

Fourth MDB/MFI Technical Meeting on Performance-Based Allocation Systems
IFAD Rome, Italy
April 3rd & 4th 2008

HIGHLIGHTS OF DISCUSSION

draft

1. Introduction

1. On 3rd and 4th of April 2008, the fourth MDB/MFI Technical Meeting on Performance-Based Allocation Systems was hosted by the International Fund for Agricultural Development (IFAD). Participants, in particular those attending for the first time from AfDB, IDA and IADB, were welcomed by Mr Kevin Cleaver, Assistant President, Programme Management Department, IFAD. Mr Cleaver noted that the meeting was a tangible example of harmonisation among donors and recognised the importance of clarifying and communicating the PBA approaches to the wide range of stakeholders.

2. Representatives from the following seven multilateral institutions¹ participated in the meeting: African Development Bank (AfDB), Asian Development Bank (AsDB), Caribbean Development Bank (CDB), Global Environmental Facility (GEF), Inter-American Development Bank (IADB), World Bank (IDA), and IFAD. Observers from Italy, Guatemala, the World Bank and the United Kingdom were in attendance (see Annex: List of Participants).

3. The agenda of the meeting centred around the following topics: (i) the recent PBA issues, particularly at the policy level, that had been discussed and reviewed during the completed (IDA & AfDB) and ongoing (AsDB) Replenishment processes; (ii) issues related to implementation, particularly allocation adjustments; (iii) implementation of the Debt Sustainability Framework (DSF) grants framework; and, (iv) emerging issues, including the impact of the Multi-level Debt Relief Initiative (MDRI) on future country allocations.

2. PBAS Policy: Recent PBAS Issues

4. Brief introductory statements on the status of their respective PBA systems were made by IFAD, GEF, CDB and IADB. Participants from IDA, AfDB & AsDB made presentations on the discussions and issues raised concerning PBA approaches in their recent, and ongoing, Replenishment discussions. Several common themes were raised and subsequent discussion centred on these points:

- (a) ***Performance volatility.*** While this topic mainly focused on portfolio issues, AfDB noted that it had sought to reduce the potential volatility of allocations due to fluctuations in population and GNI/capita by adjusting population figures every three year basis (population) and using a moving average for GNI. All three institutions use only 'actual' problem projects in calculating PAR values. IDA also makes adjustments to PAR based on the age of the portfolio. IDA explained its newly introduced scale for PAR ratings that normalise the scores in line with CPIA ratings. AsDB indicated that they also proposed to revise their scale in a similar fashion. IDA agreed to provide the details of the scaling process to AsDB. AfDB has already introduced a similar approach.

- (b) ***Formula.*** Both IDA and AfDB have moved to an additive formula rather than a geometric formula so that the formula is easier to understand and the primary

¹ Both the IMF and Islamic Development Bank expressed their regrets in being unable to attend.

factors determining changes in allocations are clear and can be analysed. The issue of the double counting of governance has also been addressed while retaining the current weight of governance. Nevertheless, apart from these points, participants noted that the formula remained basically the same; including the country performance assessments and that any 'opening up' of the formula was not being considered. It was agreed to update the existing table of formulas being applied.

- (c) Small states vulnerability. Several participants noted the issues of small states and islands (Pacific and Caribbean), including pool allocations in response to these countries' greater vulnerability to economic events and natural disasters. IDA has increased the base allocation to SDR 1.5 million for all countries; AsDB has a pool for Pacific states.
- (d) Vulnerability and natural disasters. In response to natural disasters, only CDB has earmarks for natural disaster, other institutions are moving towards Trust Fund arrangements. Participants noted the possibility of cancelling projects/components in affected countries and re-cycling those funds separate from the PBA allocation to finance new projects. IDA has been making efforts to involve the private sector in offering insurance to enable the immediate release of funds in cases of natural disaster. CDB pools resources for disaster response/mitigation and uses the Caribbean Catastrophic Risk Facility for immediate pay-outs in disaster situations. Premiums on the facility in many cases are paid through concessionary financing. Participants agreed that PBA is poverty rather than vulnerability based, and that there is a concern of diluting the poverty focus by including vulnerability in the formula.
- (e) Allocations for multi-country (regional) projects. Participants discussed the modality of multi-country allocations in PBA approaches and the modifications introduced at IDA and AfDB Replenishments and the intention of AsDB to harmonise their approach for sub regional projects. To strengthen country ownership, 1/3 of the financing is to come from country resources and 2/3 from the organisation's allocation for multi-country projects. A facility for financing multi-country projects was important during the IDA and AfDB Replenishments, set asides were negotiated for these types of projects. At AfDB, regional organisations can borrow funds for regional/multi-country projects. The different approaches and criteria would be outlined in the summary tables on PBA systems that participants agreed to update.
- (f) Post-conflict and fragile states. Participants examined the different approaches and definitions used in allocating funds to post-conflict and fragile states. Both IDA and IFAD have used the post-conflict approach, as recently modified under IDA 15. The AfDB has introduced the Fragile States Facility as a development from the earlier Post-Conflict Country Facility, which incorporates arrears clearance. (AfDB will send a list of the countries eligible for FSF funding and IDA will provide the list of post-conflict countries). Participants noted the use of 'exceptional re-engagement allocations' as a further way to address such needs. Participants also discussed recent analysis that showed a positive correlation between project success and low IRAI scores as an indication of the trade-offs that could occur with greater funding for post-conflict/fragile states.

3. Implementation: Allocation adjustments

5. Participants discussed how each institution used front and back loading to both address issues of volatility of annual allocations and ensure full utilisation of funds. Varying rates of front and back loading are used within the three year allocation periods (noting that AsDB has two, two year allocation periods within its 4 year Replenishment period). Reallocations are usually made in the third year from countries unable to use their allocations but in full accordance with PBA methodology.

4. Implementation of the Debt Sustainability Framework

6. Participants discussed the application of the DSF in their respective institutions, their participation in DSF missions led by the World Bank and IMF and subsequent use of the traffic lights to guide allocations to countries. It was emphasised in the discussions that the DSF was both an integral part of maintaining debt sustainability in recipient countries and ensuring a medium term debt management plan. The DSF analysis sets the basis for countries to borrow prudently and establish the basis for more sustainable economic growth. In this regard the meeting reviewed the issue of non-concessional borrowing by DSF countries, the implementation of IDA's Non-Concessional Borrowing Policy (NCBP) and the country specific cases that had been discussed by the Bank's Operating Committee. It was recognised by participants that there needs to be a continued good level of information flows both as country cases were identified and the specific responses developed.

5. Emerging issues

7. One of the first topics the meeting addressed in respect of emerging issues was the impact of MDRI (and the netting out effect) on country level allocations. It was recognised that there needs to be equity between countries with similar debt ratios but who were not necessarily part of the HIPC-DI (and hence MDRI). While this was an issue that directly affects only the IMF, IDA and AfDB, it was recognised by all participants that the overall effect would impact on the understanding and implementation of the DSF and PBA generated allocations at country level. Various scenarios were presented and discussed illustrating how, in theory, country's debt service in any given year would be deducted from PBA allocations and how the share of reallocated resources would be applied, according to performance. There were concerns expressed that the netting out could, in the medium rather than short term, cause significant reductions in new resource allocations, hence a potential shortfall in development finance. Participants recognised that this would require close contact over the forthcoming year as the scenarios were further developed.

8. Participants agreed to update the tables previously circulated that explained the respective institutions approaches to PBA and agreed that this would be a product of the meeting.

9. In closing the meeting, IFAD recognised the contributions made by Fredrick von Bolhuis (IDA), Alfredo Garcia (IADB) and Boubacar Traore (AfDB) over the previous three meetings and also expressed the appreciation of participants to Philip Quarcoo (AfDB) and Sudipto Mundle (AsDB) who would be retiring from their respective organizations during the forthcoming year. It was noted that the CDB had offered to look into the possibility of hosting the fifth annual meeting in 2009.