

## IDA'S PERFORMANCE-BASED ALLOCATION SYSTEM FOR IDA15

### I. Introduction

1. IDA's Performance-Based Allocation (PBA) system will continue to be the basis for the distribution of IDA resources during the IDA15 period. This annex provides an updated overview of the PBA system and highlights enhancements that were agreed during the IDA15 deliberations.<sup>1</sup> As in IDA14, the PBA allocations will be subject to: (i) grants-related discounts and reallocations; and (ii) MDRI netting out and reallocation of compensatory resources.

### II. PBA Overview

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.

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<sup>1</sup> For details, see IDA (February, 2007). "IDA's Performance-Based Allocation System: Options for Simplifying the Formula and Reducing Volatility," and IDA (September, 2007). "IDA's Performance-Based Allocation System: Simplifying the Formula and Other Outstanding Topics."

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

### 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/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

3. The CPIA underpins IDA's Country Performance Rating but is not its only determinant. Two additional steps are needed. *First*, to capture the quality of management of IDA's projects and programs, the World Bank's Annual Report on Portfolio Performance (ARPP) is used to determine a rating for each country's implementation performance. During the IDA15 replenishment discussions, three changes in the calculation of portfolio performance ratings were approved by the Deputies to reduce unwarranted volatility. Therefore, starting FY08, the ARPP scores were based on the percentage of actual IDA problem projects instead of actual plus potential problem projects. In addition, a quarterly average of actual problem projects was used instead of an end-year snapshot. Finally a revised conversion scale was used to convert the percent of actual problem projects into a rating. *Second*, a governance rating was calculated using cluster D of the CPIA. Starting in FY08, the procurement factor was dropped from the calculation of the governance rating because this is obtained from the potential problem projects, which were dropped in the modification of portfolio performance ratings described in the first step.

4. Starting in IDA15, the calculation of the IDA Country Performance Rating will be simplified to make the weights of the components explicit.

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

$$\text{IDA country allocation} = f(\text{Country performance rating}^{5.0}, \text{Population}^{1.0}, \text{GNI/capita}^{-0.125})$$

The exponent on Country Performance Ratings went up from 2 to 5 to maintain the same dispersion of ratings and therefore of allocations as before.

5. Starting in IDA15, the base allocation will be increased from SDR1.1 million per year (SDR3.3 per replenishment) to SDR1.5 million per year (SDR4.5 million) to adjust for inflation since IDA9. Since base allocations form an important share of allocations to small states, they will likely benefit from this increase. In addition, the cap on per capita allocations will be raised from SDR13.2 to SDR19.8 to adjust for inflation since IDA9.

6. Two additional steps are required to arrive at a country's "final" allocation. First, grant allocations are discounted by 20 percent (9 percent for post-conflict countries) and 11 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. These netted-out amounts are then redistributed to IDA-only countries, excluding gap countries.

7. **Exceptions.** The following specific exceptions to the PBA formula have been agreed upon.

- First, "capped blend" countries with access, or potential access to IBRD receive less than their allocation norms due to their broader financing options;
- Second, countries emerging from severe conflict can, under certain conditions,<sup>3</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 six years of phase down to the performance-based norm. 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 can be provided 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. Eligibility is not automatic and continuation of exceptional support would depend on country performance. If such countries have large and protracted arrears to multilateral creditors, they may qualify for grants in the pre-arrears clearance period.
- Fourth, in cases where the existing allocations would not allow for a sufficient response, additional allocations may be provided to IDA countries in the aftermath of major natural disasters.
- Fifth, there is a special provision for selected regional integration projects, which began as a pilot program in IDA13. IDA15 period envisages up to

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<sup>3</sup> IDA (2007). "Operational Approaches and Financing in Fragile States."

SDR400 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. Beginning IDA15, a 20 percent ceiling will be placed on country contributions to regional projects.

- 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>4</sup>

8. IDA countries are informed of the 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.

9. 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 ISN.

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<sup>4</sup> IDA (2007). *“Further Elaboration of a Systematic Approach to Arrears Clearance.”*