

## IDA'S PERFORMANCE-BASED ALLOCATION SYSTEM FOR IDA16

### I. Introduction

1. IDA's Performance-Based Allocation (PBA) system will continue to be the basis for the distribution of IDA resources during the IDA16 period. This annex provides an updated overview of the PBA system and highlights enhancements that were agreed during the IDA16 deliberations.<sup>1</sup> As in IDA15, the PBA allocations will be subject to: (i) grants-related discounts and reallocations; and (ii) MDRI netting out, capped at a maximum of 30 percent of a country's gross PBA allocation, and reallocation of compensatory resources.

### II. The PBA System for IDA16

2. The Country Performance Ratings of IDA countries are assessed annually using the Country Policy and Institutional Assessment (CPIA) ratings. The CPIA assesses each country's policy and institutional framework and consists of 16 criteria grouped into four equally weighted clusters: (i) economic management; (ii) structural policies; (iii) policies for social inclusion and equity; and (iv) public sector management and institutions (Box AI.1).<sup>2</sup> To ensure that the ratings are consistent with performance within and across regions: (i) detailed questions and definitions are provided to country teams for each of the six rating levels for each of the 16 criteria; and (ii) a World Bank-wide process of rating and vetting a dozen "benchmark" countries is carried out to anchor the ratings in all IDA regions. This is followed by a process of institutional review of all country ratings before they are finalized.

#### **Box AI.1: CPIA criteria**

##### **A. Economic Management**

1. Macroeconomic Management
2. Fiscal Policy
3. Debt Policy

##### **B. Structural Policies**

4. Trade
5. Financial Sector
6. Business Regulatory Environment

##### **C. Policies for Social Inclusion**

7. Gender Equality
8. Equity of Public Resource Use
9. Building Human Resources
10. Social Protection and Labor
11. Policies and Institutions for Environmental Sustainability

##### **D. Public Sector Management and Institutions**

12. Property Rights and Rule-based Governance
13. Quality of Budgetary and Financial Management
14. Efficiency of Revenue Mobilization
15. Quality of Public Administration
16. Transparency, Accountability, and Corruption in the Public Sector

<sup>1</sup> For details, see IDA (2010). "IDA's Performance-Based Allocation System: Review of the Current System and Key Issues for IDA16". <http://siteresources.worldbank.org/IDA/Resources/Seminar%20PDFs/73449-1271341193277/PBAIDA16.pdf>.

<sup>2</sup> For the detailed CPIA Questionnaire, see [www.worldbank.org/IDA](http://www.worldbank.org/IDA).

3. The CPIA underpins IDA's Country Performance Rating (CPR) but is not its only determinant. In addition to the CPIA, IDA Portfolio Performance Rating (PPR), which captures the quality of management of IDA's projects and programs, enters the calculation of the CPR. As in IDA15, the CPR in IDA16 will be calculated as:

$$\text{Country Performance Rating} = (0.24 * \text{CPIA}_{A-C} + 0.68 * \text{CPIA}_D + 0.08 * \text{PPR})$$

where  $\text{CPIA}_{A-C}$  is the average ratings of CPIA clusters A to C,  $\text{CPIA}_D$  is the rating of CPIA cluster D, and the PPR reflects the health of the IDA projects portfolio, as measured by the percentage of *problem* projects in each country.

4. While country performance is the main determinant of IDA country allocation, country needs are also taken into account through population size and GNI per capita. Population affects allocations positively (with an exponent of 1) while the level of GNI per capita is negatively related to allocation (with an exponent of -0.125). Specifically,

$$\text{IDA country allocation} = f(\text{Country Performance Rating}^5, \text{Population}, \text{GNI per capita}^{-0.125})$$

5. Starting in IDA16, the base allocation will be increased from SDR 1.5 million per year (SDR 4.5 per replenishment) to SDR 3 million per year (SDR 9 million per replenishment) in order to better meet the fixed costs of country engagement and maintain an effective country program. Since base allocations form an important share of allocations to small states, this step will also likely benefit mainly small states. Concurrently, the cap on per capita allocations will be eliminated altogether from IDA16 to better support small states whose allocations are currently constrained by this ceiling.

6. Two additional steps are required to arrive at a country's "final" allocation. First, grant allocations are discounted by 20 percent and 13 percent of this discounted amount is reallocated to all IDA-only countries, excluding gap and post-conflict countries. Second, for countries eligible for debt cancellation under the MDRI initiative, the debt service due in the relevant fiscal year is netted out from that year's allocation. At the IDA15 Mid-Term Review and during the IDA16 replenishment negotiations, IDA Deputies extensively discussed how best to mitigate the adverse allocation impact of the MDRI netting out. Based on these discussions, the Deputies endorsed and the Executive Directors approved<sup>3</sup> a change to the MDRI netting out mechanism so that the amount deducted as foregone debt service from an eligible country's gross annual PBA allocation is capped at 30 percent of such gross PBA allocation starting from FY11. This capped deduction will continue to apply during the IDA16 period. As before, the netted-out amounts are redistributed to all IDA-only countries, excluding gap countries.

7. Country allocations will vary annually with changes in the country's own performance and its performance relative to other countries, changes in eligibility for IDA resources and for IDA grants, and availability of IDA resources. The allocation norm is the basis for the financing scenario set out in CASs or ISNs.

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<sup>3</sup> Refer to IDA (2010). "A Mechanism for Mitigating the Allocation Impact of MDRI Netting Out".

8. **Exceptions.** The following specific exceptions to the PBA formula will be in place during the IDA16 period.

- First, “capped blend” countries with access, or potential access to IBRD receive less than their allocation norms due to their broader financing options;
- Second, as in IDA15, countries emerging from severe conflict will be provided with additional resources in support of their recovery and in recognition of a period of exceptional need. The special post conflict allocations are provided, as agreed in IDA15, for up to four years, plus six years of phase out to the performance-based norm. For the IDA16 period, post-conflict countries will also be eligible for a case-by-case extension of their phase out period beyond six years provided they meet a predetermined set of criteria.<sup>4</sup> Post-conflict allocations are based on country performance, which is measured using the Post-Conflict Performance Indicators. If such countries have large and protracted arrears to multilateral creditors, they may also be eligible for grants in the pre-arrears clearance period.
- Third, for countries re-engaging with IDA after a prolonged period of inactivity on a basis of a strong transitional plan with concerted donor support, exceptional allocations are provided, as agreed during IDA15, for a period of two years, plus three years of phase-out to PBA norms. The level of resources provided will be half of what is provided to post-conflict countries. For the IDA16 period, re-engaging countries will be eligible for a case-by-case extension of their phase out beyond three years provided they meet a predetermined set of criteria.<sup>5</sup> If such countries have large and protracted arrears to multilateral creditors, they may also qualify for grants in the pre-arrears clearance period.
- Fourth, IDA may provide exceptional allocations in the aftermath of severe natural disasters or economic crises from the Crisis Response Window, as described in Section III. A and in Annex 3.
- Fifth, there is a special provision for selected regional integration projects, which began as a pilot program in IDA13. The IDA16 period envisages up to SDR 500 million per year for such projects in topping up resources. These resources would be used to finance two-thirds of a country’s share of the costs of a regional project, with the remaining one-third contribution from the country’s IDA allocations. As in IDA15, a 20 percent ceiling will continue to be placed on country contributions to regional projects. Furthermore, starting with IDA16, the three-country requirement for regional projects will be relaxed to allow two countries, of which at least one is a fragile or conflict-affected country, to be eligible for financing for regional IDA

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<sup>4</sup> The eligibility criteria for the case by case extension are: (i) GNI per capita and country financing options; (ii) the presence of exogenous factors slowing down transitions; and (iii) portfolio performance. This approach may be modified in the context of subsequent discussions on financing for FCCs. See IDA (2010), “Updated IDA16 Financial Framework and Key Financial Variables”, and IDA (2010). “IDA’s Performance-Based Allocation System: Review of the Current System and Key Issues for IDA16”.

<sup>5</sup> Ibid.

projects.<sup>6</sup> The three-country criterion will be retained for all other regular IDA countries.

- Sixth, eligible countries can qualify for exceptional allocations to help finance the cost associated with the clearance of arrears to IBRD and/or IDA.<sup>7</sup>

### III. Disclosure

9. IDA countries are informed of the performance assessment process, which is increasingly integrated into the country dialogue. During IDA12 and IDA13, the CPIA and Country Performance Ratings for IDA countries were disclosed in quintiles. Starting in IDA14, the numerical ratings for each of the CPIA and Country Performance Ratings criteria have been fully disclosed on IDA's external website. Starting with the IDA15 period, the country allocations and commitments have been disclosed annually to the Executive Directors of IDA on an *ex post* basis (i.e., at the end of each fiscal year) to increase transparency. Starting with the IDA16 period, the country allocations and commitments would also be disclosed on IDA's external website.

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<sup>6</sup> Refer to IDA (2010). "IDA's Performance-Based Allocation System: Review of the Current System and Key Issues for IDA16". <http://siteresources.worldbank.org/IDA/Resources/Seminar%20PDFs/73449-1271341193277/PBAIDA16.pdf>.

<sup>7</sup> IDA (2007). "Further Elaboration of a Systematic Approach to Arrears Clearance." <http://siteresources.worldbank.org/IDA/Resources/Seminar%20PDFs/73449-1172525976405/3492866-1172526109259/ArrearsClearanceMZ.pdf>.