

# **ADB's Performance-Based Allocation System**

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# Key Messages

- **Country Classification** determines whether a country qualifies for ADF resources.
- **Performance-Based Allocation** determines how much ADF resources an ADF-eligible country may receive.
- **Debt Sustainability Analysis** determines terms of assistance: loans, grants or combination

# What is ADF?

- ADB has two lending products
  - OCR: Market-based loan product linked to LIBOR
  - ADF: Concessional loan product
    - For program loans, term is 24 years with 1.5% interest, plus 8 years grace period with 1% interest
    - For project loans, term is 32 years with 1.5% interest, plus 8 years grace period with 1% interest
- Blend countries and 'ADF-only' countries
- ADB also provides grants to 'ADF-only' countries under certain conditions

# Performance-Based Allocation (PBA) System - Principles

- Good policies and institutions help growth and poverty reduction
- Good policies and institutions make concessional assistance more effective.
- PBA a rules-based system for allocating concessional resources according to country performance and country needs.
- PBA also a tool for policy dialogue, and country strategies

# Three Distinct Phases of PBA

- Country Performance Assessment (CPA) and Rating
- ADF Allocation Process
- Debt Sustainability Analysis

# What is the CPA?

- Assessment of a country's performance against specific criteria and benchmarks
- Focus on policy actions. Actions matter, not promises.
- Complex and difficult task based on professional judgment
- Relative scores influence ADF country allocations
- Performance is multidimensional

# Country Performance Clusters

## A. CPA Clusters

1. Economic management
  2. Structural policies
  3. Policies for social inclusion/equity
  4. Public sector management and institutions
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## B. Portfolio Performance

# CPA Questions and Performance

- Each CPA cluster has several questions and sub-questions
- A total of 16 CPA questions
- 6-point scoring scale
- Detailed guidelines on how to score each criterion

# Portfolio Performance

- Annually, Bank staff score each country's portfolio of loans against performance criteria.
- "Portfolio" is all active projects in a country
- Portfolio also rated on a 6-point scale

# Country Performance Score

$$\begin{aligned} \text{Country Score} &= \\ &= (\text{Governance or Public Sector Management}) \\ &\times \\ &(\text{Economic and Social Policies and Institutions})^{0.7} \\ &\times \\ &(\text{Portfolio})^{0.3} \end{aligned}$$

Example:

$$4 \times 5^{0.7} \times 3^{0.3} = 17.15$$

Min value = 1

Max value = 36

**About 50% weight assigned to governance**

# CPA Validation and Transparency

- Comprehensive guidelines and guideposts – use of IDA's questionnaire
- Narrative records and assessments
- Peer review for consistency across all countries
- Heads of Department and final Management approval
- Public Disclosure

# ADF Allocations

- Needs
  - Income per capita
  - Population size
- Country Performance

# CPA and Allocation Formula

$$CPA_i = G_i \cdot E_i^{0.7} \cdot P_i^{0.3}$$

Where: CPA = Country Performance Assessment Rating

G = Governance Rating

E = Economic and Social Policies and Institutions Rating

P = Portfolio Performance Rating

$$CAS_i = [CPA_i^2 \cdot Pop_i^{0.6} \cdot PCI_i^{-0.25}] \cdot SF$$

Where: CAS = Country Allocation Share

Pop = Population

PCI = Per Capita Income

SF: Scaling Factor =  $1 \div \sum [(G \cdot E^{0.7} \cdot P^{0.3})^2 \cdot Pop^{0.6} \cdot PCI^{-0.25}]$

# Debt Sustainability Analysis

- Determines whether country will receive its allocation in loans, grants or combination
- Entirely based on a country's risk of debt distress
- Analysis so far led by IMF-World Bank. ADB to join.

# Debt Distress Classification

- Follow IDA's debt distress classification
  - Low risk of debt distress – no grants
  - Moderate risk of debt distress – 50% grants
  - High risk of debt distress – 100% grants
- Volume discount 20% of grants to avoid perverse incentives

# For More Information

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