Regional Workshop on
Performance-Based Resource Allocation

Suva, Fiji 12-13 April 2005
Session C

TOPIC:

Portfolio Performance Assessment

Outline

- Nature of portfolio performance
- Rationale
- Portfolio criteria
- Portfolio scoring scheme
- Portfolio weights
- Process
- Challenges

What is 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.

Rationale

- Poverty reduction with concessionary resources (aid) depends on how effective loan-and-grant-financed projects are.
- The effectiveness of past projects is a good indicator of the likely effectiveness of future projects.
- The level of risk in a portfolio is measurable by the proportion of development investments that fail.

Portfolio Performance Criteria

- ADB (Problem Projects, Projects on Alert)
- IDA (Projects at risk – 3 or more of 11 flags up)
- Other models: Caribbean Development Bank, private sector

Portfolio performance scoring scales

ADB

1 = Poor

3.5 = Average

6 = Strong

IDA

1 = Very weak

2 = Weak

3 = Moderately weak

4 = Moderately strong

5 = Strong

6 = Very strong

Converting Projects at Risk to a Performance Score

(% Projects at Risk)		Rating
ADB/ADF	IDA	
0%for 2 years or more	0%	6.0
	1%	5.5
0-10%	2%	5.0
	3-4%	4.5
15-34%	5-6%	4.0
	7-10%	3.5
35-40%	11-15%	3.0
	16-32%	2.5
41-70%	33-60%	2.0
70-100%	61-99%	1.5
100% for 2 or more years	100%	1.0

Portfolio Performance in the Country Performance

- Portfolio has an effective weight of about 15% in the overall performance score in ADF
- Portfolio has an effective weight of less 10% or less in the IDA country performance rating

Portfolio Performance Assessment Process

- Frequency
- Procedures
- Consultations and engagement
- Quality assurance

Experience with portfolio performance scores

- Range of scores
- Volatility of scores
- Reliability of scores

Challenges

- Disfavors high risk/high return projects
- Project termination effect
- Scope problems
  - Misses information on performance of projects not at risk.The proportion of projects that fail is not the only possible indicator of risk and return.
  - Project equivalence (small/large) assumption
  - Small or new portfolio problematic
  - Current projects only – history, volatility?
  - One institution only, concessionary loans only

For More Information

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