

Presentation on Performance-Based Resource Allocation

September 2006

ADB

Key Messages

- Use of measurable criteria: CPA ratings
- Allocation process
 - Country allocations (Norm)
 - Special situations (Post-conflict, set asides)
 - Regional/Subregional projects
 - Grants
- Disclosure

The Allocation Challenge

- Limited resources; massive needs
- Allocation decisions operate at three levels:
 - Eligibility and access
 - Country distribution and set-asides
 - Financing mix (loans and grants)
- These decisions shape:
 - Nature of engagement and dialogue
 - Financial operating parameters
 - Scope of strategies and operations

Two Distinct Phases of PBA

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

Country Performance Assessments

- Country performance assessments (CPA) rationale, principles and scope.
- Performance clusters and performance criteria
- Scoring scales and aggregation
- Assessment process

What is the CPA?

- An assessment of a country's policy and institutional performance against specific criteria and benchmarks
- Complex and difficult task based on professional judgment
- Evolving framework and knowledge
- Relative scores influence ADF country resource parameters
- Important context for policy dialogue, strategies and operations

Uses of CPA

- Key input to the ADF allocation process
- Informs policy dialogue and country strategies
- Background to country assistance evaluations
- Input to research on the determinants of growth and poverty reduction

Principles

- Actions not promises
- Focus on actions within control of the policymakers
- Performance standards should be appropriate to a country's level of development
- Levels of performance, not changes in performance, matter
- 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

B. Portfolio Performance

Performance Scoring Scale

- 1 = very weak
- 2 = weak
- 3 = moderately weak
- 4 = moderately strong
- 5 = strong
- 6 = very strong

Country Performance Score

Asian Development Bank

- Economic and social policies and institutions average scores on criteria clusters numbers one to three (Economic management, structural policies and policies for social inclusion/equity)
- Public sector management and governance average score on criteria cluster number four
- Portfolio performance score calculated separately on a similar scale, that is 1 to 6.

Portfolio Performance

- Annually, Bank staff score each country's portfolio of loans against performance criteria.
- The "portfolio" is all active projects.
- The portfolio performance score is combined with "policy and institutional" performance score to calculate the overall country performance score.

Converting Projects at Risk to a Performance Score

Projects at Risk	Rating
0%	6.0
1%	5.5
2%	5.0
3-4%	4.5
5-6%	4.0
7-10%	3.5
11-15%	3.0
16-32%	2.5
33-60%	2.0
61-99%	1.5
100%	1.0

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

2005 CPA Results

DMCs	A. Economic Management	B. Structural Policies	C. Social Inclusion/Equity	D. Public Sector Management	Portfolio
Azerbaijan	4.8	3.5	3.3	3.1	4.5
Bangladesh	4.0	3.2	3.7	3.3	5.0
Bhutan	4.0	3.5	4.2	3.9	6.0
Cambodia	3.8	3.3	3.3	2.8	4.5
Cook Islands	4.8	4.3	4.3	4.3	4.5
Indonesia	4.2	3.5	3.5	3.1	3.0
Kiribati	3.7	3.0	3.1	3.2	4.5
Kyrgyz Republic	3.8	3.8	3.6	2.7	4.5
Lao PDR	4.0	2.7	3.6	2.5	5.0
Maldives	4.2	4.0	3.9	3.7	4.5
Marshall Islands	3.5	3.3	3.0	3.1	5.0
Micronesia	3.7	4.0	2.8	3.5	3.0
Mongolia	4.2	4.2	3.3	3.4	5.0
Nepal	3.7	3.5	3.1	3.2	3.0
Pakistan	4.2	4.3	3.2	3.3	4.5
Papua New Guinea	4.0	3.0	2.5	2.7	4.5
Samoa	4.5	4.2	4.4	4.5	3.5
Solomon Islands	3.5	3.0	2.6	2.8	1.0
Sri Lanka	3.3	3.8	3.7	3.4	5.5
Tajikistan	4.5	3.2	3.2	2.8	3.0
Tonga	3.3	3.2	3.6	3.1	4.5
Tuvalu	3.3	2.7	3.6	3.4	4.0
Uzbekistan	4.0	2.7	3.6	2.8	3.0
Vanuatu	4.0	3.0	2.7	2.9	4.5
Viet Nam	4.5	3.7	4.3	4.1	4.5

Validation

- Comprehensive guidelines and guideposts – use of IDA's questionnaire
- Narrative records and assessments
- Operational and non-operational peer review
- Independent oversight of ratings and management's approval

Consultation

- Under the revised PBA Policy stronger and more structured client involvement, but not negotiation
- Country programming and dialogue
- Board discussions of CSPs and CSPUs

Administrative Process

- PBA Focal Point
- Operations departments
- Frequency and scheduling
- Accountability and report (ADF IX mid-term review)

Country Allocations

- Needs
 - Income per capita
 - Population size
- Country Performance
- Ratings Absorptive capacity

Country Allocation Criteria

Needs

Performance

—

+

+

+

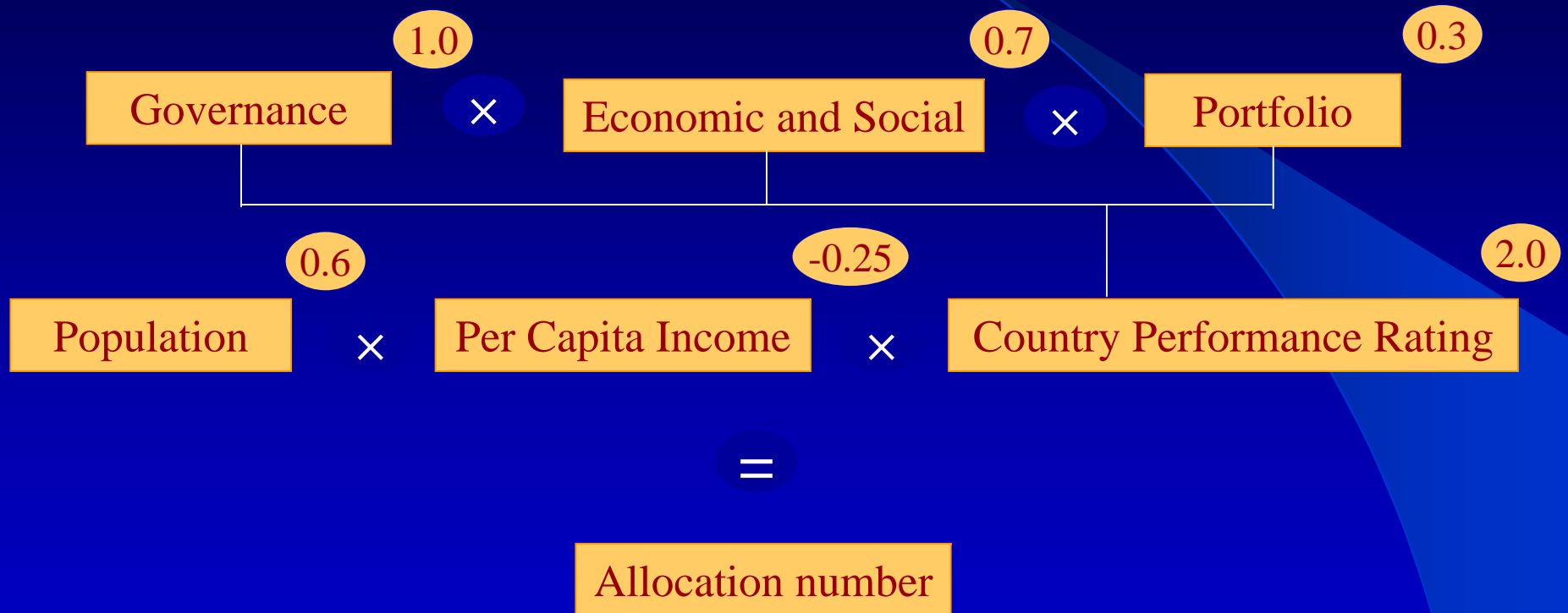
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Country Allocation Share

ADF Allocation Formula



Allocation Shares

Allocation share

=

Allocation number

÷

Sum of all country
allocation numbers

Monetary Allocation

=

Allocation share

×

\$ Envelope

Special Allocations

- Post conflict countries
- Sub-regional and regional allocations
- Disasters and emergencies

Post Conflict Allocations

- Eligibility for 3 years with possibility of extension
- Per capita allocations at a multiple of those provided to other countries
- Allocations are made for one year period and reviewed within the year
- Two countries: Afghanistan and Timor-Leste

Eligibility for Sub-Regional Allocations

- Rationale for a sub-regional allocation
- 5% of ADF IX set aside for sub-regional projects
- Projects must
 - have benefits allocable over more than one country
 - have benefits that cannot be generated by comparable individual national projects
 - entail some cost sharing
- Preference for projects and programs that support harmonization of procedures, processes and policies
- Eligibility criteria different between ADF and IDA

Disasters and Emergencies

- Allocations consistent with Disaster and Emergency Policy (2004)
- Sequence of financing options
 - First, explore reallocations, loan savings and cancellations
 - Next, explore borrowing against future allocations
 - Finally and exceptionally, explore additional allocations
- Expedited procedures and softer terms

Public Disclosure

- Greater disclosure about PBA would promote improved public accountability, deepen client involvement, and improve quality of dialogue
- CPA 2005: Numerical country ratings were disclosed for the first time in the public domain

For More Information

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