countries receiving CF support.

Step two determines and discloses indicative allocations to countries that have announced that they intend to apply for CF funds.

**Step two – the process, step by step:**

<table>
<thead>
<tr>
<th>The Local Education Group (comprising of the Government, donors and civil society representatives) discusses the need, possibility and capacity to apply for funds from FTI.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Once agreed within the Local Education Group, the government announces intention to be included in a funding round by a formal letter of intention to the FTI Secretariat and Chair. Announcing intention means also that the country commits itself to a timeframe for the application process. The period to declare intention is</td>
</tr>
</tbody>
</table>

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\(^3\) As the ETF is not operational yet it is difficult to judge if the model can be used for ETF as well. Most likely some components of the model can be used for ETF as well whereas others need to be reviewed.

\(^4\) It is suggested that the SC discusses introducing a minimum threshold for applications – minimum of $10 million except for small island economies – to avoid the transaction costs of a large number of small applications.
limited, after that this round is closed, the group of applicants defined and the total amount available known.

Once the round is closed, the FTI Secretariat calculates an indicative range\(^5\) of allocation corresponding to low and high scenarios for performance on the basis of a cross-country analysis using the Needs and Performance Framework\(^6\) and the total amount available. The high scenario of the indicative amount is a 100% of NPF while the low scenario would be 80% (for new countries) or 70% (for countries re-applying) of the NPF. The actual amount will be decided in step 3 below.

Ranges of indicative allocations are disclosed to the Local Education Groups in the countries that have announced intention to be included in the funding round. These ranges are communicated as possible funding envelopes. They are not legally binding, nor are they to be understood as implicit “approvals” of applications.

Step three determines if a country’s application is approved or not, as well as the size of allocations to different countries, rewarding quality, feasibility and commitment to the ESP.

Step three – the process, step by step:

The announced timetable for the process of developing the application is monitored and published on the internet by the FTI Secretariat, based on information from the Local Education Group and the supervising entity at country level.

From country level, the coordinating agency in collaboration with the supervising entity and the government submits the application\(^7\), based on the Education Sector Plan, in which it is described how the country would handle a low or high allocation scenario.

Capacity, including implementation and management capacity and capacity development, have to be clearly addressed in the Education Sector Plan and/or in the application. The main indicators for capacity, quality, feasibility and commitment will be 1) how a country has achieved results in relation to priorities;

\(^5\) See the note on indicative allocations below
\(^6\) The Needs and Performance Framework’s Needs Index should if possible be complemented by an indicator for literacy rate to signal that learning outcomes are important, and not only PCR, as well as to address the out-of-school population.
\(^7\) It is recommended that the SC look into the issue of who does the presentation before the Catalytic Fund Committee of the application to the FTI. In the interest of ownership, it should normally be the government that does the presentation and not the coordinating agency.
2) ability and interest to learn from previous experiences; 3) budget execution including percentage of the state budget and/or GDP going to education; and 4) policy and capacity to remove barriers to learning and design an education system inclusive of all learners. These issues will be assessed as indicators for quality and capacity for each country individually. 

Whether or not a country will be considered to be high or low performing - and thereby receive 100%, 80% (or 70% for countries re-applying) or something in between of the indicative allocation- thus largely depends on how it deals with the four issues mentioned above. The performance assessment is a qualitative assessment and will not be done cross-country. 

An External Quality Review assists the Catalytic Fund Committee with the application assessment. The External Quality Review will also cover the assessment of performance and capacity that will contribute to the decision on the size of the allocation.

The Catalytic Fund Committee decides to approve, defer or reject an application. If an application is approved, a decision is made on the size of the allocation. The allocation amount should normally fall within the range between the low and the high scenario presented before and cover a period of three years. The decision will be made at the Catalytic Fund Committee’s discretion. The CFC, in its final assessment, includes an analysis of risks and risk mitigation at country level.

A NOTE ON INDICATIVE ALLOCATIONS

The rationale for using indicative ranges of allocations (low and high scenarios) is that it is necessary in order to work with 18-month or 3-year rounds. The rationale for disclosing indicative ranges of amounts is twofold: 1) it enhances predictability and gives countries a chance to adopt resource-based planning. Resource-based planning, i.e. planning on the basis of (likely) resources is more effective and efficient than planning in the hope of resources and then having to adjust planning to allocated resources; and 2) it enhances transparency.

It is therefore proposed by the TTP to disclose indicative ranges to countries, but it should be stated that the amounts are not legally binding. Indicative amounts are never to be seen as an entitlement. The quality of the education sector plan still determines whether the CFC approves an allocation or not.

It is recommended to work with indicative low and high scenarios, rather than indicative, fixed, amounts, in order to create a leeway for incentives for good performance. An indicative amount would pose a serious problem: If a country

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8 For the time being it is suggested that these indicators are given equal importance.
9 This theoretically makes it possible for all countries in a given round to be high performing.
10 If the Board finds that the functions of the External Quality Review should not be continued, this task has to be performed by an alternative entity.
does plan on the indicative amount and gets rewarded for performance, it will get a bigger amount than what it will have developed its plan for. This may distort the planning process. It will therefore be preferable to disclose to the country an indicative range of allocation corresponding to a low and high performance scenario. For first time applicants the low- and high scenarios range between 80% and 100%. A country rated as a low performer, thus receives 80% of the amount calculated using the NPF, and a high performer is rewarded and receives 100%. For second and third time applicants, performance will gain importance and thus the final allocation ranges between 70 and 100% of the NPF amount.
ANNEX 1: THE NEEDS AND PERFORMANCE FRAMEWORK

The Needs and Performance Framework (NPF) was developed by the Secretariat ahead of the Tokyo meetings in April 2008. The paper was a response to the discussions in Bonn (May 2007) where there was “broad agreement that the FTI CF’s approach to allocations should include an explicit emphasis on performance – to provide additional resources where there is higher expected impact – in a manner that was consistent across countries”. A preliminary version had been presented and discussed in September 2007 and improved upon ahead of the Tokyo meeting, where it was not discussed in any great depth.

At the same meeting in Tokyo, a first proposal for a replenishment mechanism was presented. This paper included an implicit reference to providing indicative amounts to countries early after replenishment. Again, this issue was not debated fully.

In the NPF proposal developed by the Secretariat in April 2008 it is stated: “Having a consistent framework across the set of variables that can be quantified is not a substitute for judgment case by case of country proposals, but it helps weigh a range of variables on a consistent basis over a range of countries.” This is how the Task Team on Prioritisation has taken the NPF on board.

The NPF is built on two key pillars. The first pillar is country need: the EFA-FTI Needs Index (or ENI) is a composite measure of need that includes distance from the EFA goals, its poverty, its country size and the level of external financing. The second pillar is country performance: the EFA-FTI Performance Index (or EPI) is a composite measure of country policies and institutional capacity relevant to a successful implementation of education programs, as well as recent progress in the primary completion rate.

The ENI takes account of the following:
- the distance from the goals, measured by the Primary Completion Rate
- the size of the country, measured by the number of children of school age
- the poverty of the country, measured by per capita income
- the volume of current external financing for education

The EPI is composed of a number of indicators:
- A policy and institutional indicator as the average of those indicators in the World Bank’s country performance index (CPIA) that appear directly relevant to primary education.
- The PCR progress indicator measures the progress made by the country in meeting the MDG target (i.e. progress relative to itself).

A simplified presentation of the framework:

Step 1 determining the country score = ENI x EPI
Step 2 determining country share = country score/sum of country scores
Step 3 determining the indicative allocation = country share x available amount.

For a full explanation of the NPF (including its coefficients) please refer to the Secretariat paper of April 2008.