WORLD BANK FINANCING FOR EDUCATION

Less or More for the Poor in IDA 16?

RESULTS
the power to end poverty

Acknowledgements

RESULTS Educational Fund would like to thank all those who contributed their time and energy to the development of this report. In particular, we would like to thank Anda Adams, Angela Bekkers, Nancy Alexander, Desmond Bermingham, Misato Egawa, Amy Gray, Robin Horn, Steven Klees, John Middleton, Karen Mundy, Robert Prouty, Aby Touré, and Chris Thomas for their input.

RESULTS Educational Fund

RESULTS Educational Fund (REF) is a 501(c)3 non-profit citizen's advocacy organization based in Washington, D.C., that is committed to educating the public, the media, and government leaders about issues related to poverty and hunger in the United States and abroad. It organizes public forums, trains citizens in being active participants in democracy, holds media conference calls to share the latest information, and conducts oversight research to determine the effectiveness of programs meant to address poverty and inequity. REF combines its advocacy efforts with its sister organization, RESULTS, Inc. (a 501(c)4 organization), and international affiliates in Australia, Canada, Germany, Japan, Mexico, and the United Kingdom for greater impact worldwide.

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Published by RESULTS Educational Fund

Suggested citation:
RESULTS Educational Fund. *World Bank Education Financing: Less or More for the Poor in IDA 16?* Washington, D.C.: RESULTS Educational Fund, 2010.

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This report seeks to provide an overview of trends in World Bank education financing with the aim of identifying the extent to which the Bank is contributing its resources for education in low-income countries. Major changes have taken place both within and outside of the Bank over the past decade that have influenced its role in achieving the Education for All goals. As the Bank's Education Sector Board sets about crafting their next ten-year strategy, the World Bank's International Development Association replenishment is underway and the multi-donor trust funds and external partnerships hosted at the Bank come under evaluation, this is a key moment to take stock of where the Bank can improve its support for the educational needs of the poorest countries.

EXECUTIVE SUMMARY

The World Bank plays a pivotal role in shaping as well as implementing international education development programs. As a multi-billion dollar external financier of education development, trustee of several multi-donor trust funds for education in countries affected by conflict or crisis, and primary Supervising Entity of the Fast Track Initiative's Catalytic Fund grants, the World Bank shapes education aid policy globally. **It is therefore critical that donors to the World Bank pay close attention to the strategies and practices of the Bank in providing financing to the education sector to ensure that much needed resources are having the intended impact on access to and quality of education for the poor.**

In Fiscal Year (FY) 2009, the World Bank reported record levels of financing across the board due to increased demand for financing during the global economic crises leading to an all-time high in education financing of $3.4 billion. The overall portfolio amount represents an unprecedented allocation of World Bank financing to the education sector, but obscures the complexity of channels through which this funding is delivered, the regional and country distribution of its lending, and its impact on educational outcomes.

Several trends in Bank education lending, especially through the International Development Association's (IDA) lending arm for low-income countries (LICs), provide serious cause for concern that the Bank is abdicating its responsibility to support the achievement of the Education for All goals in the poorest countries. This report finds that both the allocation of its finance as well as its oversight of these investments have weaknesses which, if unchecked, may undermine the achievement of real progress in the sector for the poorest populations.

The Lions Share to Just Three Countries: Over half of Education Sector Board-managed education funding from IDA has gone to three countries in the last decade: India ($1.67 billion), Pakistan ($830 million) and Bangladesh ($675 million). Taking data from FY00 through the current FY10-approved projects, the World Bank has allocated $4.2 billion dollars to these three countries, while the rest of the IDA-eligible countries have received $4.1 billion towards education. In 2000 just $200 million in Education Sector Board-managed financing was available to all low-income countries other than India, Pakistan, and Bangladesh for education sector development. In FY09, the amount available to the remaining 76 IDA-eligible countries had risen to $465 million annually. The Bank's education lending totals therefore obscure the large loans to few countries which push totals to record levels while lending for the majority of LICs is still far below what is needed to achieve strong education systems with high returns for the poor.

Sub-Saharan Africa's Perpetual Financing Gap: The Bank's Education Sector Board is allocating — for *all* education sub-sectors (e.g. primary, secondary, tertiary, vocational) — an average of $200 million every year in sub-Saharan Africa. While this financing is commendable, this is a tiny fraction of what it will take to improve the state of education systems across the sub-continent and a fraction of the overall funding that is available from IDA. UNESCO's *Education for All Global Monitoring Report* states that "Sub-Saharan Africa accounts for about 66 percent of the global financing gap [required to achieve universal basic education], or $10.6 billion." This is in comparison to South Asia's share of the global financing gap, which is 30% of $16 billion or $4.8 billion.

Catalytic Fund Substitution of IDA Lending: As of end 2009, 32 countries have received commitments from the FTI's Catalytic Fund, set up as a multi-donor pooled source of last resort financing for basic education. These same countries have, with few exceptions, been receiving a declining share of IDA for education over the past decade. While the data do not establish a clear cause for this precipitous decline of roughly 40% since FY02–04 in IDA financing for education, it is nevertheless important to note that education lending from the Bank began to decline in this sub-set of IDA countries before the creation of the FTI and its trust funds. Though the Bank may have been shifting its IDA financing away from a sub-set of IDA eligible countries as early as 1999, what may be of greater concern is that this trend, if it continues, would cancel out the intended impact of the Catalytic Fund. This is extremely concerning not only because it results in a zero-sum game for countries which join the Fast Track Initiative, but because it greatly increases the risk of future shortfalls in funding for Catalytic Fund recipients. Catalytic Fund recipients who are heavily dependent on this financing and have taken on related liabilities (including salaries for additional teachers) face the risk that aid to the sector will drop off once the grant runs out, without a predictable source of external financing to replace it.

Increasing Multi-Sector Lending, Decreasing Accountability for Education Outcomes: Of the total $3.4 billion in education lending in 2009, almost $1.5 billion has been in the form of education lending folded into larger multi-sector operations. The increases in World Bank lending for education in recent years is therefore attributed in large part to increasing amounts of funding for education in these lending operations that are designed and managed outside of the Education Sector Board and often without the expertise of Bank education staff or Ministries of Education. A forthcoming report by RESULTS Educational Fund will analyze this type of lending in more depth, but preliminary evidence shows that this lending is often not tied to the achievement of meaningful educational indicators and objectives.

These trends pose serious questions of the Bank's strategy to achieve Education for All, and its ability to respond to multi-faceted pressures which will make or break the Bank's role in supporting universal quality basic education over the next three year period of IDA lending. Of primary concern is where the Bank can improve its allocative effectiveness — ensuring that financial resources are directed to populations of high need, to critically under-resourced education systems, or to education sub-sectors which benefit the poorest populations. Donors to IDA should ensure that the Bank uses its institutional influence on country-level policy dialogues and recipient country sectoral investment priorities to put education at the heart of development strategies. It is critical that the Bank invest in high-impact areas which enhance education outcomes for the poor when considering the allocation of their funding. Concomitantly, donors to the Fast Track Initiative and to the IDA replenishment need to address the institutional strengths and weaknesses of the current arrangement, with a view to maximizing the comparative role of each agency in achieving the Education for All goals.

If unchecked, these trends imply that not only will LICs increasingly rely on the FTI's unpredictable and under-financed Catalytic Fund resources, but the Bank will move away from basic education while channelling more of its lending through less accountable channels. Africa will pay the greatest price if the Bank moves out of basic education in the 22 sub-Saraharan FTI partner countries, leaving the Catalytic Fund to support their external resource needs for the sub-sector. In addition, the greatest increase in multi-sector projects is for Africa where capacity constraints and weak monitoring already pose difficulties in ensuring accountability for education outcomes. The Bank's variable application of outcomes-based indicators means that there is an increased risk that funds may be poorly invested through these multi-sector operations. It will therefore be critical that the Bank, donors to IDA, and the FTI stakeholders work together to mitigate the growing threat posed by these trends.

The international community stands at a cross-roads: correct course or abdicate responsibility? The fate of the world will rest on the decision to act now to ensure that the Education for All is achieved; from over-population to the abuse of women, from disease to poor governance, from environmental degradation to abject poverty — the solution to the world's largest collective challenges rests on the capacity of the education aid community to fix what is broken. Given the central role of the Bank in building and shaping the global aid architecture, it is imperative that the Bank use its power to ensure that it is a strong driver of the right to a universal quality basic education.

INTRODUCTION

The role of the World Bank in education development

Because the World Bank is the largest external multilateral education donor, providing concessional and low-interest loans to countries that are unable to raise the internal or external capital needed to fully implement their education sector plans, its influence on national poverty reduction efforts is significant. The World Bank negotiates (alongside regional development banks) at the national level with Ministries of Finance and, in tandem with the International Monetary Fund, helps to determine the conditions for investing in social sectors. It is a key architect of Country Assistance Strategies, Poverty Reduction Strategies, and Public Expenditure Reviews; and also provides significant capacity to convene and coordinate development partnerships, provide technical assistance, and engage in research and policy development.

In short, the World Bank plays a pivotal role in shaping as well as implementing international education development programs. As a multi-billion dollar external financier of education development, trustee of several multi-donor trust funds for education in countries affected by conflict or crisis, and primary Supervising Entity of the Fast Track Initiative's Catalytic Fund grants, the World Bank shapes education aid policy globally.

In Fiscal Year (FY) 2009, the World Bank reported record levels of financing across all programs due to increased demand for financing during the global economic crises, which lead to a doubling of commitments from its IBRD and IDA lending arms (from $24.7 billion in 2009 to $46.9 billion in 2009). While the percent of education lending as a portion of all Bank lending has been stable at 7 percent, overall absolute amounts of lending for education reached an all-time high of $3.4 billion dollars in loans in FY09 (World Bank, 2009a).[1]

The overall portfolio amount represents an unprecedented allocation of World Bank financing to the education sector, but obscures the complexity of channels through which this funding is delivered, the regional and country distribution of their lending and its impact. The World Bank provides loans to low-income countries (LICs) through its International Development Association (IDA) and to middle-income countries (MICs) and poorer countries deemed more credit-worthy through the International Bank for Reconstruction and Development (IBRD).[2] These loans are managed by both the Education Sector Board (which is anchored in the Human Development Network) and by other non-education sectors at the Bank as part of larger multi-sectoral operations. This financing is also disbursed using various instruments, ranging from general budget support to project-type aid. Therefore this report seeks to review overall financing for education to identify general allocative trends in World Bank education financing in terms of where and how IDA is providing education loans. While appearing to have increased to a record $3.4 billion investment in FY2009, the allocation, quantity, modality, and management of Bank financing for education provides a more troubling picture of its role in the achievement of the Education for All goals in the poorest countries.

International Development Association Replenishment

2010 provides a critical opportunity to shape the role of the World Bank in achieving Education for All, both as an institution and within the Education Sector. Throughout 2010 donor governments to the World Bank will be negotiating the terms of their next three-year contribution to the World Bank's International Development Association's concessional lending arm for 79 low-income countries. The 16th replenishment of IDA began in March 2010 and will end in December. Funds raised during this period for the IDA 16 will provide the capital for low or no-interest loans to LICs between July 2011 and June 2014 (*IDA 16 Replenishment*, 2010).

The IDA replenishment is a critical time for donor governments and the Bank because it provides an opportunity for both to assess the impact of donor contributions to the World Bank on educational outcomes and set terms to correct course and improve on the Bank's approach. Donors to IDA should ensure that the Bank uses its institutional influence

[1] This level of finance is unlikely to be sustained in future years, however, due to the exceptional nature of the economic climate, demand for finance during the crisis years of 2009 and 2010, and subsequent front-loading of IDA in response to this demand.
[2] The World Bank Group also invests in education through the International Finance Corporation which provides capital for private sector investments. These efforts to contribute to education development will not be assessed in this paper.

on country-level policy dialogues and recipient country sectoral investment priorities to put education at the heart of development strategies. Given that the Bank has set out four special themes for IDA16 (the Bank's capacity to respond to crises, IDA's role in responding to climate change, mainstreaming gender issues, and IDA support for fragile states) which have direct bearing on the role, level, and impact of investments in the education sector, donors must undertake a thorough review of efforts in this area.

The World Bank's Education Sector Strategy 2020

In addition, the World Bank's Human Development Network is preparing its *Education Strategy 2020* throughout 2010. This ten-year strategy, for which the Bank is hosting a series of international consultations through spring and summer 2010, will "shape the World Bank's work for the next decade," by providing strategic direction to the Bank's Education Sector. Following a period of extensive consultations by the Bank's Education Sector on their strategy this spring and summer, it is scheduled for discussion by the World Bank Group Board of Executive Directors in November 2010 (*World Bank Education Strategy 2020*, 2010). It will be critical during these discussions that World Bank partners, education stakeholders, and donors to the IDA replenishment ensure that the Bank's efforts are more clearly focused on improving the quality of and access to basic education for the most marginalized and poor.

The Fast Track Initiative

The Education for All Fast Track Initiative (FTI) was established in 2002 as a global compact to coordinate the development, implementation, and resourcing of quality national education plans. The Fast Track Initiative's Catalytic Fund is a World Bank trust fund supported by the Education for All Fast Track Initiative partnership and donors, for the purposes of providing education sector grants. Donors contribute to the FTI's pooled trust funds, while coordinating and aligning their bilateral flows of aid around nationally-owned education plans. The multi-donor Catalytic Fund was intended to be a last resort source of financing for countries; however, it has become the funder of first resort in practice and therefore impacted demand for IDA financing in the education sector. It should be noted that the FTI is undergoing a significant reform process which provides an unique window of opportunity for the donor community to address its financial arrangements and technical capacity in order to improve the Education for All aid architecture and the Bank's role within that.

In short, the World Bank's role in funding basic education for the poor is facing pressure from multiple trends, including the growing volume of trust fund financing, increasing use of general budget support and Sector Wide Approaches, the mounting importance of donor coordination at country-level, and the increasing proportion of education financing managed by non-education sectors in the Bank. Of primary concern is where the Bank can improve its allocative effectiveness — ensuring that financial resources are directed to populations of high need, to critically under-resourced education systems, or to education sub-sectors which benefit the poorest populations. It is critical that the Bank invest in high-impact areas which enhance education outcomes for the poor when considering the allocation of their funding.

Using publicly available data provided by the Human Development Network of the World Bank, this analysis takes a bird's eye view of IDA financing for the education sector over the last two decades. This analysis seeks to answer the following questions, for the years 1990–2009:

1. How much lending is managed by the Education Sector Board and how much is managed by other sectors?
2. Which low-income (IDA) countries are receiving significant amounts of World Bank education financing managed by the Education Sector Board?
3. How much World Bank education lending has been provided to sub-Saharan Africa managed by the Education Sector Board?
4. How much World Bank education lending has been provided to Catalytic Fund recipients?

The data reveals a number of trends which have a direct bearing on the impact of the World Bank in education development for the poorest. Of greatest concern are the following findings:

1. An increasing proportion of World Bank education lending is managed by non-education sectors, without adequate engagement of education experts and Ministries involved in the planning, implementation, and oversight of education objectives.
2. Although World Bank lending by the Education Sector has been increasing for the past decade, over half of that lending has been allocated to just three countries (India, Pakistan and Bangladesh).
3. Sub-Saharan Africa receives stable but disproportionately low levels of financing from the World Bank for education sector development relative to the educational need on the sub-continent.
4. Countries which have joined the Fast Track Initiative and requested a Catalytic Fund grant have been experiencing an overall decline in lending from the World Bank for education for the past decade.

Methodology

Sources include the World Bank's 2009 Education Year in Review, financial information from the World Bank Projects and Operations Database (including for pipeline projects), and data provided by the World Bank's Education Sector for all education projects between 1963 and 2010. Possible omissions in the database may create a small margin of error in financing calculations.

The quality of the World Bank's lending — much less its impact — cannot be assessed because both World Bank and country evaluation processes are weak, inconsistently applied, and unevenly reported. However, the quantity, allocation, and modality of IDA for education can provide a numeric picture of the Bank's role in education development. Thus, this analysis assumes that more lending, better targeted at the poorest countries, is a positive contribution to education development initiatives that aim to achieve the Education for All goals.

THE EDUCATION SECTOR'S SHARE

How much lending is managed by the Education Sector Board and how much is managed by other sectors?

Education Sector Board Lending: World Bank lending managed by the Education Sector Board (ESB) for all education sub-sectors in low and middle-income countries (IDA and IBRD) has been steadily restored to $1.5 billion dollars since it hit a low of $530.7 million in 2000 (see red line in Fig. 1 for 3 year lending averages). In FY07 to FY09 it reached a three-year average of just over $1.5 billion annually, which was the level achieved in the early-1990s after the Jomtien Education for All conference and before major decreases at the turn of the century. This report will treat this lending portfolio in more depth, as it is the primary vehicle through which the Bank supports international education development, while a forthcoming report by RESULTS Educational Fund will review education lending in multi-sector operations.

Non-Education Sector Board Lending: In public statements regarding total lending for education, the Bank also includes investments managed by non-education sectors (see blue line in Fig. 1). These operations have some portion of the loan coded as contributing to education even though they are managed by sectors such as Poverty Reduction; Social Protection; Health, Nutrition and Population; Public Sector Management; Rural Sector; Urban Development; Private Sector Development; Transport; Economic Policy; and others. In FY09, multi-sector operations with education components accounted for $1.45 billion of the total $3.4 billion in education lending, representing 42 percent of total education lending.

EDUCATION LENDING MANAGED BY THE ESB AND BY OTHER SECTORS (FY92–09)

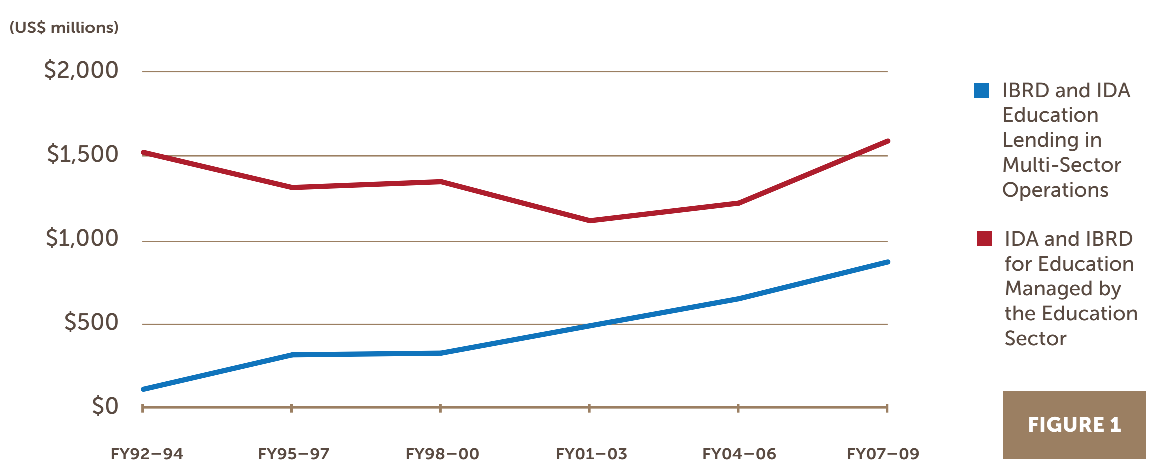

FIGURE 1

Multi-sector operations with education components nearly tripled in the last decade as the Bank has shifted towards greater reliance on large multi-sector operations to channel the delivery of its finance. Therefore, the increases in World Bank lending for education in recent years is attributed in large part to increasing amounts of funding for education in these lending operations that are designed and managed outside of the Education Sector Board and often without sufficient integration of Bank education staff or Ministries of Education in the implementation and supervision of education components. There is some strong evidence that these operations tend to lack sufficient oversight or measurement of education outcomes, including the impact of this financing on national education strategies and objectives. Further compounding this issue is the fact that allocation of technical staff for any sector within the Bank is based on the size of the sector's loans portfolio, increasing the risk that channeling increasing amounts of education lending through multi-sector operations will bring about a decline in skilled education specialists, further reducing the quality of the Bank's education lending (Frederikson, 2008). *African Education Sector Portfolio Review,* commissioned by the Bank's Human Development Network, states that "These other Sector Boards, who manage multi-sectoral policy loans, are less likely to be held accountable to specific education sector reform objectives than education board managed operations" (Mundy, 2010). Education is folded into projects whose overall objectives are broader, e.g. school building as a component of village resettlement, as a piece of broader governance reform, or through general budget support.[3] While in many cases it may be reasonable to argue that a share of these multi-sectoral operations benefits education, a forthcoming review by RESULTS Educational Fund shows that in a number of instances these operations are not meaningfully contributing to the priorities of getting more children in school and improving the quality of their education in the implementation and supervision of education components. (RESULTS Educational Fund, forthcoming). Because overall lending in these operations is not focused specifically on education, strong accountability for education objectives, especially on quality, is critical to protecting the impact of these kinds of investments in the education sector.

THE LION'S SHARE

Which countries receive the majority of IDA for education?

Of the roughly $1.5 billion in annual lending that is managed by the Education Sector Board, over half is allocated from the World Bank's concessional lending arm, the International Development Association, designated specifically to support those countries with a per capita GDP of under $1,135. This lending is critical to the World Bank's overall claim to "work for a world free of poverty" and is foundational for the other sector development objectives for which the World Bank also provides lending. It is therefore this pool of funds, intended for the poorest countries in the world, which provides the most resources for those nations furthest from reaching the Education for All goals.

A closer look at the allocation of IDA financing over the past decade, however, indicates that over half of education funding from IDA has gone to three countries: India ($1.67 billion), Pakistan ($830 million), and Bangladesh ($675 million). Taking data from FY00 through FY10, the World Bank has allocated $4.2 billion dollars to these three countries, while the rest of the IDA-eligible countries have received $4.1 billion towards education. Since 2008, education lending for these three large countries has actually eclipsed lending to all other IDA-eligible countries combined; both the FY10 and pipeline projects indicate that the majority of the planned lending will continue to favor those three borrowers.

Although India, Pakistan, and Bangladesh have a huge burden of out of school children and require massive investments in their education sectors, the remaining

[3] It should be noted that a growing portion of lending managed outside the Education Sector is attributed to the increasing use of budget support (through the Bank's "Poverty Reduction Credits" or "Development Policy Loans") in line with recommendations in the Paris Declaration framework. Budget support has considerable advantages such as reducing transaction costs, increasing predictability of aid flows, strengthening national financial management systems, and supporting recurrent education costs. Multi-sector operations with education components are therefore not inherently disadvantageous to achieving education objectives, however the significant level of funding channeled through both budget support and project aid outside of the Education Sector Board merits closer attention. A more thorough treatment of these projects is forthcoming by RESULTS Educational Fund.

IDA EDUCATION LENDING MANAGED BY EDUCATION SECTOR (FY00–10)

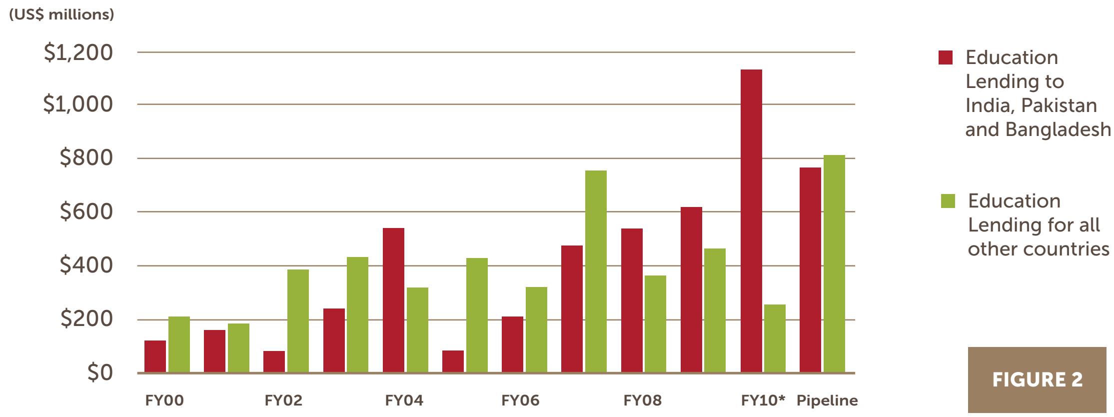

FIGURE 2

* FY10 Data as of April 2010. Note that a portion of pipeline projects will be approved before June 30th 2010 and therefore contribute to FY10 final totals. Generally amounts included in the pipeline are more than will be subsequently financed.

amount invested in education in other IDA-eligible countries by the Bank's education sector is much smaller than the total figure of $3.4 billion in FY09 suggests. In 2000 just $200 million in ESB-managed financing was available to all low-income countries other than these three "donor darlings" for education sector development. In FY09, the amount available to the remaining 76 IDA-eligible countries had risen to $465 million annually. While these increases in IDA lending to education over the past decade are a positive sign that the World Bank is ensuring that growing amounts of finance are available to LICs for education, $465 million is considerably less than the estimated financing required to meet the education needs of these LICs.

The Bank's education lending totals therefore obscure the large loans to few countries which push totals to record levels while lending for the majority of LICs is still far below what is needed to achieve strong education systems with high returns for the poor. Given the significance of basic education to other development goals, it is remarkable that such a small amount of IDA's annual $8–15 billion resource envelope is directed at education development in the remaining 76 LICs around the world (World Bank, 2009a).

A recent evaluation by the Bank's Independent Evaluation Group (IEG) looked at the role of the Country Policy and Institutional Assessment (CPIA) which:

> "assesses the conduciveness of a country's policy and institutional framework to poverty reduction, sustainable growth, and the effective use of development assistance. The CPIA enters the calculation of country performance ratings that, since 1980, have been used to allocate International Development Association (IDA) resources to eligible client countries. The literature offers only mixed evidence regarding the relevance of the content of the CPIA for aid effectiveness broadly defined — that is, that it represents the policies and institutions important for aid to lead to growth." (World Bank IEG, 2009.)

While the CPIA does use indicators on access to education, the weight given to social sector criteria and the lack of assessment of disadvantaged groups (other than gender) means that the Bank's allocation process requires major revision in order to improve its ability to respond to country needs as well as to country performance. The IEG recommends that the Bank "should examine the appropriateness of combining the social sectors with the environment, which limit the emphasis accorded to these aspects" as part of a thorough review of all indicators used in the CPIA (World Bank IEG, 2009). In short, the allocation criteria of the Bank do not give sufficient weight to social sectors, thereby guiding allocation of IDA in ways which undervalue the development needs in these sectors. This is especially true in the case of fragile or conflict-affected states which have major educational deficits and yet which face performance constraints which may undermine their ability to secure the long-term funding needed to emerge from severe under-development.

THE LAMB'S SHARE

How much IDA for education goes to sub-Saharan Africa?

The distribution of World Bank lending across regions is significant because of the proportion of out-of-school children varies significantly, with certain regions experiencing a high burden of educational deprivation. The overall estimated global financing gap to achieve universal basic education is $16 billion; with almost half of the world's out-of-school children in sub-Saharan Africa, the international donor community, especially the Bank, must address the serious shortfall for the sub-continent. The United Nations has estimated that the region will achieve universal primary enrollment in one hundred years if progress continues at the current rate (UNICEF 2007). In fact, UNESCO's *Education for All Global Monitoring Report* states that "Sub-Saharan Africa accounts for about 66 percent of the global financing gap, or US$10.6 billion." This is in comparison to South Asia's share of the global financing gap, which is 30 percent of $16 billion or $4.8 billion (UNESCO, 2010).

While lending for Africa has been relatively stable, overall it makes up a relatively small proportion of overall lending for education from the Bank's IDA. The Bank is allocating — for *all* education sub-sectors (e.g. primary, secondary, tertiary, vocational) — an average of $200 million every year in sub-Saharan Africa managed by the Education Sector Board. Even taking into account education lending which is managed outside the Education Sector Board through budget support and other multi-sector operations, over the last three years the Bank has provided Africa an average of $469 million for all levels of education when there is a $10 billion external financing gap required to achieve universal basic education alone. While this financing is commendable, this is a tiny fraction of what it will take to improve the state of education systems across the sub-continent, and a fraction of the overall funding that is available from IDA.

Sub-Saharan Africa's share of IDA is clearly disproportionate to its educational needs, particularly as the continent is far from achieving both of the Millennium Development Goals in education. While major progress has been made in increasing enrollments, largely due to school fee abolition efforts of the past decade, the challenges in achieving the goal of gender parity are sundry. In Africa, where high birth rates lead to high dependency rates, and where women are so often unable to gain economic sufficiency, education of girls is absolutely critical to the achievement of broader development objectives. Education is so strongly linked to both economic development and gender empowerment that IDA cannot feasibly make aggressive progress in either of these areas without addressing the huge educational needs of girls in low-income countries.

ESB-MANAGED IDA EDUCATION LENDING FOR SUB-SAHARAN AFRICA (FY90–10)

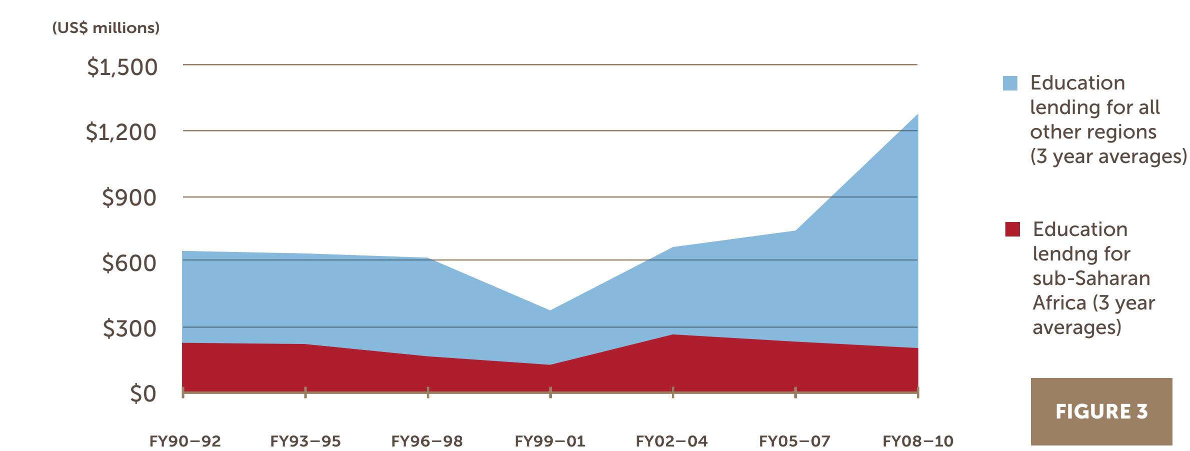

FIGURE 3

Several explanations have been proposed regarding why there has been a relatively low level of financing for education in sub-Saharan Africa, linked to what many see as "constraints" on scaling up financing. Among the reasons, as assessed in greater detail by the Overseas Development Institute, are the limitations created by weak absorptive capacity and/or low demand of developing countries (Steer and Baudienville, 2010). The small amount of education financing from the World Bank for a sub-continent with an annual financing gap of $10.6 billion has, accordingly, been associated with the inability of recipient governments to spend the funding effectively and with the availability of more appealing sources of external financing than IDA.

THE FAST TRACK INITIATIVE'S SHARE

Is the Catalytic Fund "crowding out" IDA for education?

> "Established in 2003, the current Fast Track Initiative Catalytic Fund (the "Catalytic Fund") is a multi-donor, multi-recipient trust fund designed to help low income countries finance funding gaps for primary education identified in education sector plans. The Catalytic Fund provides transitional short term funding for a maximum of three years to enable such low-income countries to scale up their education sector programs and to establish a performance record that could attract longer-term bilateral support… A funding source of last resort: The CF Strategy Committee has reaffirmed that the Expanded Catalytic Fund, like the Catalytic Fund, should make reducing financing gaps that cannot otherwise be filled, its primary goal." (Fast Track Initiative 2007).

Expanded to cover all IDA I and II (with a GDP under $1,335) countries in 2007, the Catalytic Fund now provides three-year grants to support the scaling up of national education strategies. With many countries now applying for a second round of three-year grants, the Catalytic Fund has become a significant and often primary source of funding for FTI countries. As of end 2009, 32 countries have received Catalytic Fund commitments, with an additional four countries (Togo, Lao PDR, Liberia, and Malawi) expected to sign grant agreements in Spring 2010 totaling $303 million.

The additionality of the FTI's grant facility is a key element of global efforts after the Dakar Summit in 2000 to achieve Education for All and has contributed significant financing to almost 30 low-income countries. Currently donor governments provide financial resources to IDA and to the Catalytic Fund, but these pools of funds are distinct and separate.

Declining IDA for Catalytic Fund Recipients

Many Catalytic Fund recipient countries are experiencing declining funding from IDA at the same time as they are turning to the Catalytic Fund for increasingly significant levels of external education financing.[4] Data show that the majority of Catalytic Fund recipients have been, with few exceptions, receiving a declining share of IDA for education over the past decade.[5] As shown in Figure 4, IDA financing for education for Catalytic Fund recipients began to fall in the period FY02–04, and has continued to do so steadily since then.[6] With the exception of Ethiopia which received $346 million dollars from IDA in FY08 to FY09 in addition to Catalytic Fund grants of $168 million in FY07 to FY10, and which has therefore been excluded as an extreme outlier, the majority of FTI grant recipients have received dwindling IDA for education over the past decade.

While the data do not establish a clear cause for this precipitous decline of roughly 40 percent since FY02–04 in IDA financing for education, it is nevertheless important to note that education lending from the Bank began to decline in this sub-set of IDA countries before the creation of the FTI and

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[4] For a full list of Catalytic Fund recipients and chart representations of financing please see Annex A.

[5] While a comprehensive measurement of total aid flows to any given country is difficult (in part due to the variability in bilateral and other aid flows), this study has compared the contributions of IDA and the Catalytic Fund given their often identical conditions, instruments, and institutional representation at country-level.

[6] Based on measuring the IDA education contributions (both within the Education Sector and as a portion of financing in multi-sector operations) and Catalytic Fund grant commitments since 1996 for the following Catalytic Fund countries: Benin, Burkina Faso, Cambodia, Cameroon, Djibouti, The Gambia, Ghana, Guinea, Guyana, Haiti, Kenya, Kyrgyzstan, Lesotho, Mali, Mauritania, Moldova, Mongolia, Mozambique, Nicaragua, Nepal, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Tajikistan, Timor-L'Este, Yemen, and Zambia (Grant agreements have yet to be signed but are pending for Togo, Lao PDR, Liberia, and Malawi; while Madagascar has been excluded due to revisions of the Catalytic Fund commitments in the wake of the 2008 coup d'etat as has Central African Republic due to negligible amounts of IDA lending.).

IDA FINANCING FOR EDUCATION VS. CATALYTIC FUND GRANTS (FY96–2010)

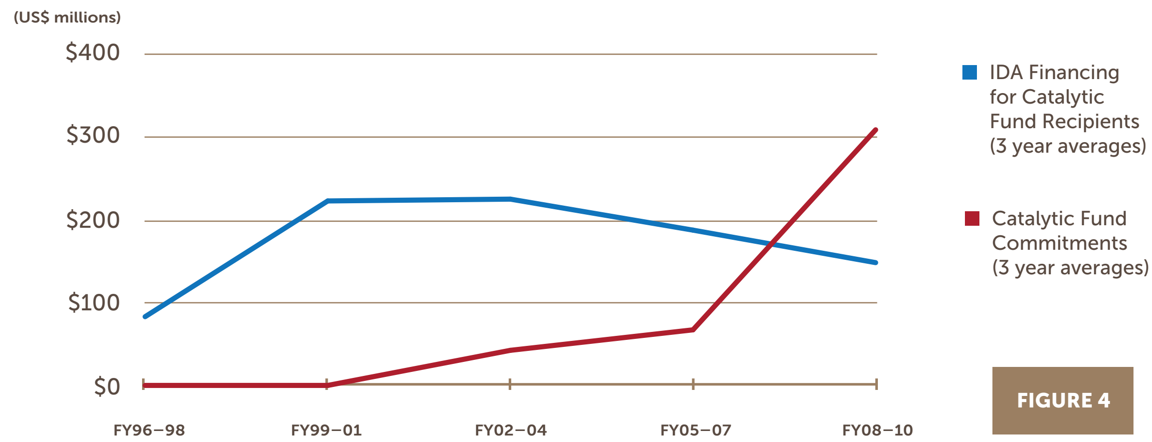

FIGURE 4

its trust funds. Though the Bank may have been shifting its IDA financing away from a sub-set of IDA eligible countries as early as 1999, what may be of greater concern is that this trend, if it continues, would cancel out the intended impact of the Catalytic Fund. Donors to the Catalytic Fund are unlikely to view their contribution to the FTI as a substitute for IDA education finance.

It will be critical to assess the conditions under which the Bank has successfully contributed additional funding alongside the Catalytic Fund, and the case of Ethiopia (which successfully secured new financing from both sources in FY2009) may hold valuable lessons for how to best structure a complete package of external financing for the education sector. The World Bank, with a considerably larger and more predictable pool of IDA financing, should be positioned to be matched with or contribute to the FTI's grant facility so that it has a catalytic effect which increases overall levels of aid to education.

Although a thorough analysis of the displacement of World Bank financing would require a broader calculation of all aid flows to all sectors, the incentive structure for governments to request either IDA or Catalytic Fund financing typically favors Catalytic Fund grants. It is likely Ministries of Finance will prefer to allocate IDA to other purposes, selecting Catalytic Fund grants as a substitutive source of external financing for the education sector. And the Bank's strong position, not only as the trustee of FTI trust funds but also in FTI processes at the country level, is likely to encourage Bank managers, including country directors who negotiate with finance ministries, to see FTI as strategic financing for the education sector and to allocate IDA to other objectives.

A hydraulic shift in education financing between the World Bank and FTI has the dual risk of pushing the Bank towards post-basic education while leaving the basic education sector with a severely under-funded grant facility under the FTI partnership. Given the huge financing gaps facing education systems in low-income countries, substitution of IDA with Catalytic Fund grants sells the education sector unacceptably short.

This displacement of IDA funding is extremely concerning not only because it results in a zero-sum game for countries that join the Fast Track Initiative, but because it greatly increases the risks of future financing shortfalls for Catalytic Fund recipients. The Catalytic Fund is heavily dependent on three donors (the Netherlands, U.K., and Spain provide over 60 percent of the funding) and is therefore vulnerable to a severe drop in funding if there are government or policy changes in one or more of these donor countries. Catalytic Fund recipients that are heavily dependent on this financing and have taken on related liabilities (including salaries for additional teachers) face the risk that aid to the sector will drop off once the grant runs out, without a predictable source of external financing to replace it.

This issue requires immediate attention if donors to both the IDA and the Catalytic Fund are serious about their contribution to Education for All. A closer analysis of countries that are using Catalytic Fund grants as additional co-financing to IDA should be undertaken to identify the enabling elements (in terms of policy, country-level budgeting, donor coordination, financing modalities, etc.) that give Catalytic Fund grants additionality, complementarity, and leverage. The funds raised by the Fast Track Initiative are critical to many recipient countries, but in turn the use of IDA funds that have been "freed up" should be aligned with a broader multi-donor strategy to provide resources for education where they are most needed, in sub-sectors which promote quality and access of schooling for the poor.[7] Given the chronic under-funding of education in LICs, allocating IDA to other sectors altogether would amount to an abdication of the Bank's responsibility to ensure that its development financing continues to contribute to the achievement of the Education for All goals.

Demand Outstrips Catalytic Fund Supply

The Catalytic Fund is, in many cases, providing more financing to FTI countries than historically was provided by the World Bank — but it is not enough. Although support provided by the Catalytic Fund represents a positive increase in education funding, the FTI has not been able to mobilize the funds necessary to respond to education sector financing gaps in all of its partner countries. What is striking about the recent trend in FTI financing is that (especially in sub-Saharan Africa) the Catalytic Fund is providing more financing than IDA. In many countries, Catalytic Fund grants are now the largest single source of external financing for education even where the Bank has a history of funding the sector. However, the FTI's budget pales in comparison to the potential education funding from IDA's annual resource envelope of between $8 and $15 billion a year.[8]

While the FTI has been able to mobilize $1.8 billion from 18 government donors since its inception, the financing gap for education continues to dwarf the total funding that has been made available by the donor community for the education sector. According to the Catalytic Fund Annual Report from December 2009, "Donors have signed pledges totaling US$1,628 million; of which US$201 million represent financial pledges for the period 2010–13." Yet the total external funding required to support universal basic education between 2010 and 2013 is probably closer to $60 billion with donors currently contributing only $4 billion annually on average (UNESCO 2010).

As of May 2010, the FTI's expected shortfall for the year was roughly $395 million — meaning that developing country demand for the Catalytic Fund's resources will outstrip what is available to countries eligible to apply by the end of this year (*Fast Track Initiative* 2009). The data comparing World Bank and Catalytic Fund financing for FTI countries disproves the idea that there is weak demand and weak absorptive capacity for education financing — on the contrary, there is high demand such that the Catalytic Fund will fall short before the end of 2010. However, having established that the demand for education financing is strong, the FTI's global partnership and the World Bank need to ascertain how the supply of external financing can be scaled up to meet this demand.

All of the LICs currently receiving Catalytic Fund grants are also eligible for IDA loans and/or grants, and it is therefore possible for the Bank to provide matching grants or loans which would both mitigate the preference for Catalytic Fund grants while ensuring that IDA financing is "crowding in" financing from the Fast Track Initiative. Furthermore, by blending IDA financing with Catalytic Fund grants, additional transaction costs could be minimized, while ensuring that IDA financing is subject to the same requirements to increase the use of country systems, use of budget support and sector-wide approaches, and improve harmonization and alignment with other donors. This arrangement would have the dual benefit of ensuring the continued technical and financial support from the Bank for the sector in Catalytic Fund recipient countries, while improving Bank performance against the Paris Declaration indicators.

Given that many of the world's poorest countries still struggle to strengthen their education systems, acquire and distribute appropriate educational commodities such as textbooks, hire and train adequate numbers of teachers, abolish school fees, and build safe and sanitary schools, it is clear that there continue to be major costs associated with the achievement of the Education for All agenda. Because national governments are covering the majority of education costs themselves, it is critical that financing gaps be filled by the donor community. As a multilateral financier, host and current Supervising Entity of the Fast Track Initiative funds, and principle architect of poverty reduction strategies (working closely with IMF and recipient government officials), the World Bank's role in global education development should not be underestimated. On the contrary, the IDA donor community has the opportunity to ensure that the institutional apparatus of the Bank makes good on the economic claim it has long broadcast: "[T]here is no investment more effective for achieving development goals than educating girls."

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[7] While this analysis of substitution is incomplete due to the fact that it does not consider the impact of bilateral or private funding on shifting levels of education investments over the past 20 years, the close relationship between the FTI and the World Bank merits consideration.

[8] Further analyses need to be undertaken to ascertain whether bilateral aid has also declined in response to the availability of Catalytic Fund grants, and, importantly, whether countries are increasing their domestic education budgets in proportion to the external resources provided for education through budget or sector support.

CONCLUSIONS

The World Bank can and should play a pivotal role in elevating the priority of education and the resource needs of countries which continue to face major challenges to achieve quality universal basic education. However, the current trends described above indicate that the World Bank's current approach is problematic on a number of levels:

1. An increasing proportion of World Bank education lending is managed by non-education sectors, without adequate engagement of education experts and ministries involved in the planning, implementation, and oversight of education objectives. In FY09, non-ESB managed lending was 42 percent of total Bank lending to education.
2. Although World Bank lending by the Education Sector has been increasing for the past decade, over half of that lending has been allocated to just three countries (India, Pakistan and Bangladesh). Over the past decade $4.2 billion managed by the Education Sector Board has been allocated to these three countries, while $4.1 billion was provided to rest of the IDA portfolio.
3. Sub-Saharan Africa receives stable but disproportionately low levels of financing from the World Bank for education sector development relative to the educational need. Despite the financing gap of $10 billion in sub-Saharan Africa, it receives, on average, just $200 million a year managed by the Education Sector Board from the World Bank's IDA.
4. Countries which have joined the Fast Track Initiative and requested a Catalytic Fund grant have experienced an overall decline in lending from the World Bank for education. With the exception of Ethiopia, Catalytic Fund recipients have experienced a 40 percent decline in IDA lending over the past decade.

These trends and the challenges they pose for the achievement of strong financing for the Education for All agenda call for a strong position to be taken during the 2010 replenishment of IDA to ensure that the World Bank provides significant results-based financing for basic education to a broader range of low-income countries, including and especially those in sub-Saharan Africa. It is also critical that donors to IDA ensure the World Bank maintains its explicit role in financing basic education and is accountable for specific educational outcomes in both education projects and multi-sector operations with education components.

In addition, the substitution of Catalytic Fund grants needs to be addressed most urgently. The Catalytic Fund does not have sufficient resources to replace the financing which is available in IDA, nor was it meant to replace existing aid flows to basic education from IDA. The fate of the Catalytic Fund and its impact on Education for All depends on how the World Bank and its donors address the contradictory incentives to scaling up financing in FTI recipient countries. As the Catalytic Fund transitions in 2010 to a single pooled trust fund, there is an opportunity to restructure its relationship to IDA to ensure additionality and leverage. The roles played by the World Bank in the FTI partnership (trustee, Supervising Entity, donor coordination agency) and at country level (as the only education donor positioned to negotiate with both International Monetary Fund representatives and ministries of finance and planning) should be assessed and reformed to reflect basic education for the poor as a priority of the institution.

RECOMMENDATIONS

Donors to the International Development Association should ensure that the World Bank commits to and explicitly prioritizes basic education for the poor. Donors should send a strong message to the IDA deputies, executive directors to the World Bank, as well as the president, Robert Zoellick, and the regional vice presidents, by calling for the Bank to take the following steps to improve the Bank's role in the education sector:

1. Create and adopt a needs-based allocation framework that prioritizes countries least likely to meet Education for All goals, especially in sub-Saharan Africa; Conduct a review of the Country Policy and Institutional Assessment (CPIA); and elevate poverty and social sector criteria in determining IDA allocations to countries.
2. Explicitly report on its contribution to Education for All in countries which are off-track, laid out against clear performance targets.
3. Employ matching IDA grants or loans with Catalytic Fund grants and blend the financing within the FTI's single trust fund in order to channel it more efficiently.
4. Provide more flexible financing instruments for the FTI trust fund grants where the World Bank is the Supervising Entity, while investing in building the capacity of the secretariat to manage its funds independently of any donor agency.
5. Evaluate the strength of education indicators and outcomes in multi-sector operations to increase accountability, and ensure that ministries of education and education sector specialists are engaged in planning and implementation.
6. Conduct a review of the Bank's use of country systems in the delivery of its lending (especially project type), with the aim of correcting any blockages or delays in disbursement by failure to use country systems and improving the Bank's ability to deliver aligned funding.
7. Use its institutional influence on country-level macro-economic and development policy dialogues, including with ministers of finance and representatives of the International Monetary Fund, to ensure robust investments in basic education.

In addition, donors need to work at all levels of government to ensure that their representatives to the World Bank, International Monetary Fund, Fast Track Initiative, and bilateral agencies are working together to ensure that counter-cyclical policies enable and encourage increased investment in the basic education sector. Donors who sit on the boards of these agencies must have cohesive economic policies which provide predictable, aligned and streamlined aid flows to bolster Education for All efforts in recipient countries. The international community stands at a cross-roads: correct course or abdicate responsibility? The fate of the world will rest on the decision to act now to ensure the Education for All is achieved; from over-population to the abuse of women, from disease to poor governance, from environmental degradation to abject poverty — the solution to our largest collective challenges rests on the capacity of the education aid community to fix what is broken. Given the central role of the Bank in building and shaping the global aid architecture, it is imperative that the Bank use its power to ensure that it is a strong driver of the right to a universal quality basic education.

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ANNEX A

Catalytic Fund and IDA Commitments to Catalytic Fund Recipients (FY90–10)

Calculations are based on all IDA and Catalytic Fund contributions to education in each country, through education projects as well as multi-sector operations. Note Madagascar has been excluded due to suspensions in their Catalytic Fund commitment, and the exclusion of Central African Republic is due to negligible levels of IDA education financing.

ANNEX A (CONTINUED)

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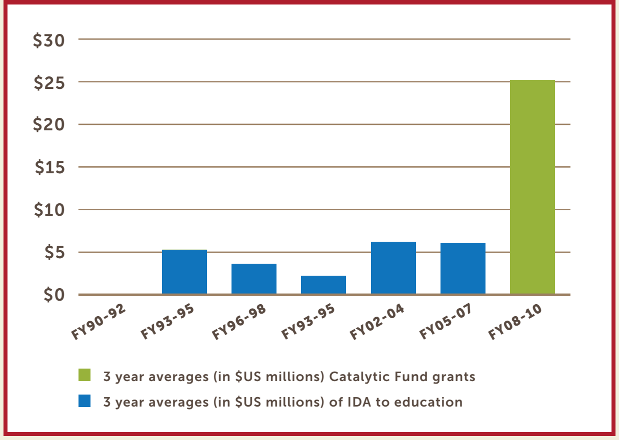

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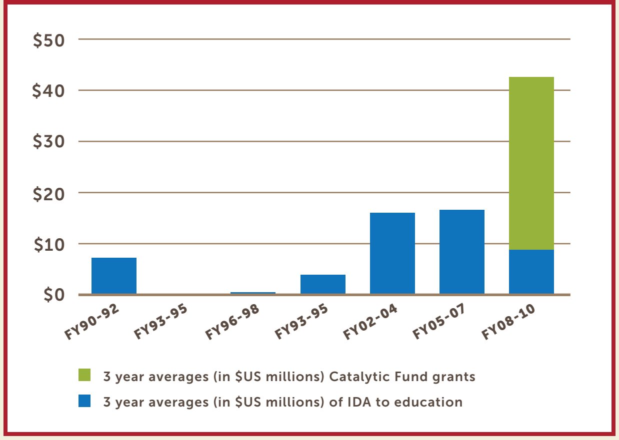

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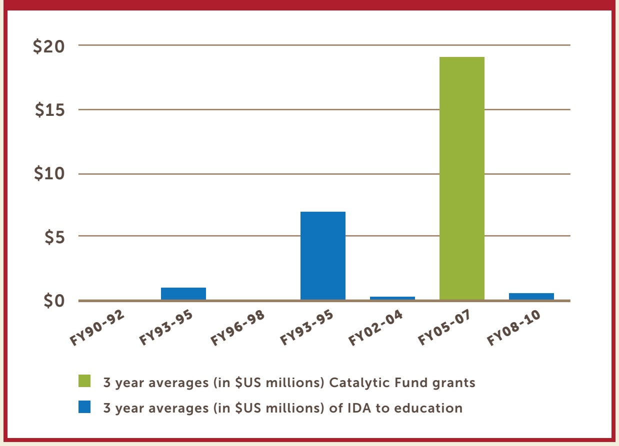

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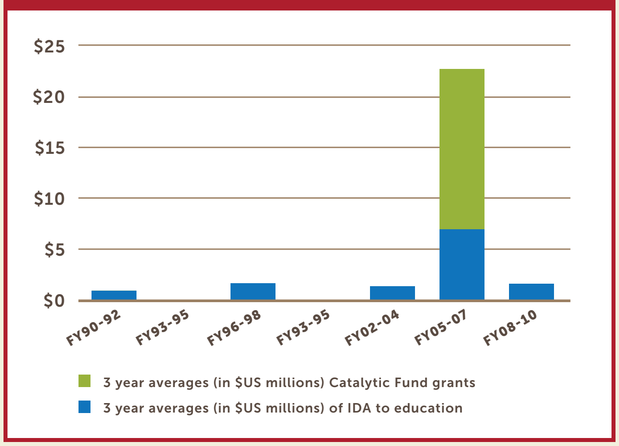

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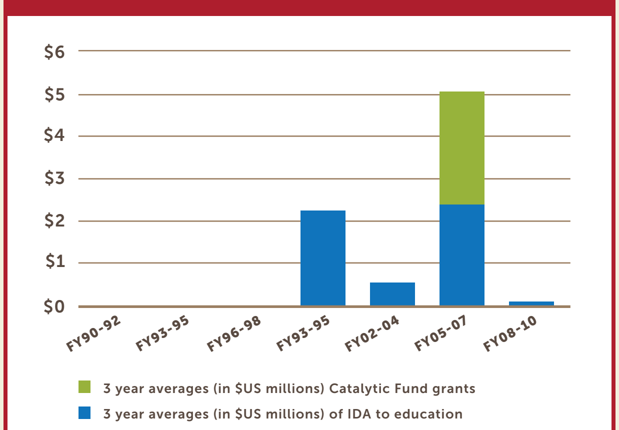

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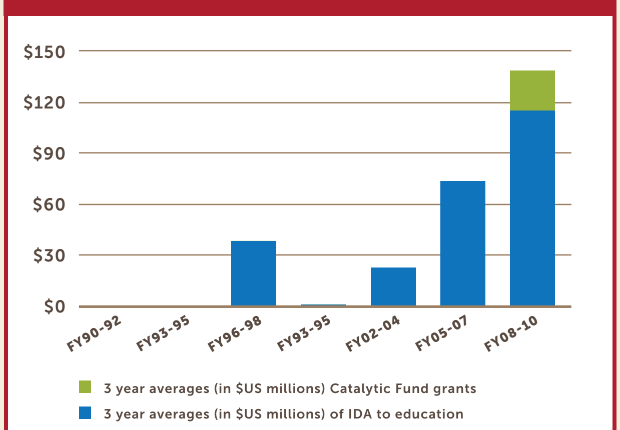

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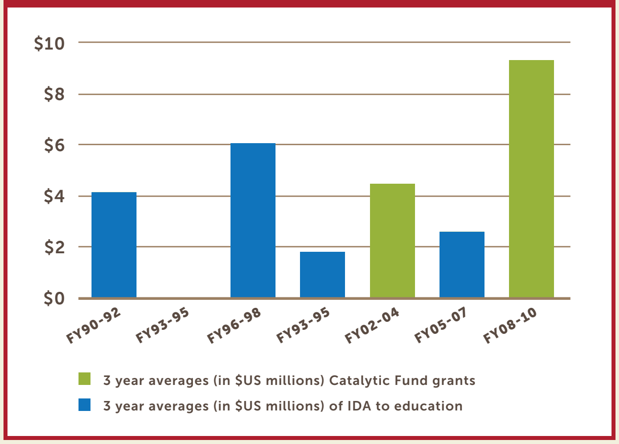

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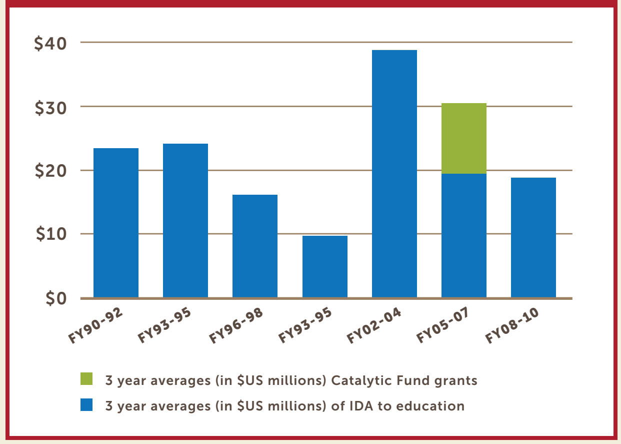

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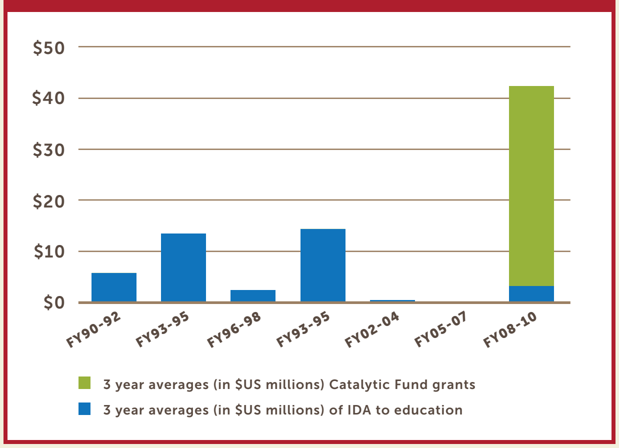

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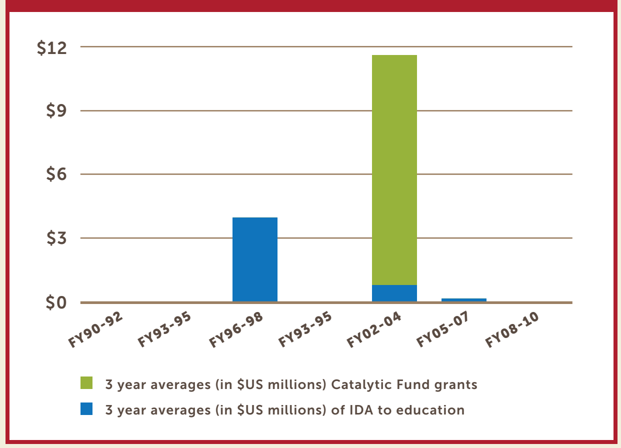

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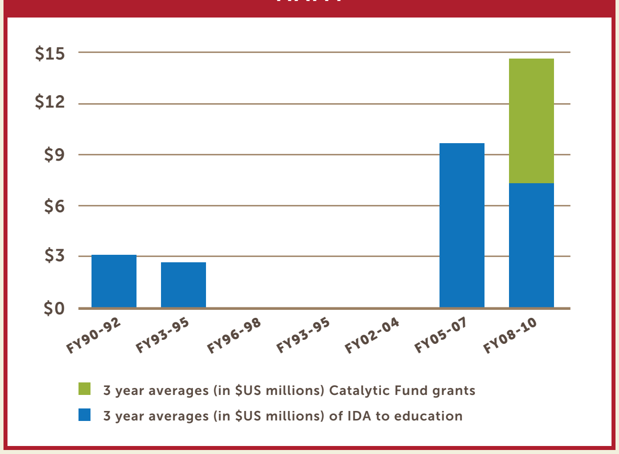

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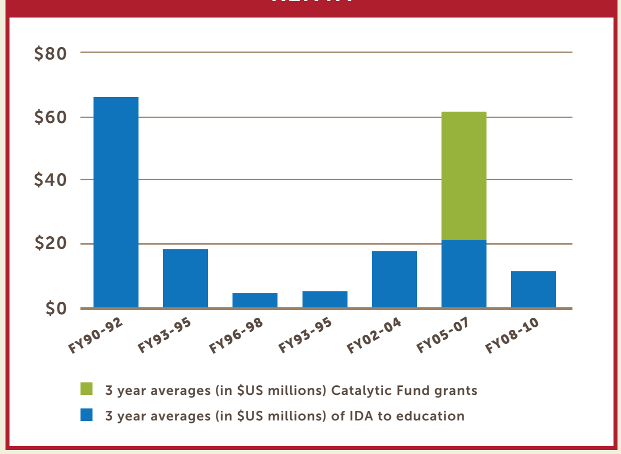

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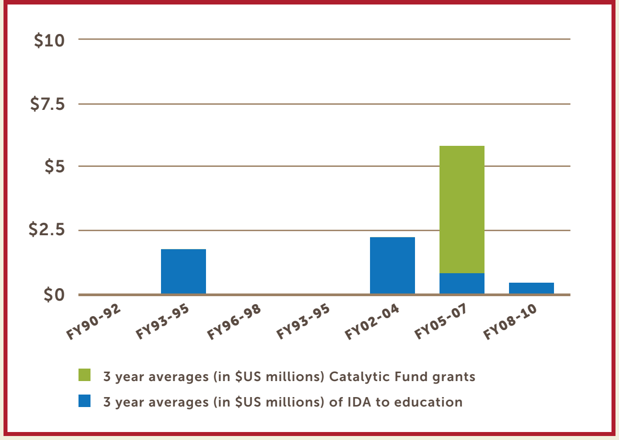

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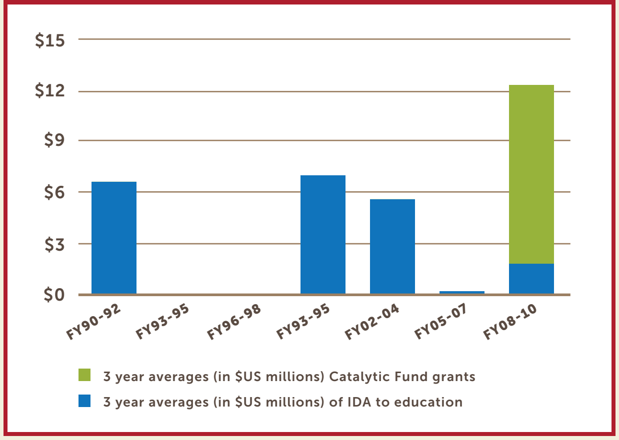

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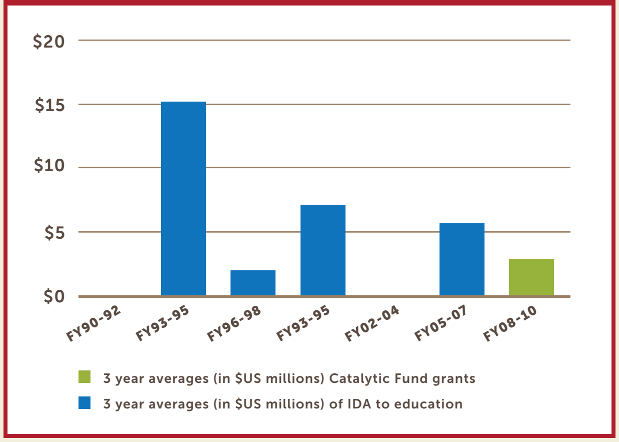

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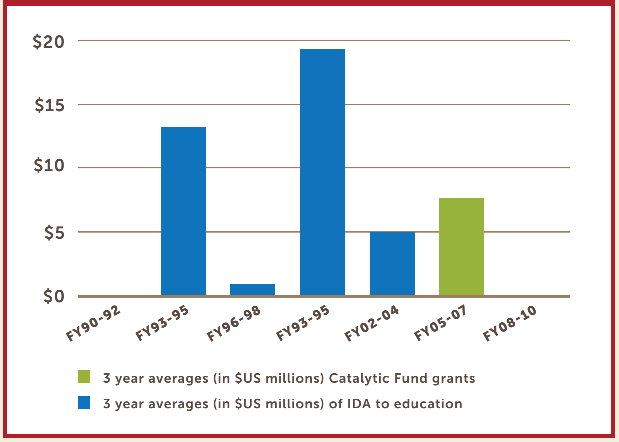

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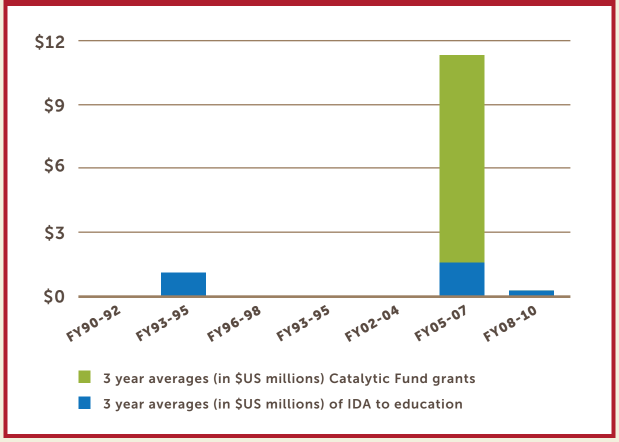

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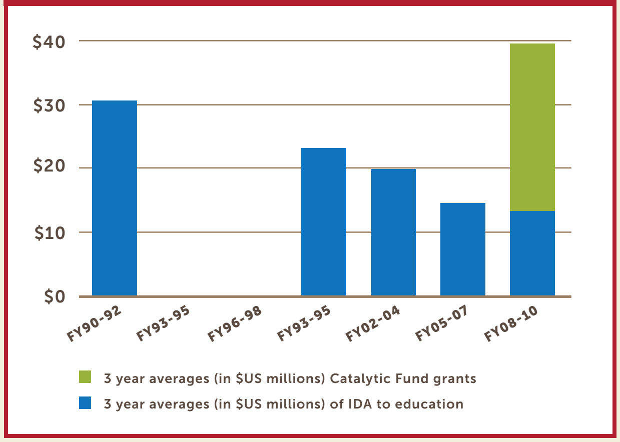

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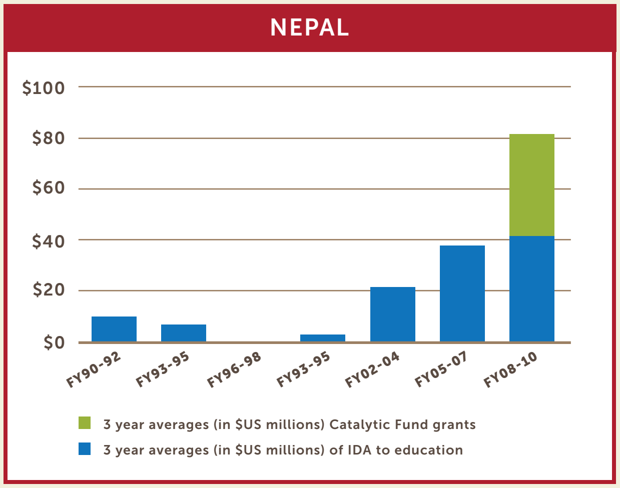

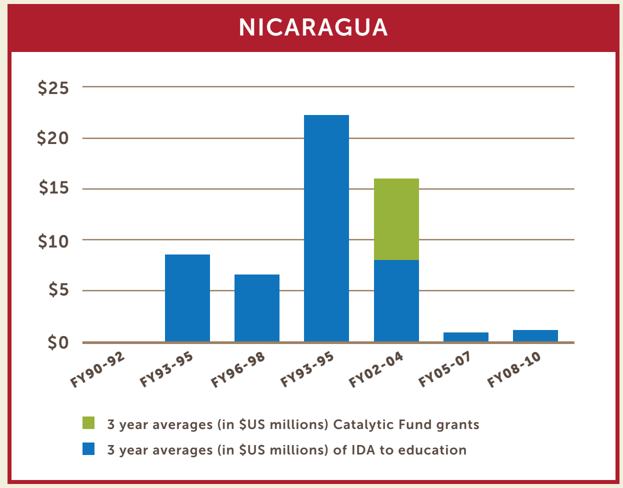

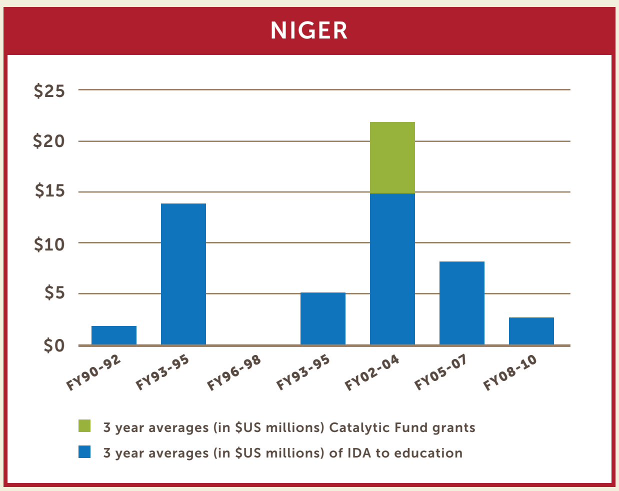

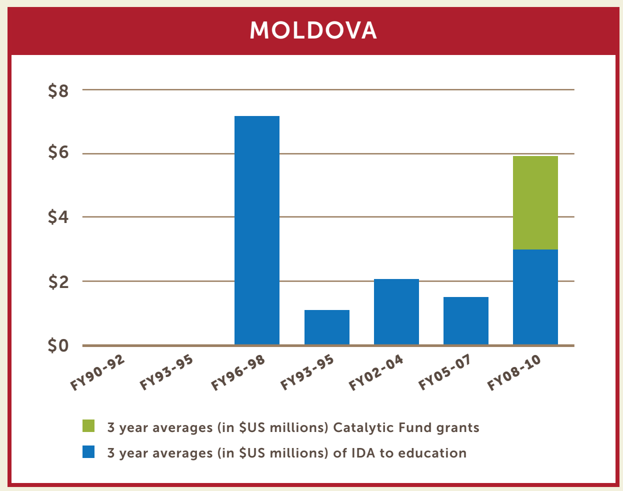

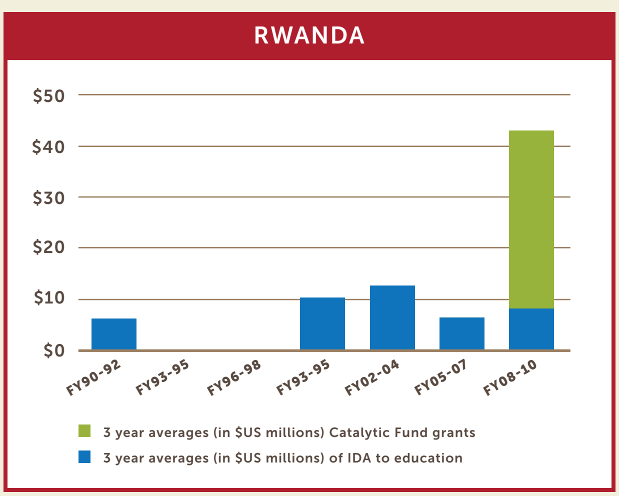

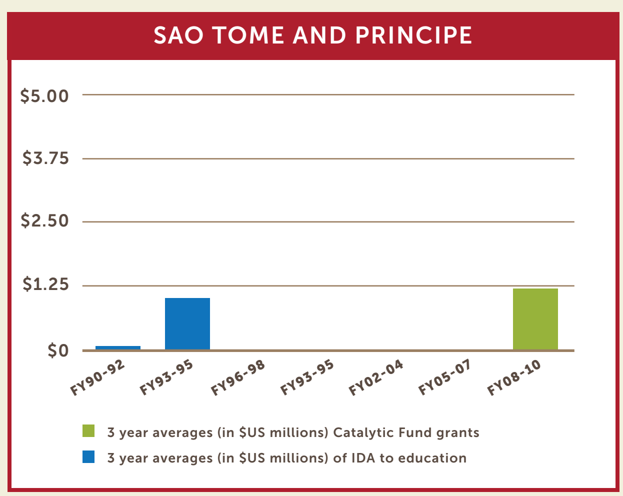

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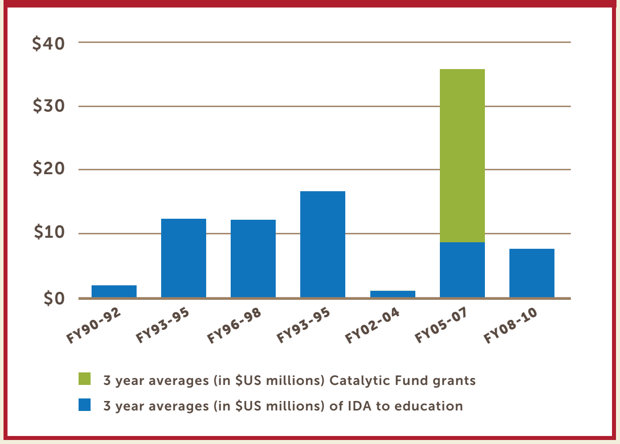

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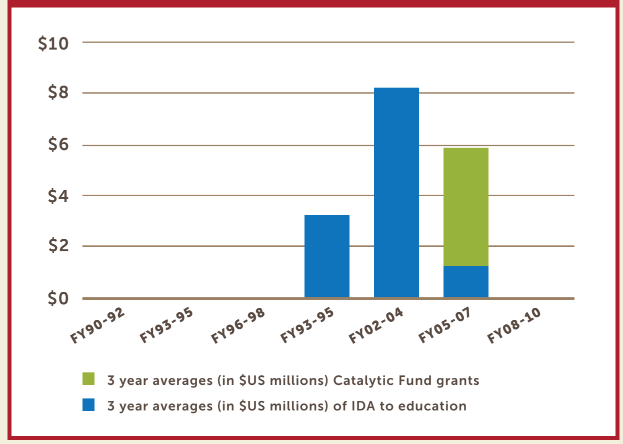

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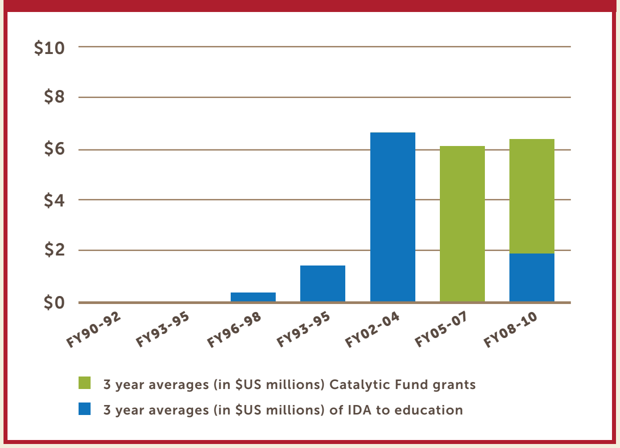

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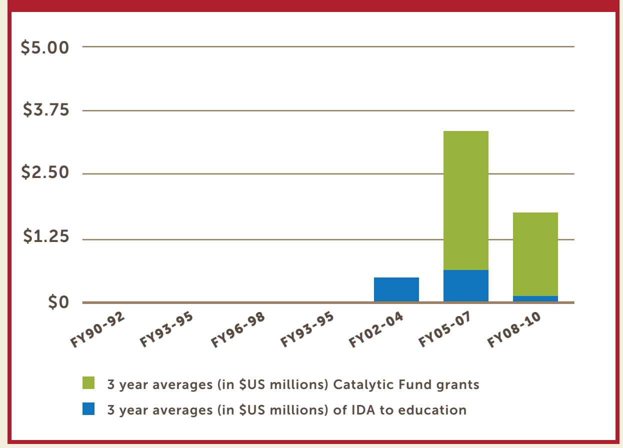

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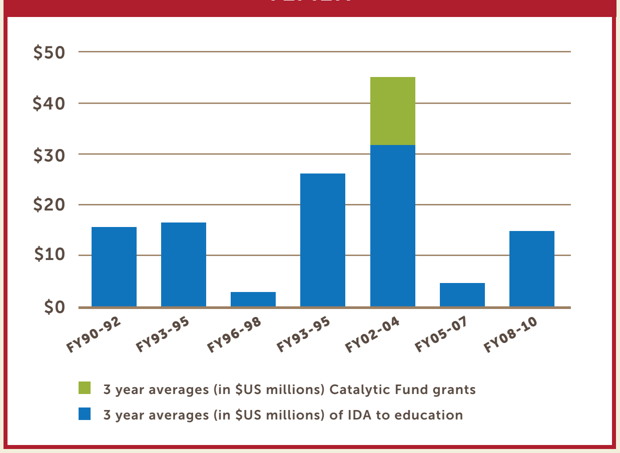

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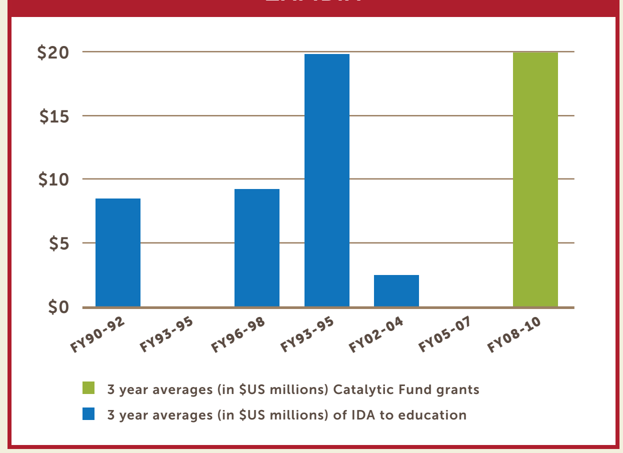

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