

## ANNEX 2: IDA’S PERFORMANCE-BASED ALLOCATIONS SYSTEM FOR IDA19

1. Country allocations resources – which provide unearmarked country envelopes, aligned with (Country Partnership Frameworks) CPFs – are fundamental to International Development Association's (IDA) value proposition. Under IDA19, the share of country allocations relative to IDA’s thematic windows will be increased, reversing the trend since IDA15 of increasing the number and scope of the windows. The Performance Based Allocations (PBA) system will remain the centerpiece of core resource allocations, while the Fragility, Conflict and Violence (FCV) allocations will enable targeted resource boosts linked to monitorable commitments in select IDA Fragile and Conflict-affected Situations (FCS).

2. The Country Performance Ratings (CPR) of IDA countries are determined annually, largely based on Country Policy and Institutional Assessment (CPIA) ratings. The CPIA assesses each country’s policy and institutional framework and consists of 16 criteria grouped into four equally weighted clusters: (i) economic management; (ii) structural policies; (iii) policies for social inclusion and equity; and (iv) public sector management and institutions. (See Box A2.1).<sup>178</sup> To ensure that the ratings are consistent with performance within and across regions, detailed questions and definitions are provided to country teams for each of the rating levels for each of the 16 criteria. This is followed by a process of institutional review of all country ratings before they are finalized.

3. The CPIA underpins IDA’s CPR but is not its only determinant. In addition to the CPIA, the IDA Portfolio Performance Rating (PPR),<sup>179</sup> which captures the quality of management of IDA’s projects and programs, enters in the calculation of the CPR. As in IDA18, the CPR in IDA19 will be calculated as:

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

where  $\text{CPIA}_{A-C}$  is the average of the ratings of CPIA clusters A to C, and  $\text{CPIA}_D$  is the rating of CPIA cluster D.

### Box A2.1. CPIA Criteria

#### A. Economic Management

1. Monetary and Exchange Rate Policies
2. Fiscal Policy
3. Debt Policy and Management

#### B. Structural Policies

4. Trade
5. Financial Sector
6. Business Regulatory Environment

#### C. Policies for Social Inclusion

7. Gender Equality
8. Equity of Public Resource Use
9. Building Human Resources
10. Social Protection and Labor
11. Policies and Institutions for Environmental Sustainability

#### D. Public Sector Management and Institutions

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

<sup>178</sup> For details on the CPIA Questionnaire, see: <http://pubdocs.worldbank.org/en/203511467141304327/CPIA-Criteria-2017v2.pdf>

<sup>179</sup> The PPR reflects the health of the IDA portfolio, as measured by the percentage of problem projects in each country.

4. The formula underpinning the PBA system is presented below. Country performance (with an exponent of 3 in the allocation formula)<sup>180</sup> is the main determinant of IDA country allocations. Country needs are also taken into account through population size and GNI per capita. Population affects allocations positively (with an exponent of 1) while the level of GNI per capita is negatively related to allocations (with an exponent of -0.125). Specifically:

$$\text{IDA country allocation} = f(\text{Country Performance Rating}^3, \text{Population, GNI per capita}^{-0.125})$$

5. In IDA19, the base allocation will remain at SDR 15 million (equivalent to US\$20.7 million) per year (SDR 45 million, equivalent to US\$62.2 million, per replenishment) agreed in IDA18 to meet the fixed costs of country engagement and maintain an effective country program to benefit Small States, several of which are FCS.

6. Country allocations will be determined annually with changes reflecting, *inter alia*, the country's own performance and its performance relative to other countries, IDA eligibility and availability of IDA resources.

### **I. Sustainable Development Finance Policy (SDFP)**

7. The forthcoming SDFP will assist IDA countries to pave a path of sustainable development finance that enhances progress toward achieving the SDGs. The SDFP will be closely linked to the IMF/WB LIC Debt Sustainability Framework (DSF) and impact IDA country allocations through performance-based set-asides providing appropriate and fair incentives for IDA countries to take policy steps to reduce debt vulnerability risks. (See Annex 9.)

### **II. FCV Envelope**

8. IDA19 will consolidate, simplify and refine the financing toolkit available to IDA countries experiencing a range of FCV challenges through the FCV Envelope. The FCV Envelope will provide tailored support, **comprised of three FCV-related country allocations**. The exceptional regimes under IDA18 (the Post-conflict regime, Risk Mitigation Regime and Turn Around Regime) will be discontinued. The Post-conflict regime phase-out applicable to South Sudan will also be discontinued,<sup>181</sup> as the country could potentially apply to the FCV Envelope. See Annex 3 for more details on the FCV Envelope.

### **III. Other Exceptions**

9. The following specific exceptions to the PBA formula will be in place in IDA19:
- a. As endorsed by IDA Participants during the IDA18 MTR, a 7 percent cap on the total country-allocable envelope will be applied to countries with significant access to

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<sup>180</sup> The CPR exponent was reduced from 4 in IDA17 to 3 in IDA18 to increase the poverty-orientation of the regular PBA system. This will allow an increased IDA engagement in the poorest countries, notably the broader group of FCS, most of which have low per-capita GNI levels, while preserving the principle of performance orientation in the allocation system.

<sup>181</sup> As the only country in the Post-conflict regime, South Sudan had been phasing out to the regular PBA formula levels by FY23 as per the original phase out period established under the Post-conflict regime.

International Bank for Reconstruction and Development (IBRD) and IDA in cumulative terms. In IDA19, this will apply to Pakistan which falls in this category.

- b. IDA will continue to provide additional allocations for crisis response through the Crisis Response Window (CRW). (See Annex 6.)
- c. IDA will continue to support regional integration through a scaled-up Regional Window which will now support (i) Development Policy Financing instrument under the Regional Window; (iii) Regional Window financing for single-country operations that clearly demonstrate positive cross-border spillovers for health pandemics, natural disasters and adoption of innovate technologies; and (iv) funding on credit terms to regional organizations with proper safeguards to ensure that such interventions exclusively benefit IDA countries. (See Annex 5.)
- d. IDA will continue to support development opportunities for refugee and host communities through the WHR (Window for Host Communities and Refugees). (See Annex 4.)
- e. IDA will continue to offer non-concessional financing under strict circumstances through the Scale-up Facility (now the Scale-up Window). (See Annex 8.)
- f. The PSW continues to support International Finance Corporation (IFC) and MIGA to mobilize private sector investments into IDA FCS and IDA-only countries. (See Annex 7.)
- g. Finally, eligible countries can qualify for exceptional allocations to help finance the cost associated with the clearance of arrears to IBRD and/or IDA.<sup>182</sup>

## V. Disclosure

10. IDA countries are informed of the performance assessment process, which is increasingly integrated into the country dialogue. Starting in IDA14, the numerical ratings for each of the CPIA and CPR criteria have been fully disclosed on IDA's external website. Starting in IDA15, the country allocations and commitments have been disclosed annually to the Executive Directors of IDA on an *ex post* basis (i.e., at the end of each FY) to increase transparency. Starting in IDA16, the country allocations and commitments have been disclosed on IDA's external website.

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<sup>182</sup> IDA, *Further Elaboration of a Systematic Approach to Arrears Clearance* (2007), available at <http://siteresources.worldbank.org/IDA/Resources/Seminar%20PDFs/73449-1172525976405/3492866-1172526109259/ArrearsClearanceMZ.pdf>.