SPECIAL DEVELOPMENT FUND

A REVIEW OF THE SDF (U)

RESOURCE ALLOCATION SYSTEM

April 2007

ABBREVIATIONS

ADB	-	Asian Development Bank
AfDB	-	African Development Bank
BMC	-	Borrowing Member Country
BNTF	-	Basic Needs Trust Fund
CDB	-	Caribbean Development Bank
CPIA	-	Country Policy and Institutional Assessment
FSO	-	Fund for Special Operations
GEF	-	Global Environmental Facility
IDA	-	International Development Association
IDB	-	Inter-American Development Bank
IFAD	-	International Fund for Agricultural Development
MDBs	-	Multi-lateral Development Banks
MDGs	-	Millennium Development Goals
PDA	-	performance-based allocation
PPI	-	Project Performance Index
PPMS	-	Project Portfolio Management System
PRES	-	Poverty Reduction Effectiveness Situation
SDF (U)	-	Special Development Fund (Unified)
TA	-	Technical Assistance

SYMBOLS

$	-	US dollar (unless otherwise specified)

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APPENDICES

1. INTRODUCTION

1.1 The SDF (U) Allocation System

1.1.1 The Caribbean Development Bank (CDB) allocates its single largest source of concessionary resources, the Special Development Fund (Unified) [SDF (U)], among member countries according to a performance-based allocation (PBA) formula that measures country need and country performance. The objective is to strengthen development results by targeting needs, placing resources where they are likely to be effective, and giving member countries an incentive to perform well. Since resources are at stake, PBA is, ideally, a strong form of "policy dialogue" between the Bank and member countries.

1.1.2 The allocation guidelines agreed by the Contributors include rules that define access by country group, set-aside resources for special purposes[1], and state a formula by which each country's allocation is calculated. The PBA allocations are not entitlements, nor are they absolute limits on the grants and loans that a country can receive. They are indicative planning figures and they may vary depending on circumstances and on the level of effective demand from member countries.

1.2 The Allocation Experience

1.2.1 CDB adopted the PBA allocation system in 2001 at the start of SDF 5.[2] It replaced the previous system of allocation of resources solely by country group and country need. Since that time there have been four SDF allocation exercises conducted by the Bank – three in SDF 5 (an initial allocation, a mid-term reallocation and an end-of-period allocation); and one in SDF 6, an initial allocation of funds. Appendix A, Table 5 shows the dollar allocations by country at each stage. Appendix B shows an example allocation for the Basic Needs Trust Fund (BNTF).

1.3 Purpose of this Paper

1.3.1 SDF contributors asked for a review of the allocation experience at SDF 5 mid-term and at SDF 6 mid-term. A Working Paper was distributed to the CDB Board as part of the SDF 5 Mid-Term Review in April 2003 entitled "*Implementation of the SDF (U) Resource Allocation Strategy*".[3]

1.3.2 The *Resolution and Report of the Contributors*[4] to SDF 6 called for a mid-term review that, among other things, would examine the experience with the PBA system for SDF (U) to date.[5] This is the report of that review. The CDB *Strategic Plan 2005-2009* similarly commits the Bank to a review of its SDF (U) resource allocation system.

1.3.3 CDB's objective in commissioning this report was to have an independent reviewer assess the allocation system[6] in light of experience between 2001 and 2006; and in light of the experience of other multilateral development institutions. The report describes the CDB's experience, identifies possibilities for improvement in the allocation system and presents options for consideration.

2. CONCESSIONARY RESOURCE ALLOCATION

2.1 Allocation Processes

2.1.1 CDB allocates SDF (U) funds among member countries every two years, at the start and the midpoint of each replenishment cycle, and sets aside some funds for special purposes. All borrowing member countries (BMCs) are eligible for an SDF (U) allocation, but Group 1 countries have access only up to the amount of their own contribution to the Fund and then only for certain purposes, such as crises and projects that contribute to regional "public goods".[7]

2.1.2 The Corporate Planning Department of the Bank calculates the country allocations, according to a formula, with inputs from other branches of the Bank. In particular, the Country Analysis and Policy Unit of the Economics Department has in the past provided country scores on "policy and institutional performance".

2.2 The Allocation Formula

2.2.1 The allocation formula of CDB's Special Development Fund, is shown below (See Appendix C for the formulae of other multilateral development banks). The CDB formula is multiplicative. It contains three factors to reflect country need (population, per capita income, and vulnerability) and two factors to reflect country performance (a policy-and-institutional performance score and a portfolio performance score). Each member country receives an allocation in proportion to its allocation score.

$$\textbf{Allocation score} = \textbf{(country need)}\ x\ \textbf{(country performance)}$$
$$= (\textbf{logPOP}\ x\ \textbf{GNPpc}^{-0.9}\ x\ \textbf{VUL}^{2.0})\ x\ (\textbf{0.7PRES+0.3PORT})^{2.0}$$

Where:

logPOP = the logarithm of population
GNPpc = gross national product per capita
VUL = country vulnerability (according to CDB's index of member country vulnerability)
PRES = country performance on policy and institutions (similar to the World Bank CPIA)
PORT = performance of the country's portfolio of CDB loans

2.2.2 Factors in the formula have two kinds of "weights". First, the two component factors in "country performance" (PRES and PORT) have arithmetic weights (70% and 30% respectively). Second, three factors are raised to a power (exponent). In general, the larger the absolute value[8] of the exponent the greater the weight of this factor in the formula.

2.2.3 CDB gives greatest weight to country performance and country vulnerability. Average per-capita income receives a lesser, but still substantial, weight. Population does not have an exponent, but rather appears in the formula in logarithmic form. The effect of this is to change the exponential distribution of population data into a linear form. This does not greatly affect the countries with relatively small populations but it strongly moderates the influence of "population" for the largest member countries.

2.2.4 CDB has two main options for its allocation formula in future:

1. CDB could keep its existing allocation formula. The advantages are continuity, experience and customisation to CDB's own priorities (both in terms of the weights of

various factors and by including a “vulnerability” factor). The disadvantages include complexity (compared with the IDB formula, for example) and some degree of lack of harmonisation with the major multilateral development banks, particularly in regard to their treatment of “governance” in the allocation formula. However, while maintaining the existing type and structure, CDB could modify its allocation formula to include a governance factor or, more sensibly, could give the existing governance cluster in the *Poverty Reduction Effectiveness Situation* (PRES) greater visibility and greater weight. The advantages are, first, that this might contribute towards giving governance more importance in CDB’s dialogue with member countries, not a bad thing when CDB is considering major policy-based loans; and, second, harmonisation with other Multi-lateral Development Banks (MDBs) that follow the World Bank/International Development Association (IDA) model would be enhanced.

2. Alternatively, CDB could change its allocation formula to be similar to the IDB formula. The advantages are simplicity and harmonisation within the Americas region. The disadvantages are discontinuity with CDB’s established approach, and the likelihood that, as harmonisation proceeds, the MDBs will take the World Bank/IDA type of formula as the standard.

Recommendation 1*:*

2.2.5 The World Bank/IDA, the Asian Development Bank (ADB), and the AfDB have harmonised on a single formula (or, at least, very similar formulas). If the Inter-American Development Bank (IDB) decides to harmonise with this group, despite the manifest advantages of its own simpler formula, then the case for CDB to do the same would be strong. However since the World Bank/IDA intends to review and perhaps change its allocation formula during the IDA 15 negotiations in 2007, we recommend that CDB wait to see the result before deciding on any changes to its own formula (apart from a change in the weight of “portfolio performance” – see recommendations number 13).

2.3 Reallocations

2.3.1 CDB conducted one reallocation exercise at the mid-point of the SDF replenishment period and one in the last year of the period. In a reallocation, the funds that are unlikely to be used are placed in a common pool and then reallocated iteratively by formula to countries with unmet demand. (See Table 2.3 for an example.)

TABLE 2.3: AN EXAMPLE REALLOCATION

Country	Initial allocation	Expected demand	Pot for reallocation	New allocation
	$ mn			
1	$5 mn	$12 mn		$11
2	$20 mn	$19 mn	$1 mn	$19 mn
3	$10 mn	$17 mn		$15 mn
4	$10 mn	$0	$10 mn	$0
Sub-totals:	**$45 mn**	**$41 mn**	**$11 mn**	**$45 mn**

2.3.2 In the example shown in Table 2.3, country 4 has no demand for SDF funds during the period so its initial allocation goes back into the common pot. Similarly, Country 2 requires $1 million less than its initial allocation, so that amount returns to the common pot. The other two countries demand more funds than they were initially allocated and, in total, more funds than are available. Therefore the funds in the common pool are reallocated by the standard allocation formula to the two countries that have effective unmet demand. How well each does in the re-allocation depends on its need and performance scores, as usual. The important point is that funds that are available for reallocation are reallocated by formula, not *ad hoc.*

2.3.3 However, CDB has, on occasion, made ad hoc changes to allocations in the face of absorptive capacity constraints in some countries and unmet demand for loans in other countries. This raises the question whether a reallocation every two years is sufficiently frequent. Most multilateral development banks, including the World Bank and the ADB reallocate their concessionary resources annually. Some reallocate even more frequently. The International Fund for Agricultural Development (IFAD), for example, conducts a reallocation immediately after the initial allocation to cope with the fact that it has a large number of small members that are unlikely to borrow during a particular allocation period, and then re-allocates annually at a minimum.

2.3.4 More frequent formula-based allocations are preferable to less frequent allocation exercises combined with case-by-case adjustments. However there is no "correct" allocation period. If allocations move too far out of alignment with effective demand, short of the two-year milestone, then a formula-based reallocation is in order.

Recommendation 2:

2.3.5 We recommend that CDB reallocate its SDF (U) resources every two years at a minimum, as is present practice, or annually if circumstances require.

2.4 Other MDB Allocation Formulas

2.4.1 The allocation formulas used by other multilateral development institutions are shown in Appendix C Tables 2 and 3. There are two main types of formula: (1) a complex multiplicative formula with exponent weights as exemplified by the World Bank; and (2) a simpler additive formula with percentage-share weights, as exemplified by the IDB.

2.4.2 The CDB formula is similar to the World Bank/IDA formula, as it existed in 2001 when the CDB adopted a formula approach. However there are some important differences. The CDB formula gives much less weight to population than the World Bank formula does. In effect this means that the CDB gives relatively more weight to poverty, vulnerability, the environment and country performance.[9] CDB also added a second "needs factor" (vulnerability) that is not part of the World Bank formula.

2.4.3 In a multiplicative formula one cannot change the weight of one factor, or add a factor, without changing the relative weights of all the other factors, sometimes quite radically. The interaction between factors is complex. Consequently, some member countries have criticised the allocation formula because it is difficult for a government to understand what are the most important things it needs to do to improve its allocation.

2.4.4 This complexity was magnified when the World Bank/IDA changed its formula, thereby double counting "governance" and giving the "governance factor" a sub-exponent. That is, the current World Bank/IDA formula has exponents on exponents. Not surprisingly, simplification is one of the main themes of discussion at present, and World Bank management has undertaken to place simplification options in front of the IDA Deputies during the IDA 15 replenishment negotiations.

> *"… Management proposes that the country performance rating formula be simplified and its outcomes be made less volatile. Simplification of the formula is necessary at a time when IDA is taking steps to be transparent about how its resources are allocated through public disclosure of its country performance assessments. A simpler formula would promote a clearer understanding among partner countries of which factors most influence IDA allocations*."[10]

2.4.5 In contrast, the allocation formula of the IDB[11] is much simpler. (Appendix C, Table 2) IDB decides how much weight it wants to give to country need and how much to country performance. It then divides the total money accordingly into two pots and allocates each pot of money separately. For example, suppose IDB has $100 of Fund for Special Operations (FSO) monies to allocate. If the Bank decides to give 60% weight to country performance then it sets aside $60 and allocates that amount among member countries strictly according to their performance scores alone. The remainder, $40, is allocated among the same countries but according to the "country needs criteria" alone. It is a simple system and no econometrics is needed to understand the weight of each factor in the formula. For this reason the IDB Board is able to understand and control the allocations whereas the World Bank/IDA Board relies more on expert staff for guidance.

2.4.6 The African Development Bank (AfDB) has adopted a formula that is similar to the World Bank/IDA formula, except in two aspects: (1) the "governance factor" in its allocation formula does not have a separate exponent and is, therefore, less complex) and (2) the AfDB adds a "post-conflict enhancement factor" to its formula rather than dealing with post-conflict countries separately, with a separate set of performance criteria, as the World Bank does.

2.4.7 In 2005 the ADB set out to harmonise its allocation formula with the World Bank/IDA system. However it did not like the obvious double counting of "governance", which in the World Bank/IDA formula appears both in the "policy and institutional performance" factor and also separately as the "governance factor". Therefore ADB removed the "governance cluster" from its policy and institutional performance score and had it only as a stand-alone factor in the formula. ADB then chose exponents for each factor in its allocation formula that, together, result in allocations that are identical to those that ADB would obtain if it used its own data and the World Bank/IDA formula. In summary, ADB has a more elegant, but still complex, formula that produces the same allocation results that the World Bank/IDA formula would produce if used with ADB data.

2.4.8 IFAD is an interesting case among the small agencies because, like CDB, it took the World Bank/IDA formula, changed the exponents to fit its own priorities (giving much more weight to relative poverty, for example, and much less weight to population) and added a new factor that reflects its special mandate (a policy and institutional performance score for the rural sector alone). This is similar to what CDB has done with its formula, except that CDB added a vulnerability factor that reflects regional conditions rather than reflecting a particular sector mandate as in the case of IFAD.

3. POLICY AND INSTITUTIONAL PERFORMANCE

3.0 Defining "Policy and Institutional Performance"

3.0.1 One of the two measures of country performance in CDB's allocation formula is called the *Poverty Reduction Effectiveness Situation*. It is a measure of policy and institutional performance, based on seventeen performance criteria. (See Appendix C, Table 4). Bank staff assigns a score to each country on each criterion, in light of the information available and professional judgement.

3.0.2 Other multilateral development banks use similar variables[12] for the same purpose.[13] This is partly because most of the allocation formulas were adopted soon after the publication of World Bank research that indicated that development aid was effective only in the context of good policies and institutions[14] in the recipient country.[15] However the adoption of this variable also reflects a reluctance to assess country performance by results. It was thought that economic growth, for example, is affected by too many exogenous variables to be a good measure of government performance, at least in the short term.

3.0.3 Each member country receives an allocation in proportion to its allocation score (in addition to its access to any set-asides). The absolute value of the performance variable is used in the allocation formula.[16] However it is not the absolute scores but the relative scores that affect the allocations of funds. This is important because the relative country performance can change from year to year.[17] For example, Dominica improved from 16th in 2003 to 10th in 2006. (See Table 3.1.)

TABLE 3.1: CDB PRES SCORES AND RANKS, 2001, 2003 AND 2006

	2001		2003		2006	
Country	**Rank**	**Score**	**Rank**	**Score**	**Rank**	**Score**
Antigua and Barbuda	17	2.10	17	2.15	17	2.87
Guyana	16	2.50	13	3.13	14	3.10
Dominica	15	2.68	16	2.46	10	3.39
Belize	14	2.82	14	3.10	15	3.06
St. Kitts and Nevis	13	2.89	12	3.16	13/12/11	3.30
St. Vincent and the Grenadines	12	2.92	11	3.31	13/12/11	3.30
Turks and Caicos Islands	11	2.93	07	3.58	9/8	3.40
Grenada	10	2.94	15	3.01	16	3.00
Jamaica	09	3.12	09	3.40	6/7	3.70
St. Lucia	08	3.22	04	3.75	4/5	3.80
British Virgin Islands	07	3.23	10	3.38	9/8	3.40
Montserrat	06	3.25	08	3.50	4/5	3.80
Anguilla	05	3.34	02	3.98	13/12/11	3.30
Trinidad and Tobago	04	3.49	06	3.65	3	3.82
Cayman Islands	03	3.70	05	3.66	6/7	3.70
Bahamas	02	3.84	01	4.03	2/1	3.90
Barbados	01	3.89	03	3.90	2/1	3.90
Haiti						
Suriname						

Score on Scale 1-5
See Appendix A, Table 1, for more details

3.1 CDB Review of the PRES

3.1.1 In 2006 CDB undertook a review of the PRES.[18] The resulting *Discussion Note* concluded that the process is basically sound and largely harmonised with the World Bank/IDA and other multilateral development banks. The Note recommended two main reforms. First, the scoring process needs improvement[19] and, second, the scoring instrument needs improvement.

3.1.2 The Discussion Note describes when each score (1 to 5) is appropriate for each of the PRES performance criteria. It also makes reference to relevant literature and data series.

3.1.3 However it does not address the matter of scored sub-criteria that has been the key development at the World Bank during the past three years. The World Bank/IDA has developed scored sub-criteria (typically three or four for each criterion). That is, it has broken its 16 policy and institutional performance criteria into sub-criteria. It is the sub-criteria that are scored directly. The score on each criterion is the average of the scores on its sub-criteria. The intent is to make the scoring more consistent across countries by scoring at the concrete sub-criterion level rather than at the level of general criteria.

3.2 The PRES and the World Bank Country Policy and Institutional Assessment (CPIA)

3.2.1 CDB's PRES variable is based on the World Bank/IDA CPIA variable, as it existed in 2001. At that time there were twenty criteria in the CPIA, each equally weighted (5%). They were arranged in four clusters. CDB took a similar approach, although it gave poverty issues greater visibility. Also, CDB made "environmental sustainability" a fifth "cluster" of criteria, rather than being only one criterion within the "economic management" group. This was to reflect the importance and the fragility of the environment in the Caribbean. Environmental sustainability was given a weight of 10% and, to enable this, the weight of "structural policies" (trade, financial sector, and business environment) was reduced from 25% to 15%. (Appendix A, Table 3 shows a comparison between CDB criteria and World Bank/IDA criteria in 2006).

3.2.2 Over time, both CDB and the World Bank/IDA have modified their formulas, so they are different from five years ago. For example, the World Bank/IDA has reduced the number of criteria from 20 to 16. Describing the recent changes the World Bank/IDA staff have said:

> *"Measurement has improved… To begin with, the criteria underpinning the ratings have become very explicit. Previously, they were specified only for the top and bottom ratings (for ratings "2" and "5" to be precise) and were not very exhaustive. They now cover all rating levels (from "1" to "6") in detail. In addition, each question is currently made up of two to four sub-ratings, which need to be evaluated separately. Country teams are therefore discouraged from basing their ratings on selected areas in which the country performs particularly well, but have to address all areas ... Moreover, country teams have to provide written explanations that justify their ratings. Finally, the Bank-wide reviews of the regions' (proposed scores) have become more thorough. The networks perform more in-depth quantitative and qualitative analysis, often complemented by external indicators… (Performance scores) also benefit from the advances made by other agencies in improving measurement... Despite these measures, as with other governance indicators, CPIA is still subject to certain measurement errors."*[20]

3.3 Scoring Procedures and Rating Team

3.3.1 The PRES for each country is calculated as a weighted average of its criteria scores. The weights are defined in the working paper "Allocation of the Special Development Fund Resources (Fifth Cycle), June 2001". The PRES score reflects the quality of the country's current policy/institutional performance – its actual situation not its stated intentions. Development results (such as growth rates) are taken into account, but these are influenced by many factors beyond a government's control. The main focus is policies and institutions, which are within its control.

3.3.2 In the past CDB's Country Analysis and Policy Unit of the Economics Department of the CDB has scored the PRES. Each Country Economist makes the score for his or her assigned countries.[21] Thereafter, a general meeting of all of the economists in the Unit discusses the performance scores. In 2005, functional specialists in Projects Department (environment, gender, social development) were asked to contribute to the country performance scores in regard to criteria related to their specialties. If there were a lack of consensus on a performance score for a particular country and criterion, the Head of the Economics Department has made a final determination.

3.3.3 There is an alternative approach. The World Bank separates the analysis of scores (the "work-up") from the scoring itself. Country economists and functional (network) specialists develop suggested scores and short supporting texts, but a Rating Team of senior managers, chaired by a senior policy advisor to the President, decides the final scores (not the country economists). Of course this requires senior managers' time, which is scarce; but it would have many potential benefits both within the Bank and in terms of the external credibility of the performance ratings. We believe that it is worth senior manager time to consider the broad range of BMC performances in depth once a year.

Recommendation 3:

3.3.4 We recommend that CDB convene a Country Performance Rating Team once each year to consider, revise if necessary and approve the PRES country performance ratings. The Rating Team should comprise a small number of executive managers. One good design would be to have the Vice President (Operations) as Chair, and, as members, the Director - Economics, the Director - Projects, and the Director - Finance and Corporate Planning. To minimise the time burden, the size of the team should be kept to four.

Recommendation 4:

3.3.5 The Rating Team should be supported by the country economists and by topic specialists in Projects Department. We recommend that the input of the country economists should be coordinated by the Chief Country Economist who should present proposed performance scores to the Rating Team for those criteria most relevant to the economists' expertise. The input of the functional specialists should be coordinated, and presented, similarly by the Division Chief, Project Services Division. For each performance criterion, country economists in Economics Department and functional specialists in Projects Department should prepare worksheets of suggested scores on each criterion, each with a supporting text. The rating meeting should be held in February and the background work for the scoring exercise should be integrated with the development of CDB's *Annual Economic Review*.

Recommendation 5:

3.3.6 We believe that the Bank is ready to make wider use of the performance scores in policy dialogue. This should be selective. If, for example, the Bank selected one "country performance criterion" each year for intensive review (including a cross-country comparative study of performance led by Economics or by PRSD) it would be well prepared to present and explain country rankings on that criterion. The *Annual Economic Review* would, in our opinion, be a good venue for such discussion.

3.4 The Scoring Questionnaire

3.4.1 To reduce subjectivity, CDB and the World Bank both use a "questionnaire" to help score policy-and-institutional performance.[22] For each performance criteria, the questionnaire describes the circumstances in which it is appropriate to assign a score of 1, 2, 3, 4 or 5.[23] The CDB questionnaire was based on the World Bank questionnaire in 2000, with some relatively minor customisation.

3.4.2 In the years since two things have happened. First, the pressure to harmonise procedures across the multilateral development banks has increased; and, second, the World Bank questionnaire has become more sophisticated. Specifically, in the past two years the World Bank has added sub-criteria to each main performance criterion. The sub-criteria number 46, about three per main criterion. It is these sub-criteria that are now scored, although the questionnaire has not been fully redeveloped to reflect this. In general the sub-criteria have equal weights and each main criterion score is a simple average of its sub-criteria scores. In two cases the sub-criteria have different weights. Other MDBs take a similar approach with some differences in details.[24]

3.4.3 CDB could continue to develop and customise its performance criteria, adding sub-criteria as the World Bank has done and developing a more extensive questionnaire for country performance scoring, or, alternatively, CDB could use the World Bank questionnaire. There is at least one precedent for this since the ADB decided in 2005 to use the World Bank questionnaire in future. If CDB further develops its own questionnaire, it requires a great deal of work, especially to develop sub-criteria and guidelines for scoring them. Experience in the first five years of CDB's system indicates that finding staff time to develop the questionnaire and keep it current is not easy. Using the World Bank questionnaire would result in substantial savings in the economist and sector specialist time that would otherwise be needed to keep a questionnaire up to date. Using the same questionnaire would also facilitate some joint benchmarking of country performance by CDB and the World Bank.

3.4.4 On the other hand, if CDB decided to harmonise fully with the World Bank questionnaire, it would lose some of the nuances that are possible when one crafts a customised approach. However the structure of CDB's questionnaire is already very similar to the World Bank's. Its results, in terms of ranking country performance, are probably the same as they would be if the same scorers used the World Bank questionnaire, or very similar.

3.4.5 Even if CDB used the World Bank questionnaire, it could keep its own priorities for country performance. That is, CDB could use the World Bank questionnaire but assign its own weights to the criteria therein.

3.4.6 In 2001 the full harmonisation option was not open because the World Bank/IDA scoring exercise, and the resulting scores, were secret. Scores were not disclosed even to the IDA Deputies, except in broad ranges (quintile groups). This has changed. With full disclosure in 2007, harmonisation and collaboration with CDB on the questionnaire and benchmarks have become viable options.

Recommendation 6:

3.4.7 We recommend that CDB adopt the World Bank/IDA policy and institutional performance questionnaire, while keeping its own criteria weights and applying its own judgment to generate scores. The PRES will need minor adjustments to cope with this change in scoring instrument.

Governance as a Performance Criterion

3.4.8 Governance is important to all aspects of development and particularly important in the context of debt problems and policy-based lending. The CDB PRES contains a cluster of criteria called "Governance/Public Sector Management", which covers the rule of law, anti-corruption and accountability institutions, civil service, revenue mobilisation and budgetary management; and management and efficiency of public expenditures. (See Appendix C, Table 5 for a comparative view of the weight of "governance" in the MDBs' concessionary resource allocation formulas.)

3.4.9 The World Bank recently published a review of its experience with "governance" in the concessionary resource allocation formula.[25] "Governance" is one of the clusters of criteria in its assessment of CPIA, entitled "Public Sector Management and Institutions".

3.4.10 The World Bank cluster contains five criteria: (1) property rights and rule-based governance; (2) quality of budgetary and financial management; (3) efficiency and equity of revenue mobilisation; (4) quality of public administration; and (5) transparency, accountability & corruption in the public sector. In both the CDB and the World Bank/IDA this cluster of criteria has a weight of 25% in the assessment of country policy and institutional performance.

3.4.11 The World Bank/IDA has experimented with various ways to emphasise "governance" in its allocation formula, without great success. In its current allocation formula, the World Bank/IDA has combined this cluster with the "procurement efficiency indicator" from its Annual Review of Portfolio Performance and called the combined variable "governance". It is, clearly, mainly public sector management rather than governance more broadly defined.[26] The previous approach (a "governance factor" used to discount allocations) was deemed too draconian and the current approach (double counting the public sector management criteria in the allocation formula) does not seem appropriate either.

> "*The PBA formula has become more complex. Double counting the CPIA governance cluster and the procurement flag from the ARPP, and introducing an exponential multiplier in the form of the governance factor, has made the calculation and interpretation of the country performance rating more complex. As a result, it is difficult to say how much each component contributes to and weighs within the formula. This complexity of the formula is especially problematic at a time when IDA is taking steps to be transparent about how its resources are allocated through public disclosure of its country performance assessments. Explaining how allocations change at the country level due to changes in underlying country performance is not straightforward and this difficulty has surfaced regularly in conversations with country teams and governments who want to know what impact improvements in certain components or clusters of the CPIA would have on the final country performance rating, and therefore allocation*."[27]

Recommendation 7:

3.4.12 CDB has selected an appropriate weight for the "governance cluster" of performance criteria in the PRES. Nothing additional is needed to emphasise its importance.

3.5 Sector Specialists, Thematic Studies and Country Performance Scores

3.5.1 One of the key challenges in managing CDB's concessionary resource allocation system is finding a way to generate country performance scores for each performance criterion. To date the Bank has relied on the professional judgment of the country economists, with some assistance from sector specialists in 2006. One can see the rationale for the economists to do the scoring for those performance criteria closest to the economists' expertise, including the following items in the performance questionnaire: Trade Policy, Financial sector efficiency and soundness; Factor and product markets and prices; Revenue mobilisation and budgetary management; Management and efficiency of public expenditures; Fiscal policy, Monetary policy and External financing policies.

3.5.2 However there are other PRES criteria that may be closer to the sector expertise to be found in the new Project Services Division of Projects Department. These include:

- **Social Analysts:**
  Framework for poverty reduction policy. Enhancing the human capital of the poor. Enhancing the economic capital of the poor. Equity and social safety nets.

- **Gender Specialist:**
  Gender, empowerment and participation

- **Governance Specialists:**
  Rule of law. Anti-corruption and accountability institutions. Civil service

- **Environmental Specialists:**
  Environmental laws, regulations and institutions. Environmentally damaging subsidies and other damaging practices

3.5.3 Specialists could score these criteria in the same way as the economists presently score them. However, progressively, they need to be supported by cross-country thematic studies to be really well based. Perhaps only one such study could only be undertaken each year because they are expensive, but in the long run they are very important to CDB's expertise and credibility.

Recommendation 8:

3.5.4 (A) We recommend that responsibility for different PRES criteria be divided between Economics Department and Project Services Division to do the work-up of possible scores for the Rating Committee to consider. A work-up will comprise the suggested scores by country for each criterion supported by a short comparative text.

3.5.5 (B) The scores and supporting text will involve professional judgment supported by periodic cross-country-comparative thematic studies. We recommend that commissioning such thematic studies should be an eligible use of SDF (U) funds.

3.6 Harmonisation and Cooperation with Other MDBs

3.6.1 The idea of benchmarking is to assess the performance scores of one or more countries in detail so that the scorers of other countries' performance have something against which to judge appropriate scores. Benchmarks would improve the consistency of scoring within the CDB and, possibly, between the CDB and other multilateral institutions that also score Caribbean countries' performance.

3.6.2 A 'benchmark' BMC may be selected for each performance criterion. The benchmark country could be different for each criterion, if appropriate, or the same for all criteria. The benchmark country is chosen not because it is likely to receive any particular score, but rather because its performance and the appropriate score are likely to be clear. Logistically it is generally easier to have a single benchmark country (although the World Bank had 20 in 2006 to ensure that each region was represented in the benchmark group).

3.6.3 The World Bank/IDA relies on benchmarking to ensure consistency of performance scoring across countries and regions. For instance in December 2006 the World Bank conducted a benchmarking exercise in preparation for the main country performance scoring exercise in March 2007. Twenty[28] countries were scored against the policy and institutional performance criteria. There were two Caribbean countries in the benchmark group – Guyana and Grenada.

3.6.4 One can envisage the possibility of a joint benchmarking exercise involving CDB, IDB and the World Bank/IDA. Similarly one could envisage joint benchmarking of the environmental criteria between CDB and the Global Environmental Facility (GEF), which also operates a PBA system.

Recommendation 9:

3.6.5 We recommend that CDB explore the possibility of joint benchmarking with other multilateral development institutions working in the Caribbean, including the IDB and the World Bank. CDB should send an economist, one or more sector specialists and an evaluator from Evaluation and Oversight Division (for general methodology and for the portfolio performance variable) to Washington, D.C. each year to participate in the joint MDB "country performance benchmarking exercise", which is generally in November/December.

3.7 Disclosure, Country Dialogue and Peer Input

Disclosure

3.7.1 CDB has been in the forefront of MDBs in regard to disclosure of all aspects of the performance-based concessionary resource allocation system. Country performance scores disaggregated to the level of individual criteria have been available to the Board and to any country that wishes to ask. (See Appendix C, Table 10 for a comparative table of disclosure practices among MDBs).

3.7.2 The World Bank has disclosed less than the CDB. For many years it disclosed only the quintile ranks of country performance (top fifth, bottom fifth, etc.) It now discloses the performance scores of each member country, whether IDA eligible or not, but it does not disclose the actual dollar allocations by country.

3.7.3 Obviously full disclosure is necessary if the PRES is to be a significant part of the CDB's policy dialogue with member countries. In principle the PRES provides a framework for country dialogue. Written text in support of the PRES scores would be a useful addition. It would be sensible, in most cases, to undertake such a dialogue in conjunction with other MDBs that are also scoring the country's performance.

Peer Input to Country Performance Ratings

3.7.4 In the medium term, CDB should engage its BMCs in a dialogue as input to the country performance scores. At some stage in the future it is conceivable that two or three BMCs each year (perhaps on a rotating basis) might be invited to participate in the annual meeting of the CDB's Country Performance Rating Team, providing a peer perspective on country performance.

CDB-Country Policy Dialogue

3.7.5 A third kind of dialogue involves "triggers". The idea is that a country would receive not a single allocation figure but a range. Thereafter its actual allocation would be high or low in the range depending on its short-term performance on agreed policy and institutional objectives. The World Bank and ADB tried to implement "triggers" for some years. In principle the approach may strengthen policy dialogue; but in practice it proved too complex and too demanding of supervision time, and was discontinued.

Recommendation 10:

3.7.6 (A) We recommend that CDB explore the possibility of an annual discussion with each BMC on its performance ratings, perhaps jointly with other multilateral institutions that now score country performance (including World Bank/IDA, IDB, IFAD, and GEF).

3.7.7 (B) To facilitate dialogue, we recommend that each set of scores (by country and by criterion) be supported by a short written text[29] (See Appendix D for an example of a World Bank template for this purpose). This would involve greater disclosure than the World Bank currently undertakes, since, at present, it discloses the scores but not the supporting text.

3.7.8 Dialogue could also be facilitated by a system that alerts CDB to projects or portfolios at risk. The World Bank/ADB "red flag" system performs this function. (Appendix E)

3.7.9 Some multilateral institutions have found that policy dialogue is more possible, and more productive, when it is related specifically to core aspects of the institution's mandate. For example, the GEF calculates a country performance index that is only partly portfolio performance (See Section 4.0 following). It contains two other variables explicitly focused on the environmental mission of the GEF. (See Appendix F).

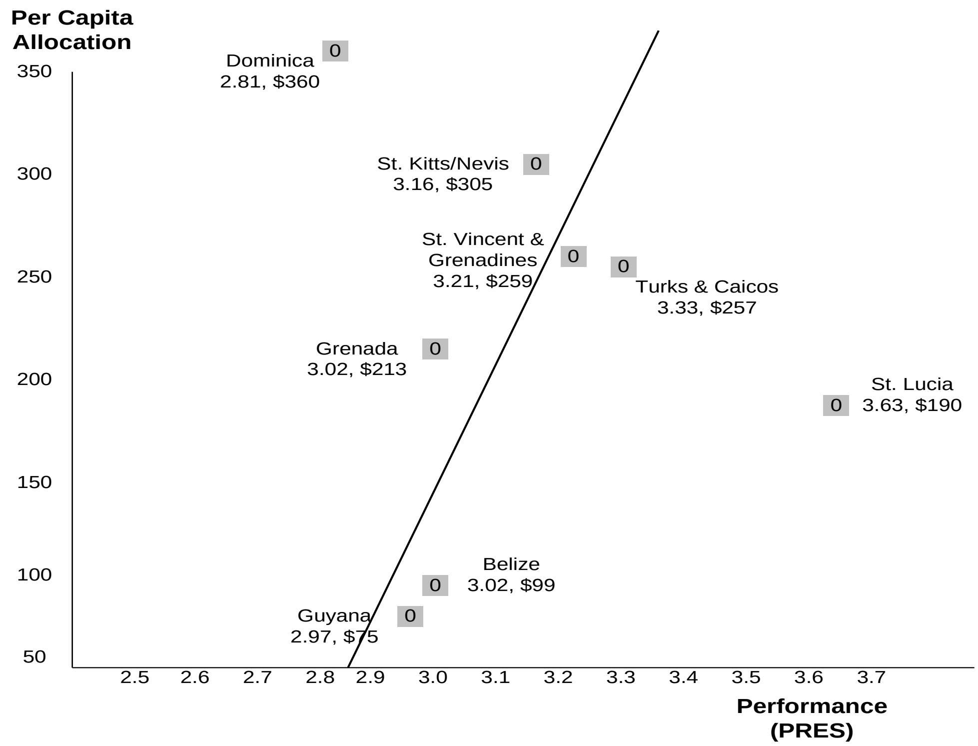
3.8 The Influence of PRES on the Allocations

3.8.1 The PRES appears to have had a strong influence on the SDF (U) allocations. For example, consider the performance scores[30] and dollar allocations of six member countries[31], four of which are in Group 3, one in Group 2 and one in Group 4. These countries display a strong correlation between PRES performance and SDF (U) dollar allocations. (Figure 3.8). The correlation coefficient is approximately 0.76, which is very high. About 57% of the variability of SDF (U) dollar allocations is explained by country performance (PRES), in these cases.[32]

3.8.2 However in some other cases PRES has not been so influential. Dominica, for example, has received a greater allocation per capita than one would expect purely on the basis of its policy and institutional performance score.[33] In contrast, St. Lucia received a per-capita allocation that was less than its PRES performance score alone might have predicted. St. Lucia's population is more than twice Dominica's and its per capita income is about 25% higher. On the other hand its portfolio performance score was better and its vulnerability index higher.

3.8.3 In summary, a country's PRES performance is, in general, a strong influence on its SDF (U) allocation, but there are four other factors in the allocation formula, each of which can be influential in a particular case.

FIGURE 3.8: PRES PERFORMANCE AND PRE-CAPITA SDF (U) ALLOCATIONS, SELECTED COUNTRIES, 2002-2006



Notes:
"Per capita allocation" is for SDF 4, 5 and 6 taken together. See Appendix A, Table 5.
"PRES Performance" is the average of four PRES exercises, 2001 to 2006, See Appendix A, Table 1

4. COUNTRY PORTFOLIO PERFORMANCE

4.0.1 All of the multilateral institutions that allocate concessionary resources by formula use "portfolio performance" as one variable in the formula. It is the minor component in assessing country performance. ("Policy and institutional performance" is the major component, in all instances.)

4.0.2 CDB gives the performance of the country's CDB loan[34] portfolio a weight of 30% and it gives policy/institutional performance (PRES[35]) a weight of 70%. These weights are similar to those of other institutions, although both the World Bank/IDA and the ADB give portfolio performance a somewhat smaller weight. 15%-18% in the case of ADB. (See Appendix G); and 20% in the case of ID (See Appendix C, Table 3 and Appendix H)

4.1 Defining Portfolio Performance

4.1.1 Most MDBs use a "red flag" system to measure project performance. However they vary in the way in which "red flags" are converted to a performance score. The World Bank uses a simple measure of percentage of projects at risk. IDB, in contrast, does not convert raw percentages of problem/alert projects to a 1-6 scale using an arbitrary equivalence table. Instead the IDB measures a country's portfolio performance as the undisbursed amount in problem or on-alert projects compared with the total amount undisbursed from all current projects in the country (expressed as a percentage).[36] (See Appendix I). The AfDB goes a step further and includes potentially problematic projects as well. (See Appendix J.)

4.1.2 CDB keeps a Project Performance Index (PPI),[37] which reports project performance scores based on the Bank's PPES. The project performance criteria[38] are strategic relevance, poverty relevance, efficacy, economic efficiency, institutional development impact, and sustainability.[39] A country's *portfolio performance score* is the average performance score of all current investment projects.

4.1.3 This is a distinctive system that meets standards of good practice among the MDBs. The performance index number captures a good deal of information. Its strength is that it is based on the performance of all active investment loans, not only on the percentage of "projects at risk" as other MDBs do. However the system needs to be up-dated and extended to cover technical assistance (TA) operations (at least over a certain size) as well as investment operations.

4.2 The Small Portfolio Volatility Problem

4.2.1 If a country has a small CDB portfolio (say, less than three operations, including TA projects) then its portfolio performance score might not be a good indicator of its true performance. The performance score might be unstable, changing substantially when a new project enters or a completed project leaves the portfolio.

4.2.2 The form of the allocation formula exacerbates this instability. CDB's allocation formula is a multiplicative one. Therefore the allocation outcome is equally sensitive to each and every variable in the formula (putting aside for the moment the issue of different weights for different variables). To make the point another way, a 25% change in "vulnerability" has the same effect on the allocation outcome as a 25% change in country performance.

4.2.3 However, as a practical matter, the values of some variables do not change much from year to year (population, per capita income, and vulnerability, for example) and, in contrast, the values of some variables can change a lot. Therefore it is this second set of variables (PRES and PORT) that tend to result in changes in allocations from year to year.

4.2.4 This is fine if the changes in the variable values are meaningful. Unfortunately this is sometimes not the case. For example, PORT is quite volatile in an artificial way, and its volatility can lead to major changes in a country's allocation for no better reason than a single project has moved into or out of the country's small portfolio.

4.2.5 Consider a country with two projects current in year 1. The better project has a PPI of 7.5 and the worse project a PPI of 2.0. Imagine that in Year 2 this country has only one project still active. If it is the better project then the country PPI in Year 2 will be 7.5 and if it is the worse project that is still active then the country PPI will be 2.0. Imagine further that the country's PRES is 3.0. In the first case the country performance factor will be $(0.7*3.0 + 0.3*7.5)^2 = 18.9$, and in the second case the country performance factor will be $(0.7*3.0 + 0.3*2.0) = 7.29$. To put it another way, this country's allocation could be more than twice as large in the second year if the worse project is terminated in Year 1.

4.2.6 This artificial volatility is a serious problem for CDB because several BMCs have small portfolios of capital invest projects. In 2005, for instance, at the time the PPI was calculated for reporting to the Board, nine BMCs had two or fewer active capital investment projects. Eight other countries each had seven or more projects each. The PPI is an unstable measure for the first set of countries and a much more stable measure for the second set.

Recommendation 11*:*

4.2.7 We recommend three things to ameliorate the small-portfolio problem in the PORT variable: (1) CDB should extend its PPI to include all operations, including TA over a certain size and this requires entering full information into the Portfolio Performance Management System for TA projects as well as capital investment projects; (2) the country portfolio performance score should be averaged[40] over all project scores for the previous three years, rather than only current projects; and (3) where a country still has such a small portfolio that CDB judges that its portfolio performance score is not a reliable measure of its performance, we recommend that PORT be given zero weight in the calculation of these countries' allocations (that is, country performance would be judged solely by PRES).

4.3 Portfolio Performance Issues

Capital Projects or All Operations?

4.3.1 Most institutions base their portfolio performance scores on all operations. CDB does not presently score TA operations, so the PPI is based only on investment projects. A recent evaluation of CDB's TA operations found no bar to extending performance scoring to all operations.[41] If this were done then the PPI could be based on all CDB operations, which is desirable in itself and would harmonise the CDB's approach with other multilateral institutions.

Should "portfolio performance" be based on the PPI or on "projects at risk"?

4.3.2 All other institutions base their "portfolio performance" scores on "projects at risk" which, in turn, is based on a system of "red flags" (See Appendix E for a comparative table). In 2002 CDB stated its intention at some time in the future to consider a 'projects at risk' variable in its allocation formula for concessionary resources. It does have such a variable in its Project Portfolio Management System (PPMS).[42] The CDB project-rating form that is completed after each supervision milestone indicates that the project is 'at risk' if more than one 'red flag' is up.[43]

4.3.3 However CDB does not currently use "projects at risk" in its resource allocation formula. It uses a ***PPI***, which is the average performance score of all investment projects active at the time. Therefore CDB is the only MDB to use all its project evaluation data (not only data for "projects at risk") as the basis for a 'portfolio performance' variable in the resource allocation formula. This should provide a better basis for the 'portfolio performance' variable than projects-at-risk, because it captures information about the quality of all active projects rather than only the small group of projects at risk. It also helps avoid or lessen[44] certain traps inherent in the at-risk calculation, notably that terminating a non-performing project (and thereby removing it from the at-risk category) can artificially and counter-intuitively sharply improve the country's portfolio performance score. Also, at a practical level, CDB has so few projects flagged as "at risk" that the measure does not distinguish much among BMCs.[45]

Recommendation 12:

4.3.4 We recommend that CDB continue to use the PPI (rather than the percentage of projects-at-risk) as the basis for its "portfolio performance" variable.

The weight of portfolio performance in the allocation formula.

4.3.5 The 30% weight of "portfolio performance" in the "country performance" factor in the PBA formula is common among multilateral institutions, although the World Bank/IDA gives it less weight (20%).

Recommendation 13:

4.3.6 We recommend that CDB change the weight of PORT in the country performance factor in the allocation formula to 20%. This harmonises with the World Bank/IDA and seems a reasonable weight. When the volatility problems of the variable are remedied, CDB might wish to consider a weight of 30% again. At the same time CDB should engage with other MDBs to agree on a consensus weight for "portfolio performance".

Should portfolio performance be the average of weighted project scores?

4.3.7 The IDB uses of the undisbursed amount in problem/on alert projects (rather than the simple number of problem/on-alert projects). In effect this weights the performance scores by project size. A very small project that goes on alert, or a project that goes on alert late in its life, will affect the country's portfolio performance score less than large projects and early alerts. CDB does something similar with its project performance scores, weighting the PPI by loan approval amounts.

4.3.8 On balance the CDB approach seems better. If one weights by the undisbursed balance of the loan, then a loan project that remains bad throughout its life will gradually influence the country PPI less and less as its budget gets disbursed.

Recommendation 14:

4.3.9 (A) We recommend that CDB continue to weight its PPI by project size (approved budgets). This will avoid small operations being overly influential in the country portfolio performance score, balancing our recommendation that TA operations (which tend to be small) should be included in the base on which country portfolio performance is calculated. At the same time, weighting by approved budget avoids the problem encountered by the IDB that a good (or bad) project declines in influence on the country average PPI as it gradually disburses its monies.

4.3.10 (B) The focus on the current state of the portfolio (rather than a longer view) can lead to volatility in scores.[46] For instance the failure and closure of a weak project can result in an improved country performance score without anything else happening to the portfolio. CDB should count the score of a project terminated incomplete in calculating the country's portfolio performance score in that year; and should consider other ways to penalise non-completion or extremely late completion of projects.[47]

Adjustment for the age of the portfolio

4.3.11 New portfolios tend to have an over-optimistic performance score because problems have not yet had time to emerge. It is difficult to assess the performance of new borrowers [or a new government of an established borrower, or a country that has several new loans] until sufficient time has elapsed to expose problems.

4.3.12 Because managers in charge of projects have historically underestimated the number of 'projects at risk',[48] the World Bank adjusts the estimate to take into account the average 'net disconnect'[49] observed in the past between managers' assessments and actual outcomes.[50] If the 'net disconnect' for a country during the most recent World Bank fiscal year was 20% or more, or if net commitments associated with unsatisfactory projects, as rated by the World Bank Operations Evaluation Department, represent more than 40% of commitments for completed projects over the past five years, then this raises a red flag.

4.3.13 CDB could prepare an exploratory paper on the disconnect (if any) between early-year PPI scores and scores on completion. If a significant disconnect is found, CDB could consider an adjustment factor to each country's average PPI linked to the average age of the projects in the country portfolio. This is not a high priority but could be investigated after other reforms to the project performance variable are complete.

The Scoring Scale

4.3.14 CDB scores portfolio performance on a scale 0-10 and other multilateral development banks use 1-6. This has no significant implications since (1) the portfolios are different so there is no reason why a country should receive the same or even similar portfolio scores from different institutions, even if the scoring is on the same scale; and (2) it is relative performance that matters to the allocation so the measurement scale is immaterial. However if CDB adopts the World Bank/IDA country performance questionnaire it would be convenient to adopt the six-point scale at the same time, rather than have to adjust the related scoring guidelines to a five-point scale.

Recommendation 15:

4.3.15 We recommend that CDB adopt the six-point country performance scoring scale.

5. COUNTRY NEED

5.1 Defining Country Need

5.1.1 The SDF (U) allocation formula contains three variables related to country need. These are population, per capita income[51] and country vulnerability. Together these variables are a reasonable surrogate for country poverty, although individually they leave much to be desired as measures of poverty. In general, CDB, like all other MDBs, needs better measures of poverty in its allocation formula. IFAD has made some interesting efforts in this regard, using rural population (not total population) and considering the addition of UN measures of the incidence of malnutrition.

5.1.2 Population and per capita income can be used to indicate relative poverty as long as the distribution of income is the same in the two countries being compared. However, since that will seldom or never be the case, a more direct measure of the number of poor people would be preferable – say the number of people (or families) earning less than the poverty threshold.

Recommendation 16:

5.1.3 We recommend that CDB study three possibilities in regard to the "poverty" variables in the allocation formula: (1) Replace the population and per capita income variables with the logarithm of the population earning less than the poverty threshold. This would involve changing the weights of variables in the allocation formula, since the variables themselves would change. (2) Replace only the population variable with the population earning less than the poverty threshold. Or (3) make replacements as in (1) or (2) with extra weight for the level of the indigent population.

Recommendation 17:

5.1.4 The third needs variable is "vulnerability" based on CDB's Vulnerability Index (2002).[52] This index combines vulnerability to natural disasters with vulnerability to economic shocks. We recommend that CDB continue to use this variable.

5.2 Fragile States

5.2.1 MDBs have recognised that certain "fragile" states should be treated differently in regard to concessional resource allocation. In post-disaster, post-conflict or turn-around situations, CDB may need to be more involved with a particular borrower than the standard resource allocation formula would indicate. CDB's *Natural Disaster Strategy and Operational Guidelines*[53] were amended in February 2000 to provide further flexibility for an early response during the initial phase of recovery when dislocations affecting the poor are greatest. However, loans granted in an emergency situation may not be fully disbursed, and need to be returned to the fixed allocation 'pot' as promptly as possible. At some stage the residual, if any, needs to be reallocated for other purposes, if it appears that not all the allocation will be needed for disaster response.

5.2.2 As well, there may be a need for some flexibility in 'turn-around' situations – that is, if a country is undertaking important and difficult reforms, the Bank may need to be supportive sooner than would be possible if it waits for results to show themselves clearly. In the case of countries that have had poor policies but have reformed, increased technical cooperation may be warranted as well as, or prior to, increased lending.

5.2.3 New members are in a special situation because they do not have an established track record on ‘CDB portfolio performance’, which is an important factor in the standard allocation formula. This may not be an immediate problem if early lending volume is low and the new member’s allocation is determined largely by a need for TA for governance and institutional strengthening, and BNTF-type projects, as is the case with Haiti. However some method needs to be developed to incorporate new members and special cases within the PBA system.

5.2.4 (A) A fixed country allocation for a new member is appropriate until the CDB has enough experience to consider the country’s performance along with other borrowing members in the normal allocation exercise.

5.2.5 (B) For special cases of new members that have serious governance problems CDB should give a fixed allocation, as recommended above, and offer to increase that allocation according to performance on negotiated criteria that might resemble the post-conflict allocation criteria[54] used by other multilateral development banks in similarly unique cases.

5.3 Volatility of Allocations

5.3.1 Some have criticised concessionary resource allocation systems because the allocations are volatile. A country’s allocation may vary substantially from one period to the next. The volatility of the allocation depends on its sensitivity to changes in the values of variables in the allocation formula.

5.3.2 In the multiplicative formula, used by the CDB and modeled on the World Bank/IDA type of formula, volatility in any factor has the same effect on the allocation as volatility in any other factor. That is, a 20% change in population of a country will have exactly the same effect on its allocation as a 20% change in its per capita income or a 20% change in its country performance score. If one is multiplying several factors together it does not matter which one increases by 20% because the number resulting from the whole multiplication of all factors (which determines the allocation share) will be 20% larger whichever factor actually increases.

5.3.3 However, of course, the factors in the allocation formula are not typically equally volatile. Low volatility factors include population, per capita income, and (in the CDB formula) vulnerability. That is, the “country needs” factors do not tend to be volatile. In contrast, the country performance factors can be very volatile. The relative scores of a country in regard to policy-and-institutional performance, portfolio performance or governance can change markedly from one period to the next. The most volatile factor tends to be “portfolio performance” especially when the country has a small portfolio of CDB loans. One good or bad loan can make a large difference to the country’s performance score.

5.3.4 In practical terms the volatility of a country’s allocation is determined by its relative scores on each factor in the formula, and the propensity for its scores to change.[55] If there is little difference among country scores on a particular factor then this factor will make little difference to the allocation outcome. Similarly, if the relative scores of the member countries in regard to a particular factor in the formula do not change much over time, then this factor will contribute little to volatility. The term “relative” is important. If eligible member countries were subject to a lot of volatility in, say, their “vulnerability” scores, but these scores always moved up or down together, then this factor would have little influence on the resource allocations. It is change in the relative scores that affects allocations. Therefore the type of volatility that matters is the volatility of relative scores.

5.3.5 On average CDB scores of country policy and institutional performance, made four times between 2001 and 2005, varied by 0.44 between the low and the high score. (Appendix A, Table 1) Eight countries out of 17 had differences between low and high scores that were greater than 0.5. The country whose scores varied the most was Dominica and the country whose scores varied the least was Barbados. The average score across all member countries rose each time the scoring was undertaken, increasing from 3.11 in 2001 to 3.45 in 2005. Therefore some of the apparent volatility may be a result of "grade inflation". The alternative explanation is that policy and institutional performance has in fact improved significantly in the Caribbean from 2001 to 2005. Only one country received a lower score in 2005 than in 2001, Anguilla.

5.3.6 The World Bank/IDA Deputies have identified volatility of allocations as one of two themes (along with complexity) for discussion during the forthcoming IDA 15 negotiations.

> "*Another possible area for modification (of the allocation formula) to reduce volatility relates to the portfolio performance ratings. If this would be of interest to the Deputies, management will explore options for simplifying the formula for discussion during the IDA15 replenishment deliberations*."[56]

5.3.7 The discomfort with volatility is partly fed by the related discomfort with complexity. That is, volatility is less acceptable if it is difficult to understand the reasons for it. To some degree volatility is inevitable in a system that distributes a fixed amount of money according to relative scores. Sometimes a country's allocation will go up without any absolute improvement on its part (other countries' scores decline) and sometimes its allocation will go down although its performance improves (other countries' scores improve more). On the other hand, some of the opacity is the result of the World Bank's choice of a particularly complex allocation formula. To a lesser extent one can say the same thing about the CDB formula.

5.3.8 The allocation system of the IDB is, in practice, less volatile. This is because it treats needs and performance separately; and the "country needs" factors, as mentioned above, are not volatile. Countries tend to keep their relative positions in regard to population, per capita income and vulnerability. Therefore the pot of money allocated solely according to country needs (typically about 40% of FSO funds) tends to be shared among member countries in much the same proportions from one period to the next. In contrast, the 60% of FSO funds allocated according to country performance is subject to the same high volatility as shown by the multiplicative-formula allocations (World Bank/IDA, ADB, AfDB, and CDB). To summarise, a country's total allocation from IDB has one volatile component and one stable component – so, overall, it tends to be less volatile than the fully multiplicative systems. The result is somewhat analogous to investing some money in stable bonds and some in volatile growth stocks.

A Volatility Problem?

5.3.9 Is volatility of allocations, then, a problem or not? It is a problem if the volatility of some factors in the formula is more apparent than real. For example, a country's score on portfolio performance may be volatile for no better reason than the inherent lumpiness of a small portfolio or an unreasonably short timeframe over which portfolio performance is measured. The classic problem has been a small portfolio in which a badly performing project is terminated thereby cleaning it up and resulting in a better portfolio performance score. This problem can be alleviated to some degree by lengthening the measured performance period, using a "rolling" measure instead of a current snapshot of performance; and by instituting some kind of demerit for projects terminated incomplete. If these reforms were instituted, then "portfolio performance" would become more like "policy and institutional performance" – that is, still volatile but largely in a meaningful way.

5.3.10 Policy and institutional performance (and the related "governance" factor in the formulas of the World Bank/IDA, ADB and AfDB) tend to be somewhat volatile. This is because the effective range of scores on country performance is from about 2.5 to about 4.0 on the scale 1 to 6 (World Bank/IDA) or about 2.0 to 3.5 on the scale 1 to 5 (CDB). That is, the scores are compressed within a small range. Therefore a small change in score, say from 2.0 to 2.5, can have a large effect on the relative score, and it is the relative score than counts. Consider a simple illustration of an allocation between two countries that, in one allocation period, score 2.0 and 3.0 on country performance. If everything else is equal, Agroland will have an allocation score of 4A and Upland will have an allocation score of 9A, since country performance has an exponent of 2.0 (the score is squared). Therefore Agroland will receive an allocation of 4/13 of the whole amount of money available for allocation. Out of $100 it will receive an allocation of $30.77.

5.3.11 Suppose now that Agroland increases its country performance score from 2.0 to 2.5, not a major step although a significant one. Its allocation number is now $(2.5)^2 = 6.25$, and it will receive an allocation of 6.25/(6.25+9)*100 = $41. Its allocation has increased by a little more than one third in response to the minimum possible change[57] in its country performance score. The question is this – is a change in a country's performance score from 2.0 to 2.5 important enough to justify an increase of one third in its total allocation? Is the allocation appropriately sensitive to country performance or over-sensitive?

5.3.12 Policy and institutional performance can change substantially in a short period, for better or for worse, sometimes with a change of government regime. To the extent that the change is real and permanent it is appropriate that it be reflected in the country's dollar allocation. However if a country has a record of erratic performance one might not want to penalise it or reward it in quite the same way as if the deterioration or improvement were smooth and continuous. This kind of volatility of country performance, which is a form of country risk, should be penalised, but there is no way to do this within the existing formulas.

5.3.13 Measuring country performance over a longer period, rather than taking a current snapshot each year, would stabilise the scores. However this would be a superficial solution. It would make country performance look more stable than it really is.

5.3.14 This report has made recommendations (above) in regard to reducing the artificial volatility caused by small portfolios. CDB could investigate the possibility of a more sophisticated approach to country risk (volatility of country performance scores). It could consider whether a BMC's allocation should be lessened by adding a risk premium/demerit to the country performance score based upon past volatility of performance. If this proves practical, it is an area in which CDB could lead MDB practice. This is not a high priority but perhaps worth commissioning an exploratory paper.

6. SET ASIDES

6.0.1 CDB has a considerable amount in set-asides for special purposes that are untied to particular countries. These include set asides for disasters including HIV/AIDS, for regional projects, for project management training, for the program entitled Caribbean Technical Consulting Services, and monitoring the Millennium Development Goals (MDGs), and for economic research.

6.0.2 There is a case for decreasing the set-asides over time, and having something closer to a single pot of concessionary funds indicatively allocated to a particular country. However, in that case, CDB would need a general reserve of funds to maintain reasonable flexibility, as, for example, IDB has.

6.1 Grants

6.1.1 SDF (U) funds are disbursed as loans and grants. The proportion of grants has increased over time and exceeded 50% of new contributions to SDF 5.[58] The recipient BMC benefits from a grant but there are costs to CDB, including substantial time costs in providing and administering TA and some costs of lost interest and capital re-flows. There may also be other costs such as potential loss of ownership, commitment and financial discipline by the BMCs. These costs are mentioned in CDB's recent (2007) evaluation of its TA operations.[59] Their practical implication is that many TA projects are closed incomplete.

6.1.2 CDB has agreed with the SDF 6 contributors that grants shall not exceed 35% of approved project budgets. As well CDB has made so-far-unsuccessful proposals to contributors for compensation similar to that provided to other MDBs.[60]

> "*Contributors undertook a review of the issues associated with grant financing, including the extent to which grants reduce SDF income and future re-flows and, therefore, the contribution of internally-generated resources to future replenishments. They noted that the share of grants, as a percentage of new contributions, had risen sharply in recent SDF cycles. They also noted, however, SDF had traditionally included grants, as particularly appropriate for certain types of activity, such as BNTF and TA, and they concluded that grants continued to be important for these purposes and for certain other purposes reflected in the special allocations referred to above. They underscored, however, the need to maintain an appropriate balance, and agreed that the share of grant funding allocations in the base programme level for SDF 6 should be no higher than 35%.*"[61]

6.1.3 The important point for this paper is that, with the partial exception of the BNTF, SDF (U) grants are not allocated among countries by formula.

6.2 BNTF

6.2.1. Among the SDF (U) grant instruments, only the BNTF is allocated by country, using the standard SDF (U) allocation formula. The other set-asides for grants are in single pools of funds, organised by topic (regional projects, disaster assistance, BMC capability enhancement, MDGs, etc) and any eligible entity (country or regional or sub-regional organisation) may apply for a grant of any amount. The initial allocation of BNTF funds is made according to the SDF (U) allocation formula. The incentive allocation will be made by criteria to be decided.

Recommendation 19:

6.2.2. CDB should continue to use the PBA formula to make an initial allocation of BNTF funds. CDB should continue to have special criteria for allocation of the incentive portion of BNTF that relate mainly to specific performance on BNTF projects but which may, in part, also relate to country improvement on the general PBA performance criteria.

6.3 BMC Capacity Building TA

6.3.1. In 2006 CDB has commissioned an evaluation of its TA operations. When the recommendations of that evaluation are available CDB should consider their implications for SDF (U) resource allocation processes, particularly in regard to the "portfolio performance" variable in the allocation formula.

7. FINDINGS AND RECOMMENDATIONS

7.1 Strengths and Weaknesses of the Present System

7.1.1 CDB has successfully implemented a performance based allocation system for SDF (U) and operated it for five years, through a whole SDF cycle. The Bank has customised the allocation formula to its needs but, at the same time, has maintained a high degree of harmonisation with other MDBs and an admirable degree of openness and transparency.

7.1.2 However, on the basis of experience over the past five years, CDB has opportunities to enhance its allocation system to target it more precisely to the Bank's poverty reduction mission, to make it even more systematic and transparent and less subject to ad hoc changes, to make allocations more predictable and less volatile, and to strengthen the resource allocation system as a vehicle for policy dialogue.

7.2 Summary of Recommendations

Recommendation 1*:*

7.2.1 The World Bank/IDA, the ADB, and the AfDB have harmonised on a single formula (or, at least, very similar formulas). If the IDB decides to harmonise with this group, despite the manifest advantages of its own simpler formula, then the case for CDB to do the same would be strong. However since the World Bank/IDA intends to review and perhaps change its allocation formula during the IDA 15 negotiations in 2007, we recommend that CDB wait to see the result before deciding on any changes to its own formula (apart from a change in the weight of "portfolio performance" – see recommendations number 12).

Recommendation 2:

7.2.2 We recommend that CDB reallocate its SDF (U) resources every two years at a minimum, as is present practice, or annually if circumstances require.

Recommendation 3:

7.2.3 We recommend that CDB convene a Country Performance Rating Team once each year to consider, revise if necessary and approve the PRES country performance ratings. The Rating Team should comprise a small number of executive managers. One good design would be to have the Vice-President (Operations) as Chair, and, as members, the Director, Economics, the Director, Projects, and the Director, Finance and Corporate Planning. To minimise the time burden, the size of the team should be kept to four.

Recommendation 4:

7.2.4 The Rating Team should be supported by the country economists and by topic specialists in Projects Department. We recommend that the input of the country economists should be coordinated by the Chief Country Economist who should present proposed performance scores to the Rating Team for those criteria most relevant to the economists' expertise. The input of the functional specialists should be coordinated, and presented, similarly by the Division Chief, Project Services Division. For each performance criterion, country economists in Economics Department and functional specialists in Projects Department should prepare worksheets of suggested scores on each criterion, each with a supporting text.

The rating meeting should be held in February and the background work for the scoring exercise should be integrated with the development of CDB's *Annual Economic Review*.

Recommendation 5:

7.2.5 We believe that the Bank is ready to make wider use of the performance scores in policy dialogue. This should be selective. If, for example, the Bank selected one "country performance criterion" each year for intensive review (including a cross-country comparative study of performance led by Economics or by PRSD) it would be well prepared to present and explain country rankings on that criterion. The *Annual Economic Review* would, in our opinion, be a good venue for such discussion.

Recommendation 6:

7.2.6 We recommend that CDB adopt the World Bank/IDA policy and institutional performance questionnaire, while keeping its own criteria weights and applying its own judgment to generate scores. The PRES will need minor adjustments to cope with this change in scoring instrument.

Recommendation 7:

7.2.7 CDB has selected an appropriate weight for the "governance cluster" of performance criteria in the PRES. Nothing additional is needed to emphasise its importance.

Recommendation 8:

7.2.8 (A) We recommend that responsibility for different PRES criteria be divided between Economics Department and Project Services Division to do the work-up of possible scores for the Rating Committee to consider. A work-up will comprise the suggested scores by country for each criterion supported by a short comparative text.

7.2.9 (B) The scores and supporting text will involve professional judgment supported by periodic cross-country-comparative thematic studies. We recommend that commissioning such thematic studies should be an eligible use of SDF (U) funds.

Recommendation 9:

7.2.10 We recommend that CDB explore the possibility of joint benchmarking with other multilateral development institutions working in the Caribbean, including the IDB and the World Bank. CDB should send an economist, one or more sector specialists and an evaluator from Evaluation and Oversight Division (for general methodology and for the portfolio performance variable) to Washington, D.C. each year to participate in the joint MDB "country performance benchmarking exercise", which is generally in November/December.

Recommendation 10:

7.2.11 (A) We recommend that CDB explore the possibility of an annual discussion with each BMC on its performance ratings, perhaps jointly with other multilateral institutions that now score country performance (including World Bank/IDA, IDB, IFAD, and GEF).

7.2.12 (B) To facilitate dialogue, we recommend that each set of scores (by country and by criterion) be supported by a short written text[62] (See Appendix D for an example of a World Bank template for this purpose). This would involve greater disclosure than the World Bank currently undertakes, since, at present, it discloses the scores but not the supporting text.

Recommendation 11:

7.2.13 We recommend that three things be done to ameliorate the small-portfolio problem in the PORT variable: (1) CDB should extend its PPI to include all operations, including TA over a certain size; (2) the country portfolio performance score should be averaged[63] over all project scores for the previous three years, rather than only current projects; and (3) where a country still has such a small portfolio that CDB judges that its portfolio performance score is not a reliable measure of its performance, we recommend that PORT be given zero weight in the calculation of these countries' allocations (that is, country performance would be judged solely by PRES).

Recommendation 12:

7.2.14 We recommend that CDB continue to use the PPI (rather than the percentage of projects-at-risk) as the basis for its "portfolio performance" variable.

Recommendation 13:

7.2.15 We recommend that CDB change the weight of PORT in the country performance factor in the allocation formula to 20%. This harmonises with the World Bank/IDA and seems a reasonable weight. When the volatility problems of the variable are remedied, CDB might wish to consider a weight of 30% again. At the same time CDB should engage with other MDBs to agree on a consensus weight for "portfolio performance".

Recommendation 14:

7.2.16 (A) We recommend that CDB continue to weight its PPI by project size (approved budgets). This will avoid small operations being overly influential in the country portfolio performance score, balancing our recommendation that TA operations (which tend to be small) should be included in the base on which country portfolio performance is calculated. At the same time, weighting by approved budget avoids the problem encountered by the IDB that a good (or bad) project declines in influence on the country average PPI as it gradually disburses its monies.

7.2.17 (B) The focus on the current state of the portfolio (rather than a longer view) can lead to volatility in scores.[64] For instance the failure and closure of a weak project can result in an improved country performance score without anything else happening to the portfolio. CDB should count the score of a project terminated incomplete in calculating the country's portfolio performance score in that year; and should consider other ways to penalise non-completion or extremely late completion of projects.[65]

Recommendation 15:

7.2.18 We recommend that CDB adopt the six-point country performance scoring scale.

Recommendation 16:

7.2.19 We recommend that CDB study three possibilities in regard to the "poverty" variables in the allocation formula: (1) Replace the population and per capita income variables with the logarithm of the population earning less than the poverty threshold. This would involve changing the weights of variables in the allocation formula, since the variables themselves would change. (2) Replace only the population variable with the population earning less than the poverty threshold. Or (3) make replacements as in (1) or (2) with extra weight for the level of the indigent population.

Recommendation 17:

7.2.20 The third "needs variable" is "vulnerability" based on CDB's Vulnerability Index (2002).[66] This index combines vulnerability to natural disasters with vulnerability to economic shocks. We recommend that CDB continue to use this variable.

7.2.21 (A) A fixed country allocation for a new member is appropriate until the CDB has enough experience to consider the country's performance along with other borrowing members in the normal allocation exercise.

7.2.22 (B) For special cases of new members that have serious governance problems CDB should give a fixed allocation, as recommended above, and offer to increase that allocation according to performance on negotiated criteria that might resemble the post-conflict allocation criteria used by other multilateral development banks in similarly unique cases.

Recommendation 19:

7.2.23 CDB should continue to use the PBA formula to make an initial allocation of BNTF funds. CDB should continue to have special criteria for allocation of the incentive portion of BNTF that relate mainly to specific performance on BNTF projects but which may, in part, also relate to country improvement on the general PBA performance criteria.

APPENDIX A

SDF (U) ALLOCATIONS TABLE

TABLE 1: COUNTRY POLICY AND INSTITUTIONAL PERFORMANCE SCORES, 2001-2005

	Year				Average		Difference
Countries	**2001**	**2003**	**2004**	**2005**	**2001-2005**	**Range**	**(low to high)**
Dominica	2.68	2.46	2.71	3.39	**2.81**	2.46 to 3.39	0.93
Antigua and Barbuda	2.10	2.15	2.60	2.87	**2.43**	2.10 to 2.87	0.77
Anguilla	3.34	3.98	3.81	3.30	**3.61**	3.30 to 3.98	0.68
Turks and Caicos Islands	2.93	3.58	3.39	3.40	**3.33**	2.93 to 3.58	0.65
Guyana	2.50	3.13	3.13	3.10	**2.97**	2.50 to 3.13	0.63
Jamaica	3.12	3.40	3.53	3.70	**3.44**	3.12 to 3.70	0.58
St. Lucia	3.22	3.75	3.75	3.80	**3.63**	3.22 to 3.80	0.58
Montserrat	3.25	3.50	3.50	3.80	**3.51**	3.25 to 3.80	0.55
St. Kitts and Nevis	2.89	3.16	3.29	3.30	**3.16**	2.89 to 3.30	0.41
St Vincent and Grenadines	2.92	3.31	3.31	3.30	**3.21**	2.92 to 3.31	0.39
Trinidad and Tobago	3.49	3.65	3.65	3.82	**3.65**	3.49 to 3.82	0.33
Belize	2.82	3.10	3.10	3.06	**3.02**	2.82 to 3.10	0.28
British Virgin Islands	3.23	3.38	3.44	3.40	**3.36**	3.23 to 3.40	0.21
Grenada	2.94	3.01	3.14	3.00	**3.02**	2.94 to 3.14	0.20
Bahamas	3.84	4.03	3.89	3.90	**3.92**	3.84 to 4.03	0.19
Cayman Islands	3.70	3.66	3.66	3.70	**3.68**	3.66 to 3.70	0.04
Barbados	3.89	3.90	3.90	3.90	**3.90**	3.89 to 3.90	0.01
Haiti							
Suriname							
Average:	**3.11**	**3.36**	**3.40**	**3.45**	**3.33**	**3.11 to 3.45**	**0.44**

Notes:

Scores are weighted averages of policy and institutional performance scores as described in "Allocation of SDF V Resources", (Working Paper, April 2001)

Raw Scores are on a 1 to 5 scale: 1.Very Poor 2.Poor 3.Satisfactory 4.Good 5.Excellent

Average weighted scores: 1-2 Very Poor; 2-3 Poor; 3-4 Satisfactory; 4-5 Good to Excellent

APPENDIX A

TABLE 1A: SCORES ON PRES 2006 AND IFAD RURAL CPIA 2004 COMPARED

Countries	2006 PRES (CDB)	2006 PRES (standardised for IFAD comparability)	2004 IFAD (Rural CPIA)
Dominica	3.39	4.02	4.13
Antigua and Barbuda	2.87	3.40	4.13
Anguilla	3.30		
Turks and Caicos Islands	3.40		
Guyana	3.10	3.68	3.73
Jamaica	3.70	4.39	4.13
St Lucia	3.80	4.51	4.17
Montserrat	3.80		
St Kitts and Nevis	3.30	3.92	4.17
St Vincent and Grenadines	3.30	3.92	4.13
Trinidad and Tobago	3.82	4.53	4.17
Belize	3.06	3.63	3.63
British Virgin Islands	3.40		
Grenada	3.00	3.56	4.13
Bahamas	3.90		
Cayman Islands	3.70		
Barbados	3.90	4.63	4.59
Haiti			
Suriname			
Average:	**3.45**		**4.10**

TABLE 2: CDB AND IDA SCORES FOR COUNTRY POLICY AND INSTITUTIONAL PERFORMANCE, 2005

	CDB Scores by Year			
Countries	**2001**	**2003**	**2004**	**2005**
Dominica	2.680	2.460	2.71	3.39
Guyana	2.500	3.130	3.13	3.10
Grenada	2.940	3.010	3.14	3.00
St Vincent and Grenadines	2.920	3.310	3.31	3.30
St. Lucia	3.220	3.750	3.75	3.80
Haiti				
Average:	**2.85**	**3.13**	**3.21**	**3.32**

	IDA and (adjusted) CDB Scores 2005				
Countries	**CDB 2005**	**CDB Adjusted**	**CDB Rank**	**IDA**	**IDA Rank**
Dominica	3.39	4.06	2	3.80	3
Guyana	3.10	3.72	4	3.40	5
Grenada	3.00	3.60	5	3.70	4
St Vincent and Grenadines	3.30	3.96	3	3.90	2
St Lucia	3.80	4.56	1	4.00	1
Haiti				2.80	6
Average:	**3.32**	**3.98**		**3.76**	

Notes:
CDB Scores are weighted averages of performance scores on criteria set out in "Allocation of SDF V Resources", (Working Paper, April 2001)
CDB raw scores are on a 1 to 5 scale. CDB adjusted scores are on a scale 1 to 6 to be comparable with IDA.

TABLE 3: COUNTRY PERFORMANCE CRITERIA OF THE CDB COMPARED WITH THE WORLD BANK/IDA AND ADB

Caribbean Development Bank Criteria			**World Bank (IDA) and ADB Criteria**		
Socially–inclusive development	25%	Framework for Poverty Reduction Policy	Policies for social inclusion/equity	25%	
		Enhancing the Economic Capital of the Poor			Equity of public resource use
		Developing the Human Capital of the Poor			Building human resorouces
		Equity and Social Safety Nets			Social protection and labour
		Gender, Empowerment and Participation			Gender equality
Structural policies	15%	Trade Policy	Structural Policies	25%	Trade policies
		Financial sector efficiency and soundness			Financial sector policies
		Factor and product markets and prices			
		Enabling Environment for Private Sector Development			Business regulatory environment
Governance, public sector management	25%	Rule of Law	Public sector management and institutions	25%	Property rights and rules-based governance
		Anticorruption and Accountability Institutions			Transparency, accountability and corruption in the public sector
		Civil Service			Quality of public administration
		Revenue mobilisation and budgetary management			Efficiency of revenue mobilization
		Management and efficiency of public expenditures			Quality of budgetary and financial management
Macroeconomic management	25%	Fiscal Policy	Economic Management	25%	Fiscal policy
		Monetary Policy			Macroeconomic management
		External financing policies			Debt policy
Environmental sustainability	10%	Environmental Laws, regulations and institutions			Policies and institutions for environmental sustainability
		Environmentally damaging subsidies and other damaging practices			

Source: CDB Social and Economic Research Unit, Economics Department, Caribbean Development Bank

Source: World Bank, Operations Policy and Country Services, CPIA 2005 Assessment Questionnaire, Dec. 20, 2005

TABLE 4: CDB'S (COUNTRY POLICIES AND INSTITUTIONS) PERFORMANCE CRITERIA COMPARED WTH THE IDB CRITERIA

Caribbean Development Bank Criteria				**Inter-American Development Bank**		
Socially–inclusive development	25%	Framework for Poverty Reduction Policy				
		Enhancing the Economic Capital of the Poor				
		Developing the Human Capital of the Poor				
		Equity and Social Safety Nets				
		Gender, Empowerment and Participation				
Structural policies	15%	Trade Policy				
		Financial sector efficiency and soundness				
		Factor and product markets and prices				
		Enabling Environment for Private Sector Development				
Governance, public sector management	25%	Rule of Law				
		Anticorruption and Accountability Institutions				
		Civil Service				
		Revenue mobilisation and budgetary management				
		Management and efficiency of public expenditures				
Macroeconomic management	25%	Fiscal Policy				
		Monetary Policy				
		External financing policies				
Environmental sustainability	10%	Environmental Laws, regulations and institutions				
		Environmentally damaging subsidies and other damaging practices				

Source: CDB Social and Economic Research Unit, Economics Department, Caribbean Development Bank
Source: IDB

TABLE 5: SDF ALLOCATIONS - SDF IV, V AND VI

	Allocation of SDF Monies ($US000)				
Loans and Grants Categories	**SDF 4 Initial Allocation**	**SDF 5 Initial Allocation**	**SDF 5 Revised Allocation**	**SDF6 Initial Allocation**	**Total Initial Allocations (SDF 4, 5 and 6)**
Loans					
Anguilla (Grp 2)	2000	5010	2742	3,460	10,470
Antigua and Barbuda (Grp 2)	4000	2480	1760	2,262	8,742
Barbados (SDF 4 Grp 1, SDF 5 & 6 Grp 2)	1000	3420	1000		4,420
Bahamas (Grp 1)	1000	0	0		1,000
Belize (Grp 3)	10000	10810	6100	7,256	28,066
British Virgin Islands (SDF 4 Grp 2, SDF 5 Grp 1)	2000	0	0		2,000
Cayman Islands (Grp 1)	300	0	0		300
Dominica (Grp 3)	11000	5970	8760	8,404	25,374
Grenada (Grp 3)	11000	5610	7841	5,716	22,326
Guyana (Grp 4)	12000	21540	25378	22,906	56,446
Haiti [Financial Intermediaries/Microcredit])				6,000	6,000
Jamaica (Grp 3)	19200	12300	8274	13,393	44,893
Montserrat (Grp 3)	6200	3480	3480	2,507	12,187
St. Kitts and Nevis (Grp 3)	7400	3660	7400	3,562	14,622
St. Lucia (Grp 3)	11000	9130	10035	10,841	30,971
St. Vincent/Grenadines (Grp 3)	11000	7300	6500	7,810	26,110
Trinidad and Tobago (SDF 4 Grp 1, SDF 5 Grp 2)	1700	3770	1000		5,470
Turks and Caicos (Grp 2)	3200	2440	1430	1,451	7,091
Total Country Allocations for Loans	**114,000**	**96,920**	**91,700**	**95,568**	**306,488**
Unallocated	12000				12,000
Loans - Disaster Mitigation & Fiscal Distress		15000	18000	45,000	60,000
Regional Projects	4000	5000			9,000
Total Allocations for Loans	**130,000**	**116,920**	**109,700**	**140,568**	**387,488**
Grants					
Haiti (including in SDF6 $19M BNTF, $2M TA)		10000	5000	21000	31000
BNTF (Excluding Haiti)	18000	32000	32000	32000	82000
BMC Capacity Building TA (Excluding Haiti)	9000	12000	15000	10000	31000
Natural Disasters, HIV/AIDS etc				8000	8000
Regional Projects			4000	10000	10000
Project Training	1000			2000	3000
Caribbean Technological Consultancy Services	1000			4000	5000
Economic Research	1000				1000
Millennium Development Goals				4000	4000
Total Allocations for Grants	**30,000**	**54,000**	**56,000**	**91,000**	**175,000**
Total Funding	160000	170920	165700	231568	562,488
Structural gap				25,932	
Total Programme	**160,000**	**170,920**	**165,700**	**257,500**	**562,488**

Source: CDB, Corporate Planning Division, Dec. 2006

TABLE 6: SDF V ALLOCATIONS AND APPROVALS

Loans and Grants Categories	SDF 5 Initial Allocation	SDF 5 Revised Allocation	SDF5 Approvals 2001-2004	Approvals as % of Initial Allocation	Approvals as % of Revised Allocation
Loans					
Anguilla (Grp 2)	5010	2742	0	0%	0%
Antigua and Barbuda (Grp 2)	2480	1760	395	16%	22%
Barbados (SDF 4 Grp 1, SDF 5 & 6 Grp 2)	3420	1000	0	0%	0%
Bahamas (Grp 1)	0	0	0		
Belize (Grp 3)	10810	6100	3,615	33%	59%
British Virgin Islands (SDF 4 Grp 2, SDF 5 Grp 1)	0	0	0		
Cayman Islands (Grp 1)	0	0	0		
Dominica (Grp 3)	5970	8760	6,108	102%	70%
Grenada (Grp 3)	5610	7841	18,280	326%	233%
Guyana (Grp 4)	21540	25378	28,936	134%	114%
Haiti	0	0	0		
Jamaica (Grp 3)	12300	8274	12,465	101%	151%
Montserrat (Grp 3)	3480	3480	0	0%	0%
St. Kitts and Nevis (Grp 3)	3660	7400	10,042	274%	136%
St. Lucia (Grp 3)	9130	10035	10,271	112%	102%
St. Vincent and the Grenadines (Grp 3)	7300	6500	6,348	87%	98%
Trinidad and Tobago (SDF 4 Grp 1, SDF 5 Grp 2)	3770	1000	1000	27%	100%
Turks and Caicos (Grp 2)	2440	1430	372	15%	26%
Total Country Allocations for Loans	**96,920**	**91,700**	**97,832**	**101%**	**107%**
Unallocated					
Loans - Disaster Mitigation and Fiscal Distress	15000	18000	14,050	94%	78%
Regional Projects	5000	0	0	0%	
Total Allocations for Loans	**116,920**	**109,700**	**111,882**	**96%**	**102%**
Grants					
Haiti (including in SDF6 $19 mn BNTF, $2 mn TA)	10000	5000	0	0%	0%
BNTF (Excluding Haiti)	32000	32000	32000	100%	100%
BMC Capacity Building TA (Excluding Haiti)	12000	15000	11442	95%	76%
Disaster Response	0	0	0		
Regional Projects		4000	903		23%
Project Training	0	0	0		
Caribbean Technological Consultancy Services	0	0	0		
Economic Research	0	0	0		
Millennium Development Goals	0	0	0		
Total Allocations for Grants	**54,000**	**56,000**	**44,345**	**82%**	**79%**
Total Funding	170920	165700	156,227	91%	94%
Structural gap					
Total Programme	**170,920**	**165,700**	**156,227**	**91%**	**94%**

Source: CDB, Corporate Planning Division, Dec. 2006

TABLE 7: SDF V APPROVALS BY COUNTRY (2001-2004)

Loans and Grants Categories	SDF5 Loans 2001-2004	Loans: Disaster & Fiscal Stress	Total Loans	New Member Grants	BNTF Grants	Capacity Building TA	Regional Projects Grants	Total Grants
Loans								
Anguilla (Grp 2)	0	0				74		74
Antigua and Barbuda (Grp 2)	395	0	395			31		31
Barbados (SDF 4 Grp 1, SDF 5 & 6 Grp 2)	0	0	0			85		85
Bahamas (Grp 1)	0	0	0			196		196
Belize (Grp 3)	3,615	500	4,115		3,255	380		3635
British Virgin Islands (SDF 4 Grp 2, SDF 5 Grp 1)	0	0	0			0		0
Cayman Islands (Grp 1)	0	0	0			0		0
Dominica (Grp 3)	6,108	0	6,108		1,785	590		2375
Grenada (Grp 3)	14,830	4,450	19,280		1,680	1023		2703
Guyana (Grp 4)	28,924	0	28,924		6,468	908		7376
Haiti	0	0	0	0		0		0
Jamaica (Grp 3)	12,465	9,000	21,465			1432		1432
Montserrat (Grp 3)	0	0	0		1,050	145		1195
St. Kitts and Nevis (Grp 3)	10,042	0	10,042		1,092	371		1463
St. Lucia (Grp 3)	10,271	3,050	13,321		2,751	497		3248
St. Vincent and the Grenadines (Grp 3)	6,348	500	6,848		2,184	1110		3294
Trinidad and Tobago (SDF 4 Grp 1, SDF 5 Grp 2)	1000	0	1,000			68		68
Turks and Caicos Islands (Grp 2)	372	0	372		735	16		751
Regional Projects	0	0	0		11,000	4344	903	16247
Totals:	**94,370**	**17,500**	**111,870**	**0**	**32,000**	**11,270**	**903**	**44,173**

Source: CDB, Corporate Planning Division, Dec. 2006

TABLE 8: POPULATION, PERFORMANCE SCORES, ALLOCATIONS AND APPROVALS AND APPROVALS

Loans and Grants Categories	Population (2004)	Average Performance Score 2001-2005**	Total Loans and Grants Approved (2001-2004)*	$ Approved per capita	Total initial allocations (SDF 4+5+6)***	$ Allocated per capita (SDF 4+5+6)
Countries						
Bahamas (Grp 1)	320,700	3.92	$196,000	$0.61	$1,000,000	$3.12
British Virgin Islands (SDF 4 Grp 2, SDF 5 Grp 1)	21,700	3.36	$0	$0.00	$2,000,000	$92.17
Cayman Islands (Grp 1)	42,400	3.68	$0	$0.00	$300,000	$7.08
Anguilla (Grp 2)	12500	3.61	$74,000	$5.92	$10,470,000	$837.60
Antigua and Barbuda (Grp 2)	80100	2.43	$426,000	$5.32	$8,742,000	$109.14
Barbados (SDF 4 Grp 1, SDF 5 & 6 Grp 2)	272400	3.90	$85,000	$0.31	$4,420,000	$16.23
Trinidad and Tobago (SDF 4 Grp 1, SDF 5 Grp 2)	1,290,600	3.65	$1,068,000	$0.83	$5,470,000	$4.24
Turks and Caicos Islands (Grp 2)	27,500	3.33	$1,123,000	$40.84	$7,091,000	$257.85
Belize (Grp 3)	282,600	3.02	$7,750,000	$27.42	$28,066,000	$99.31
Dominica (Grp 3)	70,400	2.81	$8,483,000	$120.50	$25,374,000	$360.43
Grenada (Grp 3)	104,500	3.02	$21,983,000	$210.36	$22,326,000	$213.65
Guyana (Grp 4)	751,400	2.97	$36,300,000	$48.31	$56,446,000	$75.12
Jamaica (Grp 3)	2,644,600	3.44	$22,897,000	$8.66	$44,893,000	$16.98
Montserrat (Grp 3)	4,700	3.51	$1,195,000	$254.26	$12,187,000	$2,592.98
St. Kitts and Nevis (Grp 3)	47,900	3.16	$11,505,000	$240.19	$14,622,000	$305.26
St. Lucia (Grp 3)	162,400	3.63	$16,569,000	$102.03	$30,971,000	$190.71
St. Vincent and the Grenadines (Grp 3)	100,600	3.21	$10,142,000	$100.82	$26,110,000	$259.54
Haiti	8,600,000		$0	$0.00		
Regional Projects			$16,247,000			
Totals:	**14,837,000**		**$156,043,000**		**$300,488,000**	

** See Table 7 for more detail on SDF loans and grants by country.*

*** See Table 1 for details of the policy and institutional performance scores, 2001-2005*

**** See Table 5 for details of the initial allocations, SDF 4, 5 and 6*

Source: CDB, Corporate Planning Division, Dec. 2006

APPENDIX B

BNTF ALLOCATIONS TABLES

ALLOCATION OF RESOURCES - BNTF 5

Item	$'000	%
Country		
Belize	3,254	10.2
Dominica	1,786	5.6
Grenada	1,680	5.3
Guyana	6,468	20.2
Montserrat	1,050	3.3
St. Kitts and Nevis	1,093	3.4
St. Lucia	2,750	8.6
St. Vincent and the Grenadines	2,184	6.8
Turks and Caicos Islands	735	2.3
Sub-Total : Country	**21,000**	**65.6**
Regional Coordination	6,000	18.8
Unallocated Incentive	5,000	15.6
Total	**32,000**	**100.0**

ALLOCATION FORMULAE AND CRITERIA USED BY MULTILATERAL INSTITUTIONS

TABLE 1: MULTILATERAL CONCESSIONARY FUNDS THAT USE A PERFORMANCE-BASED ALLOCATION SYSTEM

Institution	Fund	Started	Current Phase	Started PBA	Country Eligibility Criterion
Caribbean Development Bank (CDB)	Special Development Fund (SDF)	1984	SDF 6	2000	All member countries (Group 1 has limited access)
African Development Bank (AfDB)	African Development Fund (AfDF)	1973	AfDF X	1999	AfDB Credit Policy, 1995. The AfDB uses IDA's country classification in Africa
Asian Development Bank (ADB)	Asian Development Fund (ADF)	1973	ADF IX	2001	ADB's Graduation Policy, 1998
Inter-American Development Bank (IDB)	Fund for Special Operations (FSO)	1961	Agreement 1998	2002	Five countries (Group D-2). Bolivia, Guyana, Haiti, Honduras and Nicaragua (+ small amount to the Caribbean Development Bank)
Inter-American Development Bank (IDB)	Intermediate Financing Facility (IFF)	1982	Agreement 1998	2002	Five countries (Groups C&D1), <$2150 GDP per capita 2000$). Suriname, Ecuador, El Salvador, Guatemala, Paraguay
International Fund for Agricultural Development (IFAD)	IFAD		First	2005	All member countries.
World Bank Group	International Development Association (IDA)	1961	IDA 14	1977	Countries with GNPpc less than $1025 as of July 1, 2006

Institution/Fund	Phase	Approximate Annual Envelope[1]			Number of Countries Eligible/with Access[2]		
		Loans	Grants				
		US$ million	US$ million	% Grants	*Concessionary Only*	Blend[3]	Total
CDB, Special Development Fund	SDF VI	36	21	35%	1	18[4]	19
African Development Fund	AfDF IX	750	248	18-21%	38	2	40
Asian Development Fund	ADF IX	1700[5]		Up to 18%	15	12	27
IDB, Fund for Special Operations	1998 agreement	400 (Board is considering an increase to 500.)		Zero[6]	5		5
IDB, Intermediate Financing Facility	1998 agreement	250		Zero		5	5
International Fund for Agricultural Development		450	25	Up to 10%	Highly concessional, intermediate and ordinary terms. Terms are independent of allocations.		121
World Bank (IDA)	IDA 14				66	15	81

[1] Most recent complete fiscal year.
[2] In some funds, there are countries that are technically eligible but in practice do not have borrowing access to resources.
[3] Blend borrowers can access both concessionary funds and ordinary capital resources in the one loan.
[4] Group 4 countries (Guyana and, in future, Haiti) are eligible for SDF only, but in practice have accessed ordinary capital resources within the HIPC guidelines for loan concessionary element. At the other end of the income spectrum, Group 1 countries are eligible for concessionary funds, for narrowly defined purposes, but in practice do not access these funds.
[5] Transfers from ADF IX to the Technical Assistance Special Fund (3% of ADF IX) are not included in this figure.
[6] $30 million of FSO net income is used to finance non-reimbursable technical cooperation. IDB is studying a proposal to disburse part of the FSO as grants.

TABLE 2: ALLOCATION FORMULAE

	Formula					Other Factors		
Institution/Fund	**Needs Factors**		**Performance Factors**	**Scaling Factor**[7]	**Result =**	**MIN**	**MAX**	**Volume Discount**
Caribbean Development Bank (SDF)	log POP x GNPpc $^{-0.9}$ x VUL $^{2.0}$	x	[0.7CPIA+0.3PORT] $^{2.0}$	Yes	Allocation share			
African Development Fund (2002-2004 period)	POP x GNPpc $^{-0.125}$	x	[(0.7CPIA+0.3PORT) x (GOV/3.5) x PCEF] $^{2.0}$	Yes	Allocation share	SDR 5.0 million per country		In ADF X, allocations will be discounted depending on the % in grants.
Asian Development Fund (2004)	POP $^{0.6}$ x GNPpc $^{-0.25}$	x	[(ES_CPIA$^{0.7}$ x PORT$^{0.3}$) x GOV] $^{2.0}$	Yes	Allocation share			
Asian Development Fund (2006)	POP $^{0.6}$ x GNPpc $^{-0.25}$	x	(CPIA without GOV)$^{1.4}$ x GOV$^{2.0}$ x PORT $^{0.6}$	Yes	Allocation share			
IDB (IFF)	[(0.133Fund)(POP/∑POP)] + [(0.133Fund)[(1/GNPpc)/ ∑(1/GNPpc)] + [(0.133Fund) (DEBT/∑DEBT)]	+	[(0.6Fund)x(0.7CIPE+0.3PORT)]/ [∑(0.7CIPE+0.3PORT)] *(CIPE is similar to the CPIA)*	No	Dollar allocation			
IDB (FSO)	[(0.22Fund)(POP/∑POP)]+ [(0.18Fund)[(1/GNPpc)/∑(1/GNPpc)]]	+	[(0.6Fund)x(0.7CIPE+0.3PORT)]/ [∑(0.7CIPE+0.3PORT)]	No	Dollar allocation			
IFAD	POP$^{0.45}$ x GNPpc$^{-0.25}$	x	[0.2CPIA+0.35PORT+0.45RuralCPIA] $^{2.0}$	Yes	Allocation share	$1 million		
IDA	POP x GNPpc $^{-0.125}$	x	[(0.8CPIA + 0.2PORT) x (GOV/3.5)$^{1.5}$] $^{2.0}$	Yes	Allocation share	SDR 3.3 million per country (IDA 14)	$20 per capita per annum	In IDA 14, allocations were discounted depending on % in grants

CIPE= country institutional and policy evaluation (the Inter-American Development Bank terminology equivalent to the World Bank CPIA, Country Policy and Institutional Performance); CPIA = country policy and institutional performance assessment; official debt service ratio; ES_CPIA = economic and social performance criteria in the CPIA; Fund = Size of IFF or FSO envelope; FSO = Fund for Special Operations (IDB) GNPpc = GNP per capita or GNI per capita; GOV = for ADF, the average of the five criteria in the “public sector management” cluster (see Table 4); for AfDF, the average of the six criteria in the Governance and Public Sector Performance (see Table 4) plus a three-years moving average for the ‘procurement flag’ on portfolio performance; for IDA, the average of the five criteria in the public sector management cluster (see Table 4) plus a three-years moving average of the procurement flag on portfolio performance; HDI = Human Development Index; log = logarithm; IDB = Inter American Development Bank; IFAD = International Fund for Agricultural Development, IFF = Intermediate Financing Facility, PBA = performance based allocation; PCEF is a post-conflict enhancement factor (1.13 to 1.30, maximum 1.5); POP = population; PORT = portfolio performance; RuralCPIA = IFAD’s performance rating on policies and institutions for rural development; SDF = Special Development Fund (Caribbean Development Bank) ; SDR = IMF Special Drawing Rights; VUL = country vulnerability.

[7] Indicates whether a scaling factor is applied to ensure that allocation shares add to one. The scaling factor is the sum over all countries of the product of the needs and performance factors shown in the preceding columns.

TABLE 3: THE WEIGHTS OF FACTORS IN THE ALLOCATION FORMULAE

Type 1 Formula: Allocation by a geometric, multiplicative formula (containing factors with exponents)

Institution/Fund	Exponents[8] on Needs Variables			Exponents on Performance Factor	
	POP	GNPpc	VUL	Country Performance Factor	Exponent on the Country Performance Factor
Caribbean Development Bank (SDF)	LogPOP	-0.90	2.0	[0.7CPIA+0.3PORT]	2.0
African Development Fund	1.00	-0.125		[(0.7CPIA+0.3PORT) x (GOV/3.5)x PCEF]	2.0
Asian Development Fund	0.60	-0.25		[(ES_CPIA$^{0.7}$ x PORT$^{0.3}$) x GOV]	2.0
International Fund for Agricultural Development	0.45	-0.25		[0.2CPIA+0.35PORT+0.45RuralCPIA]	2.0
World Bank, IDA	1.00	-0.125		[(0.8CPIA + 0.2PORT) x (GOV/3.5)$^{1.5}$]	2.0

Type 2 Formula: Allocation by an additive, linear formula (each variable allocates a fixed % of the fund)

Institution/Fund	Effective Weight of Needs Variables in the $ Allocation			Effective Weight of Performance Variables in the $ Allocation
	POP	GNPpc	DEBT	Country Performance (0.7CPIE + 0.3PORT)
Inter-American Development Bank (FSO)	22%	18%		60%
Inter-American Development Bank (IFF)	13%	13%	13% proposal to discontinue	60%

CIPE = country institutional and policy evaluation; CPIA = country policy and institutional performance assessment; DEBT = official debt service ratio; ES_CPIA = country performance on economic and social criteria; FSO = Fund for Special Operations (Inter-American Development Bank); GNPpc = Gross National Product or Gross National Income per capita; GOV = for ADF, the average of the five criteria in the "public sector management" cluster (see Table 4); for AfDF, the average of the six criteria in the Governance and Public Sector Performance (see Table 4) plus a three-years moving average for the 'procurement flag' on portfolio performance; for IDA, the average of the five criteria in the public sector management cluster (see Table 4) plus a three-years moving average of the procurement flag on portfolio performance; IFF = Intermediate Financing Facility (Inter American Development Bank); POP = population; PORT = portfolio performance; SDF = Special Development Fund (Caribbean Development Bank); VUL = country vulnerability index

[8] The Caribbean Development Bank uses the logarithmic value of POP rather than applying an exponent.

TABLE 4: POLICY AND INSTITUTIONAL PERFORMANCE CRITERIA, AND CLUSTER WEIGHTS (MDBs, EXCLUDING IFAD[9])

Caribbean Development Bank (SDF)	African Development Fund[10]	Inter American Development Bank (FSO/IFF)[11]	World Bank, IDA and Asian Development Fund[12]	Range
Macroeconomic management 25% • Fiscal policy • Monetary policy • External financing policies	***Macroeconomic policies 15%*** • Fiscal policy • General macroeconomic performance • Macroeconomic and external debt management capacity	***Economic Management 15%*** • Macroeconomic imbalances (fiscal and monetary policies) • Management of external debt	***Economic Management 25%*** • Monetary and exchange rate policies • Fiscal policy • Debt management	***15% to 25%***
Structural Policies 15% (25% with environment) • Trade policy • Financial sector efficiency and soundness • Factor and product markets and prices • Enabling environment for private sector development • Environment (10%) (A) environmental laws, regulations and institutions (B) environmentally damaging subsidies and other damaging practices	***Structural Policies 25%*** • Trade policy and foreign exchange regime • Financial stability and depth • Competitive environment for the private sector • Policies for reducing public sector burden • Policies and institutions for regional integration • Environmental policies and regulations.	***Structural policies 20%*** • Trade and commercial policy • Banking and financial sector stability • Policies and institutions for environmental stability.	***Structural Policies 25%*** • External trade • Financial sector • Business environment	***20% to 25%***
Socially-inclusive development 25% • Framework for poverty reduction policy • Enhancing economic capital of poor • Enhancing human capital of poor • Equity and social safety nets • Gender, empowerment and participation	*Policies for Growth + Equity and Poverty Reduction 30%* • Gender equality & social inclusion • Policies towards labour intensive activities • Building human capital • Pro-poor targeting programs/invest. • Poverty monitoring and analysis	*Policies for social inclusion and equity 35%* • Gender equality, indigenous and other minorities inclusion • Building human resources and social protection • Monitoring/analysis of poverty	*Social Inclusion Policies 25%* • Gender • Equity of public expenditures • Building human resources • Social protection and labour • Policies and institutions for environmental sustainability	25% to 30%
Governance and public sector management 25% • Rule of law • Anti-corruption and accountability institutions • Civil service	*Governance and Public Sector Performance 30%* • Property rights and rule-based governance • Quality of budget and public	*Public sector management and institutions 30%* • Property rights, governance and private sector development	*Public Sector Management and Institutions 25%* • Property rights and rule-based governance • Quality of budgetary and	25% to 30%

[9] IFAD uses the IDA performance ratings for the general country performance factor in its allocation formula. It also does its own scoring of a separate performance factor for rural-sector performance. Its criteria for that factor are as follows: policy and legal framework for rural organizations; dialogue between government and rural organizations; access to land; access to water for agriculture; access to agricultural research and extension services; enabling conditions for rural financial services development; investment climate for rural businesses; access to agricultural input and produce markets; access to education in rural areas; representation; allocation and management of public resources for rural development; accountability, transparency and corruption in rural areas.
[10] The 20-criteria CPIA was applicable during the AfDF-IX period. For AfDF-X (2005-2007) a 16-criteria CPIA, similar to IDA's but retaining the ADF-IX cluster weights, was adopted.
[11] The original proposal was for equal cluster weights. These weights were decided by the Board.
[12] ADF gives equal weight to the first three clusters, as IDA does, but separates the governance cluster (public sector management and institutions) and gives it a separate weight in the allocation formula.

Caribbean Development Bank (SDF)	African Development Fund[10]	Inter American Development Bank (FSO/IFF)[11]	World Bank, IDA and Asian Development Fund[12]	Range
• Revenue mobilization and budgetary management • Management and efficiency of public expenditures	investment process • Revenue mobilization efforts and rationalization of public expenditures • Accountability/transparency of the public service • Anti-corruption policies and practices • Political stability	• Transparency and accountability in the public sector	financial management • Efficiency and equity of revenue mobilization • Quality of public administration • Transparency, accountability & corruption in the public sector	

FSO = Fund for Special Operations (Inter-American Development Bank); IDA = International Development Association; IFF = Intermediate Financing Facility (Inter-American Development Bank); SDF = Special Development Fund (Caribbean Development Bank)

TABLE 5: WEIGHT OF "GOVERNANCE"[13] IN THE COUNTRY PERFORMANCE FACTOR

Institution/Fund	Emphasis Given to Governance as Part of Country Performance Assessment	Effective weight[14] in the Performance Factor
Caribbean Development Bank (SDF)	Governance receives the weight of the Governance and Public Sector Management cluster (25% of the CPIA) relative to the weight of all performance variables (that is CPIA and PORT).	17.5%
African Development Fund	The allocation formula includes a governance factor. The exponential weight of the governance factor is 1.0 compared with 1.5 in IDA's model. The governance factor takes into account the six criteria in the "Governance and Public Sector Performance" cluster of CPIA plus the procurement element in the Country Portfolio Performance Rating (CPPR). Revisions may be made in 2005.	61.25% (in AfDF IX)
Asian Development Fund	Until 2004, governance received the weight of the governance cluster of criteria (public sector management and institutions) in the CPIA (30%). In 2005, the allocation formula separates the governance criteria (the IDA cluster "Public Sector Management and Institutions") from the CPIA into a separate factor, and gives extra weight to that factor that will result in governance having a much larger impact on the performance factor than previously (effective weight 53% compared with 30% in 2004).	53%
Inter-American Dev. Bank (FSO/IFF)	Governance receives the weight of the Public Sector Management and Institutions cluster (30% of the CIPE) compared with all performance variables (that is, CIPE and PORT).	21%
International Fund for Agricultural Development	IFAD uses the IDA scores for country and policy and institutional performance (including the governance cluster criteria) and also assesses rural sector performance (including performance against some governance related criteria).	Not directly comparable because of the rural sector performance factor
World Bank, IDA	In 1998 IDA applied a governance discount. In 2001 this was changed to a governance factor. In 2005 the governance factor has been slightly modified. That is, "management and sustainability of the development program" has been removed from the governance criteria and the procurement efficiency criterion has been slightly modified to become a three-year moving average.	66% (IDA 14)

AfDF = African Development Fund; CIPE = Country Institutional and Policy Evaluation (Inter American Development Bank); CPIA = Country Policy and Institutional Assessment; FSO = Fund for Special Operations (Inter-American Development Bank); IFAD = International Fund for Agricultural Development; IFF = Intermediate Financing Facility (Inter American Development Bank); IDA = International Development Association (World Bank Group); PORT = Portfolio rating

[13] "Governance" in this context is defined by the fourth cluster in the country performance assessment criteria (See Table 4 above) and in some cases it also takes into account the country's performance on procurement related to its borrowing from the particular multilateral development bank.
[14] The "effective weight" is a relative measure of how much a change in "governance score" affects the "country performance factor."

TABLE 6: PORTFOLIO PERFORMANCE MEASURES

Institution/Fund	Basis of Portfolio Performance Score
Caribbean Development Bank (SDF)	Performance scores for all active projects (not only projects at risk), based on OECD/Development Assistance Committee's project performance criteria[15]
African Development Fund	Projects at risk
Asian Development Fund	Problem projects, projects on alert
Inter-American Development Bank, Fund for Special Operations (FSO) and Intermediate Financing Facility (IFF)	Problem projects and projects on alert [Based on the Annual Report on Portfolio Execution (ARPE) and the Project Alert Identification System (PAIS)]
International Fund for Agricultural Development (2005)	Actual problem projects[16] and projects at risk (3 of 11 flags[17] up)
World Bank IDA	Projects at risk (3 of 12 flags[18] up)

Converting "% Projects at Risk" into a "Portfolio Performance Rating"

Rating	**AfDF IX & X**	**ADB 2004**	*ADB 2006*[67]	*CDB (SDF) Rating Scale 1-5*	**Inter American Development Bank (FSO and IFF)**	**IFAD** (For countries with three or more projects[19])	**World Bank, IDA (% projects at risk)**
6.0	0% for three years or more	0% for two years or more	0-2%		Ratio of undisbursed funds in problematic or on-alert projects as percentage of total undisbursed funds in all current projects under execution in the country.	0% for two or more years	0%
5.5			3-7%				1%
5.0	0- 5%	0-10%	8-12%	0-19%		0%	2%
4.5	5- 15%		13-17%				3-4%
4.0	15- 30%	15-34%	18-22%	20-39%		0% to 34%	5-6%
3.5	30- 35%		23-27%				7-10%
3.0	35- 45%	35-40%	28-32%	40-59%		35% to 67%	11-15%
2.5	45- 65%		33-37%				16-32%
2.0	>65%	41-70%	38-42%	60-79%		68% to 100%	33-60%
1.5			43-47%				61-99%
1.0	>65% for 3 years or more	100% for 2 or more years	48-100%	80-100%		100% for two or more years	100%

ADF = Asian Development Fund; AfDF = African Development Fund, CDB = Caribbean Development Bank; FSO = Fund for Special Operations; IDA = International Development Association; IFF = Intermediate Financing Facility; IFAD = International Fund for Agricultural Development; SDF = Special Development Fund;

[15] Beginning in 2001, the CDB put in place a project evaluation system using six criteria of performance, which are scored individually and then combined into a 'composite performance score'. The six are: strategic relevance, poverty relevance, efficacy, economic efficiency, institutional development impact, and sustainability. As well, three other criteria are scored independently but not combined in the composite performance score. These are: the performance of the Caribbean Development Bank itself, borrower performance, and timing performance.

[16] A project rated 3 or 4 on the scale 1. problem free 2. minor problems 3. major problems but improving 4. major problems and not improving

[17] IFAD's proposed 11 flags are: compliance with loan covenants, project management performance, availability of counterpart funds, compliance with procurement procedures, quality and timeliness of audit, disbursement rate, performance of W&E system, beneficiary participation, responsiveness of service providers, gender focus in implementation, poverty focus in implementation.

[18] The IDA flags are: long effectiveness delays; poor compliance with legal covenants; project management problems; shortage of counterpart funds; procurement problems; poor financial performance; environmental/resettlement problems; significant disbursement delays; long history of past problems; in risky country; in a risky sub-sector; and poor macroeconomic setting.

[19] IFAD takes a more qualitative approach when it has fewer than three projects in a particular country. It takes into account whether the one or two projects are actual or potential problem projects, the status of attainment of the development objective, and implementation progress.

TABLE 7: RATINGS CONDUCT, REVIEW AND ACCREDITATION PRACTICES

Practices	**Institution/Fund**					
	African Development Bank	**Asian Development Bank**	**Caribbean Development Bank**	**Inter American Development Bank**	**International Fund for Agricultural Development**	**World Bank, IDA**
Frequency of Performance Assessments	Annual	Annual	Biennial	Biennial	Annual	Annual
Main Scorer(s)	Country teams, and sector and thematic experts from the Operations Departments.	Country teams.	A Ratings Team of Senior Managers, advised by country economists and sector specialists	Country economists, sector and thematic experts from Regional Operations Departments	Country Program Manager	Country economists, sector and thematic experts from Regional Operations Departments.
Review and challenge of scores	Central Departments and Central Offices of two Operations Complexes and their Vice Presidents	2005. CPA Panel - Chief Economist, Director Generals of the Regional and Sustainable Development Department, and the Strategy and Policy Department, and Operations Group Director Generals	No	CIPE Group: RES (Chief Economist) and Regional Economists	Regional Economists. Division Directors	Central Departments: Operations Policy and Country Services (OPCS) and Development Economics (DEC). Residual differences adjudicated by OPCS VP
Ratings Approval	Operations Vice Presidents and VP for Planning, Policy & Research	Vice Presidents Operations Groups and VP Knowledge Management and Sustainable Development	Senior Management Group, with sign-off by VPs	By Regional Operations Management before allocations are calculated and presented to the Board for the approval of allocations.	Asst. President, Programme Management Department.	Regional Chief Economists and VP OPCS
Benchmarking	Yes. Two countries in each region are benchmarks (eight in total).	No	No	No	Some benchmarking, with a focus on the rural sector.	Twenty countries were benchmarks in 2006 for the March 2007 CPIA exercise (both IDA and IBRD countries)
Written substantiation	Yes (for internal use)	Yes (for internal use)	No	Yes (for internal use)	Write-ups shared informally.	Yes (for internal use)
Triggers[20]	Yes	Discontinued in 2005.	No	No	No	Yes

[20] "Triggers" are the country performance levels that "trigger" high, base or low allocations.

TABLE 8: ALLOCATION PARAMETERS

Item	African Development Fund	Asian Development Fund	Caribbean Development Bank (SDF)	Inter-American Development Bank (FSO and IFF)	International Fund for Agricultural Development	World Bank, IDA
Minimum allocations	AfDF IX: SDR 5m AfDF X: To be determined	No minimum, but not zero	No minimum, zero is possible.	No minimum, but not zero	$US1 million p.a.	In 2006 every country received an allocation of SDR 1.1 million in addition to its formula-based allocation.[68]
Small country preference	Minimum allocations favour smaller countries	Yes. Separate pool for Pacific countries; formulate weight moderates the influence of population on allocations	Yes. LogPOP used in the allocation formula which lessens the influence of larger populations	The performance-allocated dollars (60% of the total Fund) are distributed without attention to population	No	Minimum allocations favour smaller countries
Separately allocated pool of funds for special groups of countries	Yes, 95% of allocation for 38 AfDF only countries; 5% for two blend countries	Yes. 4.5% of commitment authority for Pacific developing member countries with access to fund.	Yes. New members Haiti.	Two funds, different eligible countries and levels of concessionality.	Until 2006 allocations were made within, not across, regions. In 2007 the allocation "competition" is worldwide.	No
Allocation caps or ceilings	Yes, capped allocation for one AfDF-only country: Ethiopia	Cap on countries that are on the "graduation watch list" (only Indonesia at this time)	Group 1 countries are technically eligible for SDF up to the amount of their own contribution	No	Single country allocation limited to 5% of total available lending resources	Capped allocations to three blend countries: India, Pakistan, Indonesia
Set aside (emergency and disasters)	None from concessional AfDF resources. Some from non-concessional AfDB window	None. IDA 13 guidelines adopted. Softer terms post-disaster.	$8 million (SDF 6) for natural disaster response, (in part available for major economic transitions, emergencies, HIV/ AIDS) + $4 million for MDG-related projects	General reserve can be used for natural disaster emergency lending.	No	IDA13: Natural disaster grants up to $75 million per annum IDA14: none
Set aside (priority action areas, like AIDS)	AfDF IX: 18-21% grants for specified activities; AfDF X: None	2% for HIV/AIDS on a grant basis but within PBA allocations.		No	No	IDA13: HIV AIDS grants IDA14: none
Set aside (regional projects)	AfDF IX: 10% for multinational or regional projects. Increased in AfDF X to 15%	Up to 5% of ADF commitment authority (2005). Explicit eligibility criteria provided.	$10 million (SDF VI)	No	No	SDR300 million p/a (plus SDR 100 million out of participating country envelopes) (IDA 14)
Different allocation rules for post-conflict countries?	Yes, the country performance rating is adjusted by a post-conflict enhancement factor.[21]	ADB will adopt the IDA 13 post-conflict PBA Framework from 2005.	No	N/A	Under review	Yes. Three years of special consideration + four years transition.
Different allocation rules for very weakly performing countries?	No	Case by case consideration but subject to an allocation ceiling set by the PBA formula.	No	N/A	No	No

AfDF = African Development Fund; FSO = Fund for Special Operations (Inter-American Development Bank); IDA = International Development Association; IFF = Intermediate Financing Facility (Inter-american Development Bank); SDR = Special Drawing Rights of IMF.

[21] The post-conflict enhancement factor has an upper bound of 1.5, but actual range applied to seven eligible countries was 1.13 to 1.30 during ADF-IX cycle (2002-2004).

TABLE 9: ALLOCATION MANAGEMENT

Item	African Development Fund	Asian Development Fund	Caribbean Development Bank (SDF)	Inter-American Development Bank (FSO and IFF)	International Fund for Agricultural Development	World Bank, IDA
Allocation Period	Annual (three-year rolling)	Two years	Four years	Two years, firm	Three years	Annual (three-year rolling)
Reallocation of unused resources	Mainly in final year of 3-year cycle	Annual	Biennial (midterm). In fact 2003 (mid-point) and 2004.	Near end of second year (from countries with lower demand to countries with unmet demand). PBA coefficients applied once	Annual reallocation	Annual
Rollover unused country allocations from one allocation period to the next?	Year-by-year country allocations may vary depending on changes in annual country portfolio performance reviews. Reallocation from non-performers to good performers in the final year of the allocation cycle	At the end of period, unused allocations can be carried forward for 12 months.	Yes, subject to biennial reallocation decisions.	Yes. The amount less than 25% of the allocation can be rolled over, for pipeline projects approved in the first semester of the following year. Also some exceptions made (Haiti 2003, 2004).	Yes	Limited rollover permitted.
Conditional approvals when insufficient commitment authority within an allocation period?	Yes	Yes	No	Yes if country does not have sufficient resources to fully fund a project (FSO only).	No	No
Conditional approvals across replenishment periods?	No	No	No	Yes	No	Yes (in selected cases)
Limits on the % of the multi-year allocation that can be taken up in one year	Yes, on average 33% annually but flexibility allowed for some frontloading to high performers	From 2005, annual approvals may vary as a percentage of the total biennial allocation, depending on country size and size of total allocation.	No	Total approval limit of $400 million p.a. Individual ‘advances’ on next year’s allocation if unused funds available.	No	Extreme ”frontloading” is normally resisted
General reserve	No	No	Yes. $10 million for technical assistance	$100 million	No	No

FSO = Fund for Special Operations (Inter-American Development Bank); IDA = International Development Association; IFF = Intermediate Financing Facility (Inter-American Development Bank); SDF = Special Development Fund (Caribbean Development Bank)

TABLE 10: DISCLOSURE OF COUNTRY ALLOCATIONS, PERFORMANCE SCORES AND ASSOCIATED MATERIALS

Institution	Overall score disclosed?	Cluster scores disclosed?	Criterion scores disclosed?	Ratings narratives disclosed?	Monetary allocations disclosed?	Posted on website?	Annual report on PBA published?
Caribbean Development Bank	Yes	Yes	Yes	No	Yes	No	No
African Development Bank	2004 quintiles. Yes, from 2005.	Yes, from 2005.	Yes, from 2005.	No	No	Yes, from 2005.	Yes, from 2005
Asian Development Bank	2004 quintiles. Yes, from 2005.	Yes, from 2005 .	Yes, from 2005 .	No	Yes (to Board)	Yes, from 2005 .	Yes, from 2005
Inter-American Development Bank	Yes	Yes	No	No	Yes	Yes	No
International Fund for Agricultural Development (Rural Sector Performance)	Yes	Yes	Yes	No	Yes	Yes	Yes
World Bank, IDA	2004 quintiles. Yes, from 2005	2004 quintiles. Yes, from 2005	2004 quintiles. Yes, from 2005	No	No	Yes	Yes

Stages of Disclosure

Institution	Disclosure to DMC governments	Disclosure to Board	Disclosure to public	Accommodation of DMC Views
Caribbean Development Bank	Full disclosure of ratings	Full disclosure of ratings	Full disclosure but not active publication	Discussion at Board and annual meetings
African Development Bank	From 2005 during rating exercise	2004 Quintile results only; 2005 actual scores	2004 Quintile results only; 2005 actual scores	After public disclosure, dissenting RMC views addressed (2005)
Asian Development Bank	Preliminary discussion during rating exercise. Numerical disclosure during country programming together with average ratings for all other countries.	Full numerical disclosure prior to Board discussion of Country Strategy and Program Updates	Full public disclosure after Board discussion of Country Strategy and Program Updates.	Country notices appended as appropriate
Inter-American Development Bank	CIPE country performance assessment discussed with countries at their request	Each country's CIPE (CPIA) and cluster scores (not individual criteria scores) are disclosed	Each country's CIPE (CPIA) cluster scores (not individual criteria scores) are disclosed	Disclosure only in discussions after the scoring is complete.
International Fund for Agricultural Development	Rural development-policy performance assessment and portfolio performance discussed with each MDC in advance during the rating exercise.	Full numerical disclosure prior to Board in PBA papers. Country Strategic Papers reflect findings.	Full disclosure following Board as per IFAD disclosure procedures unless specifically requested/agreed by Board	Comments received on Board papers prior to presentation may require tabling of points raised and agreements reached.
World Bank (IDA)	Preliminary discussion during rating exercise. Numerical disclosure of scores during country programming together with average ratings	2004 quintile group ranking disclosed; 2005 actual scores disclosed. Dollar allocation amounts not disclosed.	2004 quintile group rankings disclosed; 2005 actual scores disclosed, Dollar allocations not disclosed (2007).	Countries will have opportunity to express dissenting views when scores are disclosed publicly (after 2005)

APPENDIX D

AN EXAMPLE OF A WORLD BANK CPIA WRITE-UP TEMPLATE

CPIA Q13: Quality of Budgetary and Financial Management

"Template" for Explanatory Write-up

No.	Question	CPIA 2005	CPIA 2006	Explanation
13	Quality of Budgetary and Financial Management			[Provide possibly 1-2 sentences on each of the bullets listed below. Also include quantitative information wherever relevant for the rating] **Sub-question (a). A comprehensive and credible budget, linked to policy priorities** **Rating =** • Budget-policy Link: • Forward Look in Budget: • Consultation with Spending Ministries in Budget Formulation: • Budget Classification: • Budget Comprehensiveness: **Sub-question (b). Effective financial management systems to ensure that the budget is implemented as intended in a controlled and predictable way** **Rating =** • Deviations of Actual from Budget: • Budget Control, Monitoring and Reporting Systems: • Arrears: **Sub-question (c). Timely and accurate accounting and fiscal reporting, including timely and audited public accounts and effective arrangements for follow up.** **Rating =** • Reconciliations: • In-year Fiscal Reporting: • Annual Public Accounts: • Timeliness and Quality of Audits: • Follow-up on Budget Reports and Audits: **Information Sources:**

COMPARTIVE TABLE OF RED FLAGS FOR "PROBLEMATIC PROJECT"

Asian Development Bank (fail 4/10 criteria)	**World Bank/IDA (fail 3/10 criteria)**	**IFAD (fail 5/11 criteria)**	**Inter-American Development Bank (fail 2/3 criteria)**	**African Development Bank (fail 2/6 criteria)**
Implementation delays	Long effectiveness delays		> 11months from approval to contract validity; or > 12 months from contract validity to eligibility (16 months if legislative ratification required)	> 12 months from approval to effectiveness
Poor compliance with legal covenants	Poor compliance with legal Covenants	Compliance with loan covenants unsat		Conditions precedent rated < 1.5 out of 4.0
PMU/PIU operations	Project management problems	Project management Performance unsat		Project management rated < 1.5 out of 4.0
Counterpart funds/co-financing	Shortage of counterpart funds	Availability of counterpart Funds unsat		Counterpart funding rated < 1.5 out of 4.0
	Procurement problems	Compliance with procurement procedures		Procurement rated as < 1.5 out of 4.0
Cost over-runs	Poor financial performance			
	Environmental/resettlement Problems	-		
Significant disbursement delays	Significant disbursement Delays	Disbursement rate unsat	< 25% in 3 years, 75% in five years, or 10% of available balanced in past 12 months, or > 24 months extension of date of final disbursement	
Risky sector in country with history of past problems	Long history of past problems: (a) in a risky country and (b) in a risky sub-sector	-		
	Poor macroeconomic setting			
Poor compliance with audit or financial statements		Quality and timeliness of Audit unsat	Audited financial statement > six months late	
	-	Performance of M&E unsat		
		Beneficiary participation		
		Responsiveness and selection of service providers		
	-	Gender focus unsat in implementation		
	-	Poverty focus unsat in implementation		
Environment/social problems	-			
ADB field visits	-			
				IP/DO rated unsat 2 years in row

APPENDIX F

GLOBAL ENVIRONMENTAL FACILITY ALLOCATION SYSTEM

The Global Environment Facility (GEF) Council adopted a performance-based allocation framework in September 2005.[69] The Resource Allocation Framework (RAF) is a system for allocating resources to countries in a transparent and consistent manner based on global environmental priorities and country capacity, policies and practices relevant to successful implementation of GEF projects.[70]

Allocations are based on two factors:

(a) Potential to general environmental benefits, measured by the GEF Benefits Index (GBI): a measure of the potential of each country to generate global environmental benefits in a particular focal area; and

(b) Potential for successful implementation of GEF projects, measured by the GEF Performance Index (GPI): a measure of each country's capacity, policies and practices relevant to a successful implementation of GEF programs and projects.

GEF Performance Index (GPI)

The GEF Performance Index is composed of three indicators:

(a) Portfolio Performance Indicator (PPI), with a weight of 10%, equally split between an indicator developed from GEF project ratings contained in the Project Implementation Review and an indicator developed from ratings by the World Bank Operations Evaluation Department of implementation completion reports of World Bank environment-related projects;

(b) Country Environmental Policy and Institutional Assessment Indicator (CEPIA), with a weight of 70%, based on the "Policies and Institutions for Environmental Sustainability" indicator[71] from the World Bank's Country Policy and Institutional Assessment (CPIA); and

(c) Broad Framework Indicator (BFI), with a weight of 20 percent in GPI, based on the average of the five indicators[72] under the "Public Sector Management and Institutions" cluster of the CPIA.

The country performance score is computed from the GEF Benefits Index (GBI) and the GEF Performance Index (GPI) as follows:

$$\textbf{Country Performance Score} = GBI^{0.8} \times GPI^{1.0}$$

APPENDIX G

ASIAN DEVELOPMENT BANK PORTFOLIO PERFORMANCE SCORING SYSTEM

In March 2001, the Asian Development Bank (ADB) Board approved the Policy for the Performance-Based Allocation of ADF Resources. The allocation formula contains a portfolio performance variable. It assigns a weight of approximately 15% to 18%[73] to portfolio performance in the country performance rating, the lowest among the MDBs. ADB bases its portfolio performance rating on an estimate of the proportion of 'projects at risk'. The "% projects at risk" is calculated in the following way: (the number of actual problem projects + the number of potential problem projects) + (total number of active ADB projects in the country). Staff who are responsible for monitoring projects make estimates of 'projects at risk' at the time of a mission to the country. Background information, along with recommendations on how to rate project performance, are sent by the mission leader to the Country Portfolio Assessment Working Group.[74]

The ADB Policy on Performance-Based Allocation states three groups of indicative criteria to be taken into account in determining projects at risk: Implementation progress, likely achievement of development objectives) on a four-point scale[22], and potential problems. (Four or more "red flags" in the Project Performance Report.) A red flag is raised, automatically, if the Project Performance Report rates one of the following as unsatisfactory or only 'partly satisfactory": implementation delays; poor compliance with covenants; PMU/PIU operations; fielding consultants; counterpart funds/co-financing; cost overruns; poor compliance with audits or financial statements; environmental/social problems; significant disbursement delays; a risky sector in a county has a history of past problems; and ADB field mission visits.

The percentage of projects-at-risk is converted to a country portfolio rating[23] as shown in Appendix C, Table 6.

[22] Highly satisfactory (expected to exceed most of its major development objectives); satisfactory (expected to achieve most of its major development objectives); partly satisfactory (expected to achieve some of its development objectives); and unsatisfactory (unlikely to achieve its major development objectives.)

[23] The portfolio performance rating approximates a linear rule r = 6-10p, where "r" is the portfolio performance rating and "p" is the decimal proportion of projects at risk in the country's active portfolio.

APPENDIX H

WORLD BANK/IDA PORTFOLIO PERFORMANCE SCORING SYSTEM

The World Bank's portfolio performance score[75] is based on all operations, not only those funded on concessionary terms. That is, it includes all active[76] projects in the current fiscal year, whether funded by IBRD, IDA, GEF, the Montreal Protocol or Special Financing. It is calculated in two steps. First the percentage of "projects at risk" is calculated. This is based on the ratio of the number of "actual problem projects"[77] + "potential problem projects"[78] to total active projects. Second, the percentage of projects at risk is converted to a portfolio performance score on a scale 1.0 to 6.0, using a conversion table. (See Appendix C, Table 6)

A World Bank project is 'at risk' if it is an actual problem project because implementation progress is unsatisfactory or development objectives are unlikely to be achieved, or it is a potential problem project because the project has three 'red flags' out of 11 risk factors that are historically associated with unsatisfactory outcomes. The 11 risk factors are the 12 factors used by the World Bank Quality Assurance Group to assess portfolio performance, except for the CPIA flag, which was omitted because it is counted in another part of the resource allocation formula. Therefore the criterion becomes "two out of eleven risk factors having a red flag".[79]

In 2006 the risk factors taken into account were: legal covenants;[80] safeguards;[81] counterpart funds;[82] monitoring and evaluation;[83] financial management;[84] procurement;[85] project management;[86] long-term risk;[87] effectiveness delays;[88] disbursement delays;[89] country environment (CPIA);[90] country record.[91] However the World Bank's regional operational managers can over-ride the at-risk rating at their discretion, by using a 'golden flag'. This flag can be used to change ratings in either direction, although when used it has generally been to move projects out of the at-risk category.

APPENDIX I

INTER-AMERICAN DEVELOPMENT BANK APPROACH TO PORTFOLIO PERFORMANCE SCORING

The Inter-American Development Bank (IDB) provides two sources of concessionary funding, the Fund for Special Operations (FSO) and the Intermediate Financing Facility (IFF). The Fund for Special Operations is restricted[92] to the five poorest members of the Bank – Bolivia, Guyana, Haiti, Honduras and Nicaragua. Approximately 32 million people live in these countries. In addition, a small amount has been allocated to the Caribbean Development Bank for 'on lending' to the OECS countries. The Intermediate Financing Facility was established during IDB-6 (1982). Currently, the eligible borrowers are Suriname (among the C countries) and Ecuador, El Salvador, Guatemala and Paraguay (among the Group D1 countries). Approximately 39 million people live in these countries.

The IDB has a simple linear allocation formula that allocates 60% of its funds (FSO) entirely according to the country performance rating. The IDB gives 30% weight to portfolio performance within the "country performance rating" in the allocation formula, compared with policy and institutional performance (CIPE) that receives 70% weight.

The active portfolio is defined as all projects approved by the Board of Executive Directors that had outstanding undisbursed balances at the most recent year end, excluding the Project Preparation and Execution Facility, export financing facilities, Mezzanine Investment Funds, MIF projects and non-reimbursable technical cooperation.

IDB calculates a country's portfolio performance differently from the other MDBs in two ways. First, IDB does not convert raw percentages of problem/alert projects to a 1-6 scale using an arbitrary equivalence table. Instead the IDB measures a country's portfolio performance as the undisbursed amount in problem or on-alert projects compared with the total amount undisbursed from all current projects in the country (expressed as a percentage).[93] Second, the raw scores are not used in the allocation formula but are normalized relative to the average performance score. Since all variables in the allocation formula are standardized in this way, it is relatively easy to understand intuitively the weights for each variable.

The other MDB's conversion of percentage projects at risk to a 1-6 scale (or in the case of the CDB 1-5) is a kind of partial normalization, since the policy/institutional performance variable is measured on the same 1-6 or 1-5 scale. The current IDA effort to constrain the "volatility" of the portfolio performance variable may be a further step towards normalization. However, the IDB method of normalization is less arbitrary and has the advantage of being applied consistently to all of the variables in the allocation formula, not only to the country performance variables.

In its early deliberations[94] the IDB considered using "average age of a US$1.0 disbursed" as a portfolio performance variable but decided against it.

Definition of Projects at Risk

The Inter-American Development Bank operates a Portfolio Performance and Management Reporting System (PPMR). Country offices report on project performance in terms of the extent to which projects are expected to achieve their development objectives, whether implementation progress is satisfactory, and whether key assumptions and enabling conditions continue to be favourable for smooth implementation and achieving objectives. This enables the IDB to identify problem projects.

IDB also operates the Project Alert Identification System (PAIS). See http://itc-apps-01/pais/ A project 'on-alert' is one currently rated as making unsatisfactory or very unsatisfactory progress on implementation[95], rated low in terms of development assumptions[96], or are flagged as having two or more indicators[97] that are characteristic of projects that may become problematic in the future.[98]

IDB measures country portfolio performance, for purposes of resource allocation, by the proportion of 'problem projects' and 'projects on alert'. These data are set out in the *Annual Report on Portfolio Management*, *Performance and Results* (ARPRE) presented each year to the consideration of the Board of Executive Directors.

Issues

The use of the undisbursed amount in problem/on alert projects (rather than the simple number of problem/on-alert projects) has certain advantages. If, for example, a very small project goes on alert, or a project goes on alert late in its life, then the country's portfolio performance score will not be much affected. This avoids some of the "measurement volatility" problem experienced by other MDBs. However, on the other hand, if one large project goes on alert early in its life the effect on the country performance score would be correspondingly large.

APPENDIX J

AFRICAN DEVELOPMENT BANK PORTFOLIO SCORING SYSTEM

In January 1999 the ADB deputies approved a performance-based resource allocation system (including a portfolio performance measurement system) that was substantially harmonized with the World Bank, but is different in some respects. It rates country portfolio performance on a 1.0 to 6.0 scale, depending on the percentage of projects at risk (actual and potential problem projects). The conversion protocol is shown in Appendix C, Table 6.

A project is identified as a "problem project" if it receives an average score of 1.5 or less on either the indicators of Implementation Progress (IP, 14 indicators) or the indicators of Development Objectives (DO, 4 indicators). Each of the indicators is scored on a 1.0 to 4.0 scale.

A "potential problem project" is one that meets at least two of seven criteria:

1. Elapsed time between approval and effectiveness is greater than 12 months. This applies to all operations – project and structural adjustment loans, as well as TAF activities.

2. Conditions precedent is rated less than 1.5

3. Procurement of goods and services is rated as less than 1.5

4. Project management is rated as less than 1.5

5. Counterpart funds is rated as less than 1.5

6. Country has a record of high rate of project failure (PPAR/PCR failure rate of 50% in a macro-economically weak country)

7. IP or DO rating is rated as unsatisfactory two years in a row.

Endnotes

[1] In SDF 6 set-asides have been made for projects on regional integration and regional public goods, for project management training, the Caribbean Technological Consultancy Services, the MDGs and immediate disaster response. In addition there were allocations for the BNTF, operations in Haiti, and for capacity building TA to BMCs.

[2] CDB, Allocation of Special Development Fund Resources (Fifth Cycle), Working Paper, May 2001, SDF 5/3 NM-5, WP01/5.

[3] CDB, by Dr. Kenneth Watson, RideauGroup Consultants.

[4] CDB, "Replenishment of the Resources of the Special Development Fund (SDF 6) – Resolution and Report of the Contributors on SDF 6", October 2005.

[5] CDB, "Resolution of the Contributors to SDF 6. Schedule 3 – Report and Conclusions of Negotiations for SDF 6", October 2005. Para. 29 "Contributors also reaffirmed the importance of the SDF resource allocation strategy that had been introduced in SDF 5, and agreed that the same strategy should be used for determining indicative country allocations in SDF 6, with an emphasis on improving the application and use of the strategy in strengthening development effectiveness and results." … 5. SDF 6 ACTION PLAN AND MID-TERM REVIEW. … 5.04 Contributors agreed that there would be a Mid-Term Review of SDF 6, similar to that undertaken for SDF 5, to be completed early in the third year of the Replenishment cycle. The Review should discuss progress made in implementing decisions and recommendations in this Report, SDF 6 operations to date, the operational programme for new members, and the status of funding for the Replenishment. … 5.06 The exact content and coverage of the MTR will be finalised depending on emerging issues and concerns, but Contributors requested the Bank to have a report prepared for their consideration, at least one month before the MTR meeting, covering, among other issues: (a) overall progress on the operational programme, including implementation of the operational priorities set out in this Report; (b) status of funding, and availability and use of commitment authority; (c) progress with respect to the time-bound milestones in the SDF 6 Action Plan, as well as other aspects of the Results Agenda, in particular, application of the SDF resource allocation strategy, preparation of results-based country strategies, the Bank's thematic and sector evaluation work, and the selected Indicators of Progress on the alignment, harmonisation and results agenda; (d) progress with respect to development of a monitoring and evaluation framework for SDF based on Caribbean-specific MDGs, Targets and Indicators; (e) progress on other aspects of the SDF 6 programme; using the additional indicators requested by Contributors; and (f) planning for SDF 7, including the proposed programme evaluation of SDF.

[6] The tasks of the assignment were: (1) collect and analyse information about CDB's experience and BMC perceptions of the allocation system; (2) describe the rationale, history and scope of the allocation system and formula; describe and analyse CDB's method of scoring country performance; (3) review dollar allocations over time; (4) review the use of set-asides for special purposes; (5) describe the general outcomes of the allocation system and identify its strengths and weaknesses; (6) discuss the possibilities of harmonisation with other multilateral development banks; and (7) formulate options for CDB's allocation system in future, setting out the pros and cons of each option.

[7] A "public good" is one that benefits everyone in a society, such as clean air, while a "private good" benefits only certain persons or organisations.

[8] The "absolute" value ignores whether the number is positive or negative and simply expresses the size of the number.

[9] However the World Bank/IDA caps the allocations of its three largest "blend" borrowers at levels well below what the formula would produce, thus moderating the effect of population on the allocation in these three cases (India, Indonesia and Pakistan).

[10] Mid-Term Review of IDA 14. November 7, 2006. "IDA's PBA System: A Review of the Governance Factor". IDA/Sec M2006-0561. Paragraph 36. Page 19.

[11] IDB uses the same formula for both its FSO, and its Intermediate Financing Facility (IFF).

[12] The World Bank used the term "Country Policy and Institutional Performance" (CPIA) for many years and recently has used the term "IDA Resource Allocation Index" (IRAI) to refer to the actual performance score resulting from the CPIA. The Inter-American Development Bank uses the term "Country Institutional and Policy Evaluation" (CPIE).

[13] Appendix A Table 3 shows a comparison of the PRES criteria with the CPIA criteria of the World Bank/IDA and the ADB. Table 4 shows a similar comparison between the CDB and IDB criteria.

[14] David Dollar and Lant Pritchett, "Assessing Aid – What Works, What Doesn't and Why", World Bank Report Number 18295. World Bank Website Summary: "This report assesses foreign aid, pointing out that aid is as much a matter of knowledge as it is about money. It discusses the continuing role of financial transfers from rich to poor countries, despite the integrated capital markets; and the role of effective aid in supporting institutional development policy reforms, crucial to a successful development. The report summarises the findings of recent World Bank research on aid effectiveness. Two key themes emerge from this report: the importance of timing, and the mix of money and ideas in making aid effective. When countries reform their economic policies, well-timed assistance can increase the benefits of reform and maintain popular support for them. On the mix of activities, it is found that money has a large impact, but only in low-income countries with sound management. Without a reform policy, finance has little impact. To be effective in equitable and sustainable development, a three-way partnership among recipient countries, aid agencies, and donor countries is needed. The recipient countries must move toward sound policies. Development agencies must shift away from total disbursements and the narrow evaluation of implementation, instead create high impact assistance. Donor countries should continue to support aid as well. The report concludes that properly managed foreign aid can make a big contribution toward improvement in people's lives."

[15] David Dollar and Lant Pritchett, "Assessing Aid – What Works, What Doesn't and Why", World Bank Research Report Number 18295, November 1999. ISBN 0-19-521123-5

[16] There is a question whether the level of policy/institutional performance should be the sole determinant of a country's score, or whether 'momentum' [improvement] should be assessed as well. It has been suggested that assessing policy/institutional level alone, as CDB does at present, may penalise countries that start at a low level of policy/institutional effectiveness, but are improving. Momentum of policy change, however, can be taken into account later in adjusting the indicative allocation in the second stage of developing a country-lending program in the country strategy.

[17] In the various PRES scoring exercises countries that improved by more than one rank include: Guyana, Anguilla, Turks and Caicos Islands, and St. Lucia. The countries whose policy/institutional performance deteriorated by more than one rank, included Grenada, British Virgin Islands, Montserrat, Trinidad and Tobago, and Cayman Islands, and Barbados

[18] CDB, J. Braithwaite, "Discussion Note: Review of the PRES Index", August 2006.

[19] Braithwaite op. cit. p. 2 "The process of collaboration and collective assessment envisaged in the calculation of the PRES has not been fully adopted."

[20] Mid-Term Review of IDA 14. November 7, 2006. "IDA's PBA System: A Review of the Governance Factor". IDA/Sec M2006-0561. Paragraph 30. Page 16.

[21] The criteria are scored on a scale from 1 to 5 with 1 representing an unsatisfactory performance and 5 representing an excellent performance

[22] The policy-and-institutional performance variable was introduced into what had previously been an allocation system based entirely on need in order to give each country an incentive to reform its policies and institutions where such reform is needed. One would expect that the PRES would have a significant influence on SDF allocations, although it shares that influence with another performance variable (performance of the country's CDB portfolio) and with three variables that measure need (population, per capita income, and vulnerability).

[23] The range of World Bank scores is from 1 to 6, and CDB scores from 1 to 5.

[24] In 2005 the ADB adopted the CPIA clusters and criteria used by the World Bank/IDA, abandoning its earlier CPIA that had been different in some respects. The Inter-American Development Bank (IDB) uses essentially the same clusters as the other MDBs, but gives them different weights and has a much smaller number of individual criteria within the clusters (10 main criteria, no sub-criteria). IDB gives much greater weight to "social inclusion and equity" (35% rather than 25%), and considerably less weight to "(macro) economic management" (15% rather than 25%). It is perhaps noteworthy that IDB adds "inclusion of indigenous peoples and other minorities" to its "gender equality" criterion.

[25] World Bank/IDA, Resource Mobilisation (FRM), "IDA's PBA System: A Review of the Governance Factor", October 2006.

[26] See the Millennium Challenge Corporation for an approach to governance in a resource allocation context that is broader and more political.

[27] Mid-Term Review of IDA 14. November 7, 2006. "IDA's PBA System: A Review of the Governance Factor". IDA/Sec M2006-0561. Paragraph 25. Page 14.

[28] Central African Republic, the Gambia, Madagascar, Tanzania, Cambodia, Indonesia, Vanuatu, Iran, Tunisia, Yemen Republic, Argentina, Grenada, Guyana, Mexico, Nicaragua, Paraguay, Albania, Slovak Republic, Tajikistan, and Pakistan.

[29] That is the comments of all country economists participating in the scoring exercise should be compiled into a single text.

[30] Average performance score 2001-2005, Appendix C, Table 1.

[31] Belize, Grenada, Guyana, St. Kitts and Nevis, St. Vincent and the Grenadines, and the Turks and Caicos Islands.

[32] Simple two-variable regression analysis shows a multiple R of 0.756578, an R squared of 0.572411, and a standard error of 0.101452, on the basis of six observations (six countries).

[33] The main reasons were that Dominica experienced severe fiscal distress during the SDF 5 period. Dominica has a relatively small population, a relatively high portfolio performance score, and its vulnerability score was relatively high.

[34] In 2006 the CDB included only investment loans in its PPI. Most multilateral development banks also include TA projects as part of the performance index.

[35] The PRES is based on five criteria of poverty-relevant country performance: socially inclusive development, macroeconomic management, governance and public sector management, structural or microeconomic management, and environmental policies and management. Each criterion is given a consensus weight by CDB economists.

[36] Ibid, p.6

[37] CDB projects are scored at each stage of their lifecycle. A Performance Rating Summary is completed in the PPMS at project appraisal, at each supervision milestone, and at completion. The project supervisor enters scores and their justification. The standard criteria are scored each time, although at appraisal the expected performance is assessed, not actual performance.

[38] The PPES criteria are closely related to the harmonised project performance criteria promulgated by the Evaluation Coordination Committee of the OECD/DAC. Beginning in 2001, the CDB put in place a project evaluation system using these six criteria of performance, which are scored individually and then combined into a 'composite performance score'.

[39] As well, three other criteria are scored independently but not combined in the composite performance score. These are: the performance of CDB itself, borrower performance, and timing performance.

[40] The average should be of project scores at a set time each year, not an average of annual averages. The reason for this is to give full weight to other operations (TA) in the first year that they enter the calculation.

[41] CDB, IDMAG and RideauGroup, "Evaluation of CDB Technical Assistance Operations", 2007.

[42] The possible red flags are as follows: A performance score below 2.0 (out of 10) on any criterion; a composite performance score below 4.0; a performance score on any criterion that has declined by more than 15% since the last supervision report; an 'unsatisfactory' rating on the performance of CDB itself (which would have to be removed before the variable was used for allocation purposes) or an 'unsatisfactory' rating on borrower performance.

[43] One 'red flag' is raised if any of the following questions is answered positively: Is any performance criterion scored below 2.0? Is the composite performance score below 4.0? Has any performance score declined by more than 15% since the last supervision report? Is project timing more than 15% behind target? Is CDB performance unsatisfactory? Is the borrower/executing agency performance unsatisfactory?

[44] The smaller the number of projects that form the basis of the performance metric, the more unstable the metric is liable to be.

[45] In 2005, only 2 projects in the SDF capital portfolio (2.4%) were classified "at risk" compared with four projects in 2004 (5.1%) and 9 projects in 2003 (10.3%)

[46] Portfolio performance scores may be highly volatile where real volatility of performance is much less. Measurement volatility in a red flag system may be much greater than actual volatility of performance if the country portfolio is small. Consider a country that has five active projects, all of which are satisfactory on Implementation Performance and Development Objectives and has fewer than three red flags up. It would receive a rating of 6.0 on portfolio performance. If, now, one of the five projects gets another red flag and is counted "at risk", the country now has 20% of its projects at risk and a portfolio performance rating of 2.5. This is a very large change in score for a small change in actual performance. Three changes have been proposed by World Bank staff to lessen measurement volatility. These changes are: (1) Narrow the scale on which portfolio performance is scored from '1 to 6' to '1 to 4.5'. Consequently the conversion formula will also have to change (that is, the formula used to convert "% projects at risk" to a performance score on the 1 to 4.5 scale). The rationale for this change is that narrowing the range of the performance scale will constrain measurement volatility. It is unclear that this will be so, if scoring on the new scale is proportional to scoring on the old scale (as it probably would be). (2) Take readings of the portfolio performance at several times during the year (in fact at the end of each quarter) rather than only at one fixed date each year. The rationale is that this will make it less likely that the country manager will clean up the country portfolio to improve the portfolio score (by early termination of projects that are performing poorly). (3) Countries with portfolios of three projects or less (14 of 81 countries) will not have the portfolio performance component used in the calculation of their budget allocation. In effect these countries will have an allocation determined only by country policy and institutional performance (CPIA). Simulations by the World Bank staff indicate that these three changes would reduce measurement volatility by about two-thirds. It has been suggested that

the proposed changes will make the measurement volatility confirm more closely to the real volatility of performance, will better align the ratings with portfolio norms[46] and will better align the range of portfolio performance ratings with the range of CPIA ratings.

[47] IDB considered another approach to the same issue, namely using "average age of a dollar disbursed" as a performance measure.

[48] The percentage of projects at risk has improved markedly in the past five years, although the bulk of the improvement has been in potential rather than actual problems so perhaps over-optimism is showing here.

[49] "Net Disconnect" is defined as "The difference between the percentage of projects rated as satisfactory by Operations Evaluation Department and the percentage rated by the Regions in the final Project Supervision Report as unsatisfactory for achieving the development objectives." World Bank, "Definitions, Classifications, and Data Sources", p. 4.

[50] The actual outcomes are measured for completed projects by Operations Evaluation Department of the World Bank a group that reports directly to the Board. The 'disconnect' is measured globally and for individual countries and sectors.

[51] Gross domestic product per capita.

[52] CDB, J. Melville et al, "Revised Economic Vulnerability Index – 2002", March 2006.

[53] CDB, Natural Disaster Strategy and Operational Guidelines, April 1998.

[54] See "Adapting IDA's PBAs to Post-Conflict Countries", May 2001

[55] A minor qualification here is that "country performance" is the multiplicative factor in the World Band/IDA and CDB allocation formulas, but the country performance score itself is the result of an addition of two weighted scores, one for policy-and-institutional performance and one for portfolio performance.

[56] Mid-Term Review of IDA 14. November 7, 2006. "IDA's PBA System: A Review of the Governance Factor". IDA/Sec M2006-0561. Paragraph 37. Page 20.

[57] 0.5 is the minimum possible change since the scoring scale is calibrated in 0.5 increments.

[58] CDB, "Use of Grants in the Special Development Fund", April 2005. SDF 6/1-EEN-4.Rev. 1.

[59] CDB. IDMAG and RideauGroup Consultants, "Evaluation of TA Operations", February 2007.

[60] Op. Cit., paragraph 6.06

[61] CDB, "Resolution of the Contributors to SDF 6. Schedule 3 – Report and Conclusions of Negotiations for SDF 6", October 2005. Paragraph 6.06.

[62] That is the comments of all country economists participating in the scoring exercise should be compiled into a single text.

[63] The average should be of project scores at a set time each year, not an average of annual averages. The reason for this is to give full weight to other operations (TA) in the first year that they enter the calculation.

[64] Portfolio performance scores may be highly volatile where real volatility of performance is much less. Measurement volatility in a red flag system may be much greater than actual volatility of performance if the country portfolio is small. Consider a country that has five active projects, all of which are satisfactory on IP and DO and has fewer than three red flags up. It would receive a rating of 6.0 on portfolio performance. If, now, one of the five projects gets another red flag and is counted "at risk", the country now has 20% of its projects at risk and a portfolio performance rating of 2.5. This is a very large change in score for a small change in actual performance. Three changes have been proposed by World Bank staff to lessen measurement volatility. These changes are: (1) Narrow the scale on which portfolio performance is scored from '1 to 6' to '1 to 4.5'. Consequently the conversion formula will also have to change (that is, the formula used to convert "% projects at risk" to a performance score on the 1 to 4.5 scale). The rationale for this change is that narrowing the range of the performance scale will constrain measurement volatility. It is unclear that this will be so, if scoring on the new scale is proportional to scoring on the old scale (as it probably would be). (2) Take readings of the portfolio performance at several times during the year (in fact at the end of each quarter) rather than only at one fixed date each year. The rationale is that this will make it less likely that the country manager will clean up the country portfolio to improve the portfolio score (by early termination of projects that are performing poorly). (3) Countries with portfolios of three projects or less (14 of 81 countries) will not have the portfolio performance component used in the calculation of their budget allocation. In effect these countries will have an allocation determined only by country policy and institutional performance (CPIA). Simulations by the World Bank staff indicate that these three changes would reduce measurement volatility by about two-thirds. It has been suggested that the proposed changes will make the measurement volatility confirm more closely to the real volatility of performance, will better align the ratings with portfolio norms[64] and will better align the range of portfolio performance ratings with the range of CPIA ratings.

[65] IDB considered another approach to the same issue, namely using "average age of a dollar disbursed" as a performance measure.

[66] CDB, J. Melville et al, "Revised Economic Vulnerability Index – 2002", March 2006.

[67] This conversion scale is quoted in ADB "2005 Annual Report on ADB's Country Performance Assessment Exercise", March 2006.

[68] The minimum allocation has been higher than the current figure. It was in 2004 SDR 3 million, for example.

[69] As specified in the annex of the Joint Summary of the Chairs, Special Meeting of the GEF Council, August 30 – September 1, 2005.

[70] The RAF will initially be applied to the focal areas of biodiversity and climate change. In GEF 3, these two focal areas together account for about two-thirds of the resources employed for programming in the GEF.

[71] CPIA Indicator # 11.

[72] CPIA Indicators # 12,13,14,15,16.

[73] The weight of the portfolio performance factor in the allocation formula is expressed by its exponent which is 0.6. However the effective weight varies, depending on the baseline situation of the country, as is always the case in a system that uses an exponential formula.

[74] The Country Portfolio Assessment Working Group comprises regional department representatives, knowledge departments and central services department (COSO, which is responsible for ADB-wide portfolio management).

[75] The use of a "portfolio performance" variable dates back not to the start of the World Bank/IDA allocation system but only to the mid-1990s. During the IDA 10 negotiations, donors asked that borrowers' portfolio performance (in their existing portfolios of IDA credits) be taken into account in further resource allocations. Beginning in 1993, therefore, portfolio performance was given a weight of 20% among the variables in the resource allocation formula, although, at this time, it was not a separate factor, but rather was one of the criteria, among several, that comprised the measures of country performance. In 1995, the weighting of portfolio performance within the country performance score was reduced to 10%, and then to 7% in 1997. When the country performance factor in the allocation formula was redesigned in 1998, however, it was decided to have a separate portfolio performance factor outside the CPIA. Thereafter there were two performance factors in country performance in the IDA allocation formula – portfolio performance, with a weight of 20%, and policy/institutional performance, with a weight of 80%. At the same time, the methods of measuring 'portfolio performance' were changed to address methodological problems. Previously the score for portfolio performance had been based on estimates of the

proportion of 'problem projects' in the country portfolio. This was controversial. It was thought that project managers might be reluctant to label a project a 'problem', despite growing difficulties and risks, especially if the result might be a loss of resources for their country program. Therefore the World Bank began measuring 'projects at risk' in 1996, in addition to actual problem projects, and, in 1998, began using the data to help allocate IDA resources. The assessment of 'projects at risk' in a country is based upon the findings of supervision missions and is updated after each mission, which generally occur about every six months.

[76] Excluding all projects that had been cancelled or closed.

[77] An "actual problem project" is one rated unsatisfactory on implementation progress or rated an unlikely to achieve its development objectives.

[78] A "potential problem project", although it is currently rated as satisfactory on IP and DO, has risk factors historically associated with unsatisfactory outcomes.

[79] The definition of 'red flags' has changed over the years. For example, in response to recommendations in the FY99 *Annual Review of Portfolio Performance* some 'red flags' were changed.[79]

[80] Any of the critical legal covenants rated "not complied with" in the last ISR.

[81] Ratings of MU, U or HU on any applicable safeguard policy in the last ISR.

[82] Counterpart funding rated MU, U or HU in the last ISR.

[83] Monitoring and evaluation rated MU, U or HU in the last ISR.

[84] Financial management rated MU, U or HU in the last ISR.

[85] Procurement rated MU, U or HU in the last ISR.

[86] Project management rated MU, U or HU in the last ISR.

[87] Project with IP or DO rated MU, U or HU for any 24 months cumulative during the life of the project. This flag is removed when the project has been rated MS, S or DS for PIP and DO for the previous 24 months.

[88] Elapsed time between Board approval and effectiveness of more than nine months for investment, more than six months for policy-based lending and more than three months for emergency operations. This flag is turned off three years after Board approval..

[89] Disbursement delays of 24 months or more for investment operations. Delay is calculated based on the initial or formally revised disbursement schedule for the project.

[90] Located in a country with weak economic management (CPIA rating of less than 3.0 on a scale of 1 to 6). Once flagged the CPIA must exceed 3.5 for the flag to be removed. This flag also includes countries which are in a conflict or post-conflict environment.

[91] Located in a country with a net disconnect of 20% or more, or where net commitments associated with unsatisfactory projects, as rated by IEG, represent more than 40% of commitments for completed projects over the previous five years. In cases where the sample of IEG evaluations is too small, ICR data, data on mature projects, and experience of other donors is used to arrive at a robust conclusion. This flag also captures countries with less than satisfactory CAE ratings by IEG in the prior five fiscal years.

[92] Since 1994 (IDB-8).

[93] Ibid, p.6

[94] IDB, "Alternatives for a Performance-Based Allocation of FSO Resources and May 2001 Reallocation of Available FSO Resources", Strategic Planning and Budget Department, Washington DC, June 27, 2001, p.3

[95] Implementation is 'unsatisfactory' is most significant components are not in compliance with the original or revised project implementation and sequencing plan or there is a problem with the quality of the components. A serious delay in implementation of the project may be occurring. Corrective actions are being taken that may produce results. A project is very unsatisfactory if no feasible corrective action has been identified or there is no agreement with the executing agency on appropriate corrective actions.

[96] The likelihood that the key assumptions will hold true in practice is classified as low based on the latest information.

[97] Indicators include: Project has been under disbursement for more than 3 years and is less than 25% disbursed. Project has been under disbursement for more than five years and is less than 75% disbursed. Project took more than 12 months to achieve eligibility from date of contract validity. Less than 10% of available balances disbursed in previous 12 months. Eleven or more months elapsed between Board approval and contract validity in countries not requiring legislative ratification. Seventeen or more months elapsed between Board approval and contract validity in countries requiring legislative ratification. More than 24 months in extensions of date of final disbursement. More than 6 months delay in presentation of audited financial statements.

[98] IDB, 'Proposal for a Performance-Based Allocation of FSO Resources', Strategic Planning and Budget Department, June 6, 2002