

## **Summary of the Performance-Based Allocation System for IDA14**

### **I. Introduction**

1. IDA's Performance-Based Allocation system (PBA) will continue to be the basis for the distribution of IDA resources during the IDA14 period. This annex provides an updated overview of the PBA system and highlights the enhancements that were agreed during the IDA14 deliberations.<sup>1</sup> The annex should be considered in conjunction with the new system for allocating grants during IDA14 (outlined in Section IIC). This system will be further elaborated in a grant implementation paper to be submitted to IDA's Executive Directors in June 2005.

### **II. PBA Overview**

2. The performance of IDA countries is assessed annually using the Country Policy and Institutional Assessment (CPIA) tool.<sup>2</sup> The CPIA assesses each IDA country's present policy and institutional framework for fostering poverty reduction, sustainable growth and ability to effectively use development assistance. The system has evolved over time and now comprises 16 criteria grouped in four equally weighted clusters: (i) economic management; (ii) structural policies; (iii) policies for social inclusion and equity; (iv) and public sector management and institutions (Box 1).<sup>3</sup> To ensure that 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) an institution-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.

3. IDA countries are being informed of the assessment process which is increasingly integrated in the country dialogue. Since IDA12 the CPIA and Country Performance Ratings (CPR) for IDA countries have been disclosed on a quintile basis. Starting in IDA14, i.e., with the 2005 ratings, the numerical rating for each the CPIA and CPR criteria will be fully disclosed.

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<sup>1</sup> For a more detailed description, see the IDA13 paper *Linking IDA Support to Country Performance – Recent Experience and Issues*, IDA, January 30, 2001. For information on the subsequent evolution and results of the system, see *Linking IDA Support to Country Performance – Third Annual Report on IDA's Country Assessment and Allocation Process*, April 30, 2002 (available at [www.worldbank.org/ida/PBA2002.pdf](http://www.worldbank.org/ida/PBA2002.pdf)).

<sup>2</sup> The system described here reflects the enhancements made in response to the recommendations made by the External Panel of Experts which reviewed in the spring of 2004 the CPIA methodology and process. Such external review is envisaged to be undertaken on a tri-annual basis.

<sup>3</sup> For the CPIA 2004 Questionnaire, see [www.worldbank.org/ida/pdf](http://www.worldbank.org/ida/pdf). There used to be 20 criteria; the reduction to 16 was based on a recommendation by the External Panel of Experts.

## Box 2: Revised 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/Equity**

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**

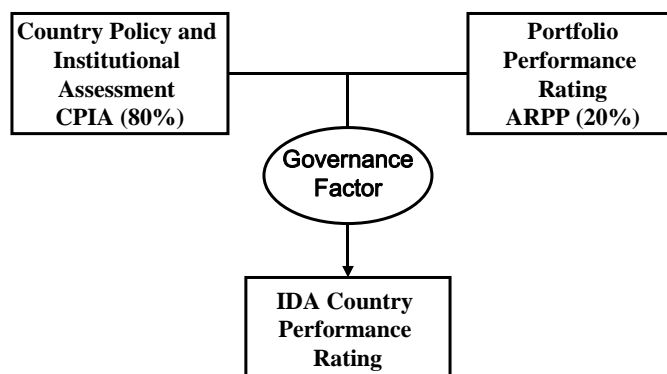
12. Property Rights and Rule-based Governance
13. Quality of Budgetary and Financial Management
14. Efficiency of Revenue Mobilization
15. Quality of Public Administration
16. Transparency, Accountability, and Corruption in the Public Sector

4. The CPIA underpins IDA's CPR but is not its only determinant. Two additional process steps are included. First, to capture the important dimension of quality of development project and program management, the Bank's Annual Report on Portfolio Performance (ARPP) is used to determine a score for each country's implementation performance. The ARPP scores are based on the percentage of IDA funded projects in the country that are considered at risk. These percentages are translated into 1-6 scores with the help of a conversion table.<sup>4</sup> A weighted average rating is calculated of the CPIA (80 percent weight) and the ARPP measure (20 percent weight). In the second step, this composite rating is multiplied by the "governance factor" to produce the country's IDA CPR ([Chart 1](#)).

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<sup>4</sup> The Conversion Table has been amended (see [Attachment 1](#)) to assure: (i) consistency with the new CPIA which now has definitions for each of the rating levels from 1-6; and (ii) alignment of the average ARPP ratings with that of the CPIA ratings by reducing the ARPP conversion scores.

Chart 1- IDA Country Performance Rating



5. The governance factor is derived from the five criteria in the CPIA's governance – or public sector management and institutions – cluster D, plus the three-year moving average of the procurement flag that is an element of the ARPP portfolio rating.<sup>5</sup> The average score of these six governance criteria is divided by 3.5, the mid-point of the 1-6 range, and an exponential of 1.5 is applied to this ratio:<sup>6</sup>

$$\text{Governance Factor} = (\text{average governance rating} / 3.5)^{1.5}$$

The country's overall rating is then multiplied by this factor, resulting in an increase (or decrease) of the overall IDA CPR, depending on the degree to which the country's governance rating is strong – above 3.5 (or weak – below 3.5).

6. IDA's resources are allocated on the basis of the IDA CPR (ensuring that good performers get a higher share of IDA's available resources), population, and GNI per capita:<sup>7</sup>

$$\text{IDA Country Allocation} = f(\text{CPR}^{2.0}, \text{Pop}^{1.0}, \text{GNI/Cap.}^{-0.125})$$

The formula shows that the country's policy and institutional performance is the dominant determinant (twice as high a score results in four times the allocation), while population also affects it significantly (the relationship is linear: a higher population

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<sup>5</sup> The moving average was introduced in 2004 to reduce unwarranted volatility of this governance indicator.

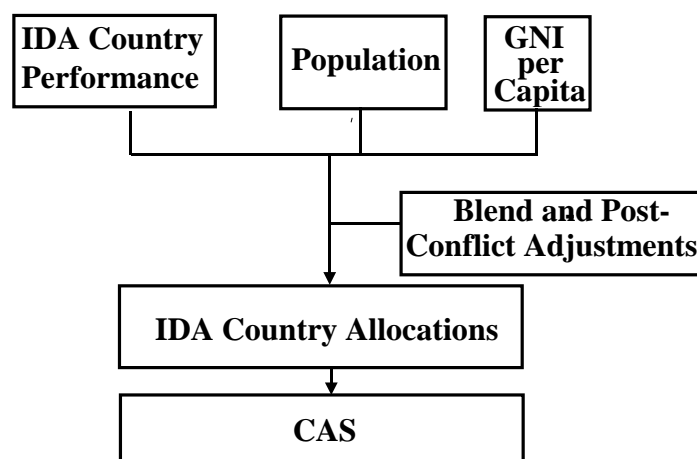
<sup>6</sup> Participants decided to maintain the 1.5 exponential of the governance factor. At the time of the mid-term review they will reflect on how this has affected the allocations at the country level, especially in the case of the strongest and weakest performing countries.

<sup>7</sup> For a more detailed specification of the IDA allocation formula, see Attachment 2.

results in a proportionally increased allocation). Finally, there is a modest bias in favor of the IDA eligible countries with a lower GNI per capita.<sup>8</sup>

7. The allocation norm establishes the financial resources available for each IDA country for a given year, and gives an indication of resource availability in the following two years. The terms in effect for the allocation will be determined in accordance with the grant allocation system for IDA14. Country allocations vary over time with changes in a country's performance, as well as with changes to other countries' performance, changes in eligibility for IDA resources and for IDA grants, and IDA resource availability. The allocation norm is the basis for the financing scenarios set out in CASs or Transitional Support Strategies (TSSs).<sup>9</sup>

**Chart 2 - IDA Country Allocations**



8. In addition to their performance-based allocations, all countries are allotted a basic allocation of SDR3.3 million. In terms of per capita allocations, this benefits small states in particular.

9. There are some considerations that merit exceptions to the allocation norms.

- First, “blend” countries with access, or potential access, to IBRD receive less than their allocation norms due to their broader financing options.

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<sup>8</sup> Poverty is heavily weighted in the allocation, since normally IDA eligibility requires that the country's per capita GNI is below the annually reviewed IDA operational cut off-level, which as of July 1, 2004, stands at \$895.

<sup>9</sup> In Spring 2005, revised CAS guidelines will be issued which will replace the terms “Transitional Support Strategy,” “Country Re-engagement Note,” “Interim CAS” and “CAS Update” with the new term “Interim Strategy Note” (ISN).

- Second, countries emerging from severe conflict can, under certain conditions,<sup>10</sup> be provided with additional resources in support of their recovery and in recognition of a period of exceptional need. The special post-conflict allocations may be provided for up to four years, plus three years of phase down to the performance-based norm.<sup>11</sup> If such countries have large and protracted arrears to multilateral creditors, they may also be eligible for grant support in the pre-arrears clearance period.<sup>12</sup>
- Third, in cases where the existing allocation would not allow for a sufficient response, additional allocations may be provided to IDA countries in the aftermath of major natural disasters.
- Fourth, additional allocations may be provided on a one time basis to countries that are in the process of re-engaging with IDA after a prolonged period of inactivity on the basis of a strong transition plan with concerted donor support.<sup>13</sup> This exception will only be used after all other options have been exhausted, and its use is expected to be very limited in the IDA14 period. The level of resources made available will be less than what is typically provided under the post-conflict allocation system, and the duration of exceptional allocations will not exceed two years, with one further year's support possible subject to strong performance. The rationale for using this exception will be clearly presented in the TSS.
- Fifth, there is a special provision for selected regional integration projects. As a continuation of this pilot program which was started in IDA13, IDA14 envisages up to SDR300 million per annum of such projects, whereby SDR100 million is to be contributed from the participating countries' IDA allocations, and the balance from the special provision. Experience under the pilot program will be reviewed at the time of the IDA14 Mid-Term Review. For more details, see the IDA13 Mid Term Review discussion paper.<sup>14</sup>

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<sup>10</sup> See *Aid Delivery in Conflict-Affected IDA Countries: The Role of the Bank*, November 2004. Annex on IDA's Approach for Allocating Resources to Post-Conflict Countries (pp16-20).

<sup>11</sup> The duration of exceptional eligibility was lengthened following the review of the post-conflict allocation system at the IDA13 Mid-Term Review. At the same time, the post-conflict allocation norms were somewhat lowered so as to leave the overall extra post-conflict allocations unchanged. See *IDA's Performance-Based Allocation System: Current and Emerging Issues*, IDA/R2003-0203, October 24, 2003.

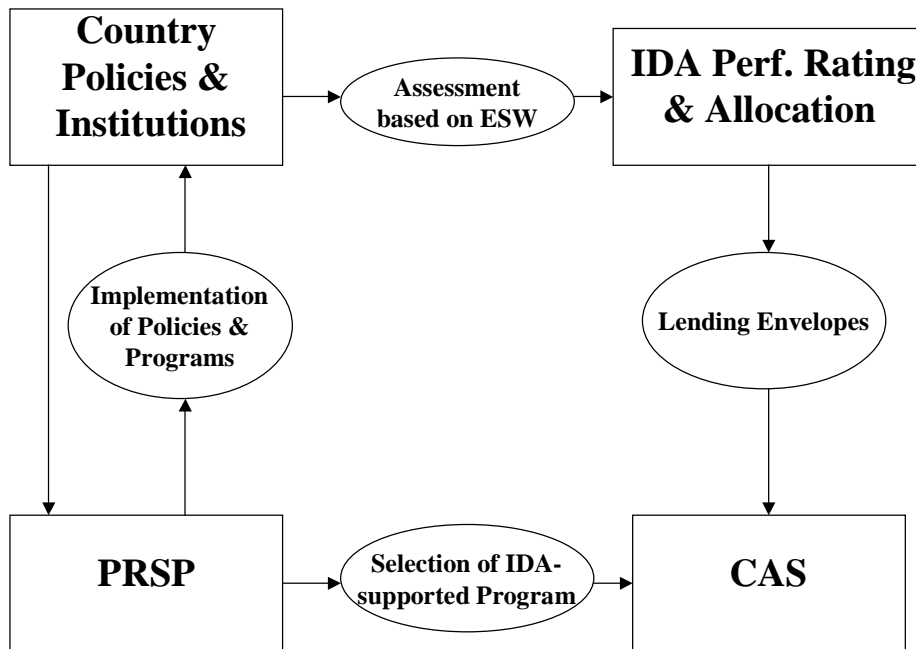
<sup>12</sup> This provision was first included in IDA12, and was kept unchanged in IDA13. The use of these grants is expected to be very limited, and must comply with the policy framework approved by IDA's Executive Directors in July 2001 for the provision of these grants.

<sup>13</sup> While these cases are rare, there are circumstances such as the recent Haiti transition where countries require exceptional assistance due to severe insecurity and the partial or total collapse of the state, but that are not eligible for IDA post-conflict assistance.

<sup>14</sup> *IDA's Performance-Based Allocation System: Current and Emerging Issues*, IDA/R2003-0203, October 24, 2003.

10. As the PRSP becomes a full-fledged strategic document of the country, the CAS becomes in essence IDA's business plan in support of the country's PRS, selectively supporting country poverty reduction goals on which IDA agrees and is best placed to make a contribution. The selection of the IDA-supported program from that of the PRSP will increasingly be influenced by IDA's performance assessment in *two* ways. First, the implementation of the PRSP's policies will be expected to be reflected in the IDA CPRs, and thereby in the base-case IDA allocation envelope. Second, as a diagnostic tool, the CPIA can indicate areas where attention needs to be focused and thereby influence the focus of the IDA-supported program; for example, the CPIA influences the ESW work program which may have an impact on the PRSP and, in turn, IDA's assistance program and future CPIA results. Chart 3 summarizes the links between the recipient country and its PRSP on the one hand, and IDA's CPR and lending envelopes and the CAS on the other hand.

**Chart 3-PRSP, IDA Performance Rating, & CAS**



**Rating Portfolio Implementation**

<b>Box 1 - ARPP Projects at Risk Conversion Table</b>	
<b>% of Projects at Risk</b>	<b>Rating</b>
0%	6.0
1%	5.5
2%	5.0
3-4%	4.5
5-6%	4.0
7-10%	3.5
11-15%	3.0
16-32%	2.5
33-60%	2.0
61-99%	1.5
100%	1.0

**ATTACHMENT II**

**IDA Allocation Formula**

Allocation Country  $_i$  (3-year) = SDR3.3 million + Performance-Based Allocation  $_i$  (PBA  $_i$ )  
where:

$$PBA_i = \frac{(IDA \text{ rating }_i)^2 \times Population_i \times (GNI/cap_i)^{-1.25}}{\sum_{i=1-81} [(IDA \text{ rating }_i)^2 \times Population_i \times (GNI/cap_i)^{-1.25}]} \times Envelope$$

- (i) IDA Rating Country  $_i = (0.8 \times CPIA_i + 0.2 \times ARPP_i) \times Govfact_i$
- (ii) Governance Factor  $_i = (\text{average rating of 6 governance criteria }_i / 3.5)^{1.5}$
- (iii) The Envelope = IDA three-year envelope, after deduction of the otherwise determined blend allocations as well as the allocations to eligible post-conflict countries
- (iv) The country allocation norm is subject to a maximum of \$20 per capita per annum.