

PUBLIC

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSAL TO AMEND THE EPBA PORTFOLIO PERFORMANCE
INDICATOR

JULY 31, 2020

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ABBREVIATIONS

CIPE	Country Institutional and Policy Evaluation
COC	Concessional Ordinary Capital
DSF	Debt Sustainability Framework
EPBA	Enhanced Performance-Based Allocation
FSO	Fund for Special Operations
GCI-9	Ninth General Increase in Resources of the Inter-American Development Bank
GDP	Gross Domestic Product
GNI	Gross National Income
OC	Ordinary Capital
OVE	Office of Evaluation and Oversight
PBA	Performance-Based Allocation
PBL	Policy-Based Loan
PMR	Progress Monitoring Report
PPMR	Project Performance Monitoring Review
SG	Sovereign Guaranteed
SPD	Office of Strategic Planning and Development Effectiveness
ULB	Undisbursed Loan Balances
VPC	Vice Presidency of Countries

I. INTRODUCTION

A. Objective

- 1.1 **The purpose of this document is to submit for the consideration and approval of the Board of Executive Directors (the ‘Board’) a proposal to amend the methodology used to calculate the portfolio performance indicator (PPI) for the purposes of biennial proposals for the allocation of concessional resources.**
- 1.2 **The proposal would not change the EPBA formula as established in document GN-2442 approved by the Board,** which would remain with the same variables, weights and exponents. The scope of the proposal is limited to changing the methodology used to calculate one of the variables in the EPBA-DSF formula.

B. Evolution of the Performance-Based Allocation System

- 1.3 **The IDB adopted a performance-based allocation system for concessional resources in 2002.** On June 19, 2002 the Board approved document GN-1856-31 “Proposal for a Performance Based Allocation of FSO Resources”. The document defined an allocation methodology based on population, Gross National Product per capita, a Country Institutional and Policy Evaluation (CIPE), and portfolio performance.
- 1.4 **On February 21, 2007, the Board approved document GN-2442 “Implementation of multilateral debt relief and concessional finance reform at the IDB. Proposal for the implementation of a Debt Sustainability (DSF) and Enhanced Performance-Based Allocation (EPBA) framework”,** which presented an enhanced performance-based allocation (EPBA) system for the distribution of Fund for Special Operations (FSO) resources, under a structure that blends FSO and Ordinary Capital (OC) resources (blended structure), based on the DSF/EPBA formula/criteria. Total allocation of concessional resources under the DSF/EPBA is determined by a combination of country needs and performance, which determines the allocation of concessional resources (first step); and the risk of debt distress, which defines the appropriate blend of OC resources (second step). The DSF/EPBA aims to ensure a link between concessional resource allocation and absorption capacity, while preserving debt sustainability.
- 1.5 **The EPBA for concessional resources has three major elements:** (i) population size; (ii) Gross National Income (GNI) per capita; and (iii) performance. Performance is estimated as the weighted average of portfolio performance (30%) and the quality of the institutional and policy framework (70%), as measured by the aforementioned CIPE. Each of these elements in the allocation formula has a defined exponent for the calculation of the distribution coefficient as determined in document GN-2442.¹
- 1.6 **The rationale for performance-based allocation (PBA) systems is to maximize the development effectiveness of scarce concessional resources.** PBA systems steer, on the margin, relatively more resources to countries with higher needs (lower income and larger

¹ $(POP^{0.5} \times GNIpc^{-1} \times [0.7*CIPE + 0.3*PPI]^2)$.

population sizes) and the best ability to use the resources productively, where the latter is understood as countries with the highest quality public policies and strongest portfolio implementation capacity.

II. THE CURRENT PPI

A. The Evolution of the PPI

- 2.1 **The portfolio performance indicator (PPI) used for concessional allocations has evolved over time but fundamentally to date it has focused mainly on progress in project execution.** In all FSO/concessional resource allocations since 2002, the Bank’s corporate classification of project execution performance – currently known as the Progress Monitoring Report (PMR) -- has formed the fundamental platform for the PPI input to the PBA. As such, the PPI has been based on only one of the three main tools identified in the Development Effectiveness Framework (DEF) that was launched in 2008 (document GN-2489).²
- 2.2 **When the PBA system was introduced in 2002, as approved by the Board in June 2002 (document GN-1856-31), “portfolio performance” was defined as the amount of undisbursed loan balances (ULB) in projects classified as “*problem*” projects and “*on alert*” projects as a percentage of the total undisbursed amount of all projects in execution in a country.**³ From 2002 to 2009, “*problem projects*” were those operations classified as having a low probability of achieving their development objectives in the Bank’s Project Performance Monitoring Review (PPMR). “*On-alert projects*” were those projects classified as being on track to achieve their development objectives but that were rated as unsatisfactory or very unsatisfactory in terms of implementation progress, rated low in terms of their assumptions, or were flagged as having two or more indicators that are characteristic of projects that might become problematic in the future.⁴ These seven complementary indicators were time-elapsing indicators and, as above, they comprised part of the Bank’s institutional measure of portfolio performance (Table 2).
- 2.3 **In February 2007 the Board approved “*Implementation of multilateral debt relief and concessional finance reform at the IDB. Proposal for the implementation of a Debt Sustainability (DSF) and Enhanced Performance-Based Allocation (PBA) framework*” (document GN-2442).** The formula in the PBA was overhauled in GN-2442 and a 1 to 6 scoring scale was introduced for the portfolio performance indicator (PPI). However, the underlying specification of how portfolio performance would be measured for the PBA did not change: GN-2442 reiterated the basic methodology established in GN-1856-5. Specifically, GN-2442, paragraph 35, states that:

² The three DEF tools are: (i) at entry, the Development Effectiveness Matrix (DEM); (ii) during implementation, the PMR; and (iii) at exit, the Project Completion Report (PCR).

³ GN-1856-31 “Proposal for a performance-based allocation of FSO resources. New revised version”, June 2002.

⁴ GN-1856-31. Projects were identified as “on-alert” in the Bank’s Project Alert Identification System (PAIS).

“The performance indicator is estimated as a weighted average of portfolio performance (30%) and policy and institutional quality indicator, as measured by CIPE (70%). Portfolio performance is based on the percentage of undisbursed balances represented by projects classified as “problem” and “on alert” in the Bank’s portfolio monitoring system. These variables are measured on a scale ranging from 1 to 6, with 6 being the highest performance level. This variable is raised to the power of 2, which implies that country performance turns out to be the main determinant of allocation of concessional resources. This means that improvements in performance will have a more than proportional impact in the allocation.”²⁴

²⁴ IDA methodology has an identical approach regarding this variable. ”

- 2.4 **In 2009, the Progress Monitoring Report (PMR) was launched to replace the PPMR.** Under the PMR, a project’s results matrix – which includes the project’s objectives and outputs – is used to report on progress.⁵ In addition, the PMR introduced a quantitative approach to track the achievement of a project’s outputs relative to its scheduled time and cost, through the schedule performance index (SPI) and the cost performance index (CPI) respectively. Based on these two indicators, project execution performance was classified in three categories: “satisfactory”, “alert” and “problem”. In 2014, a reformed PMR was introduced to include additional indicators, based on the level of disbursement and the time elapsed between selected key dates of the project life cycle (Table 1).⁶ All time-elapsed indicators are measured against intra-country historical benchmarks rather than a fixed or Bank-wide benchmark.
- 2.5 **The intra-country historical benchmark comparison is useful for: (i) tracking a project’s progress over time relative to the average project in that country; (ii) and for the purpose of the PMR performance classification.** However, from the perspective of the PBA system, the reduction in the use of Bank-wide benchmarks created a challenge. Since the fundamental objective of PBA systems is to allocate scarce concessional resources to where they will be used most productively in the reduction of poverty, for the purposes of the EPBA what is important is the portfolio performance of a country relative to alternative destinations of concessional resources, i.e. cross-country comparisons.
- 2.6 **The 2013-2014 FSO allocation exercise used the PMR classification of projects for the first time, while retaining the basic approach of using the percentage of ULB represented by projects classified as “problem” and “on alert” and the 1 to 6 rating scale.**⁷ In addition, the “Proposal for the allocation of resources 2013-2014” (GN-2442-42) proposed to supplement the PMR with two of the time-elapsed indicators from the previous PPMR, in order to strengthen the element of cross-country comparisons and considerations about the opportunity cost of scarce concessional resources. The two

⁵ The results matrix also includes outcomes, but these are not tracked.

⁶ “Review of Progress Monitoring Report & Proposal of adjustments to be included in the convergence to the Sovereign Guarantee supervision platform” (OP-1072-1).

⁷ “Fund for Special Operations. Proposal for the allocation of resources 2013-2014. Revised version.” (GN-2442-42), December 2012.

indicators were: (i) the time elapsed from Board approval of the loan operation to legal effectiveness; and (ii) extensions of the final disbursement date (Table 2). In the subsequent allocation proposal (for 2015-2016) a third time-elapsed indicator (the time elapsed from legal effectiveness to eligibility) was revived. The three Bank-wide time-elapsed indicators were unchanged in 2017-2020 (Table 1).

Table 1. Indicators for the 1st and 2nd filters of the PPI (2015-2020)

Stage	Indicator for performance classification	Benchmark (as per PMR) 1st filter	Benchmark (as per PPI) 2 nd filter
Stage 1: After approval and before reaching eligibility	Days elapsed from Board Approval to Legal Effectiveness	within country	cross-country, Bank-wide
	Days elapsed from Legal Effectiveness to Eligibility	within country	cross country, Bank-wide
Stage 2: Between eligibility and up to 95% disbursement	Accumulated Disbursements to country's historic disbursement curve	within country	
	Cost Performance Index	project	
	Cost Performance Index (annual)	project	
	Schedule Performance Index	project	
	Schedule Performance Index (annual)	project	
Stage 3: Between 95% disbursement and project closure	# of months elapsed after 95% disbursements reached	within country	
	Accumulated Disbursements to country's historic disbursement curve	within country	
	Cost Performance Index	project	
	Cost Performance Index (annual)	project	
	Schedule Performance Index	project	
	Schedule Performance Index (annual)	project	
Overarching during execution: After reaching original disbursement date until project closure	Extensions of the final disbursement dates		cross-country, Bank-wide

Source: OP-1072-1 and VPC.

2.7 **As proposed to the Board in GN-2442-42, the thresholds for the cross-country indicators to be used to classify projects as “unsatisfactory” for the 2013-2014 allocation were a continuation of those used from 2002-2012 (Table 2).** However, since by 2013 there had been a clear improvement in Bank-wide portfolio performance, subsequent allocations had tighter thresholds for the three indicators. The thresholds were set at the 80th percentile (i.e. the cutoff for the slowest 20 percent of all Bank projects) and

established on the basis of three-year averages of all Bank sovereign-guaranteed loans, which were updated for each allocation proposal. While the 80th percentile time for the indicators in stage 1 of a project's life-cycle (time between Board approval and legal effectiveness, and time between legal effectiveness to project eligibility) continued to shorten for the rest of the decade, the 80th percentile time for disbursement extensions increased after a nadir in 2011-2013 (Table 2). By mid-2017, the 80th percentile for disbursement extensions had increased to 24 months – the same threshold used for allocations from 2002-2014.

Table 2. Evolution of Complementary Time-Elapsed Indicators by Allocation

2002-2012	2013-2014	2015-2016	2017-2018	2019-2020
>11 months between Board approval and contract validity (in countries not requiring legislative ratification)	>=11 months	>11 months	>277 days (9.101 months)	>285 days (9.4 months)
>17 months between Board approval and contract validity (in countries requiring legislative ratification)	>=17 months	>19 months	>480 days (15.770 months)	>406 days (13.3 months)
>12 months from contract validity to eligibility	N/A	>=11 months	>279 days (9.166 months)	>245 days (8.1 months)
<10% of available balances disbursed in previous 12 months				
<25% disbursed after 3 years disbursing				
<75% disbursed after 5 years disbursing				
>24 months extensions of final disbursement date	>24 months	>17 months	>538 days (17.676 months)	>729 days (24.0 months)
>6 months delay in presentation of audited financial statements				

Source: GN-1856-31; GN-2442-42; GN-2442-46; GN-2442-53; and GN-2442-57.

Notes: “Contract validity” was termed “legal effectiveness” after 2013.

Benchmarks for 2015-2016 allocation were 80th percentile cut-off based on average for 2011-2013; benchmarks for 2017-2018 allocation were 80th percentile cut-off based on average for 2012-2014; benchmarks for 2019-2020 allocation were 80th percentile cut-off based on average for March 2015, March 2016 and March 2017.

2.8 While there was substantial continuity in the evolution of the complementary time-elapsed indicators by allocation from 2002-2020, there was an important institutional change in 2013. For the period 2002-2012, the time-elapsed indicators were incorporated into the Bank's institutional measure of portfolio performance. For the period 2013-2020, the time-elapsed indicators have been outside of the Bank's institutional measure. Since

2013, these indicators have complemented the PMR by forming in effect a “second filter”, solely for the purposes of concessional resource allocations. The second filter has no impact on a project’s PMR classification, but it provides an extra check on a “satisfactory” rating under the PMR. A project’s ULB is classified as satisfactory for the PPI only if it is classified as satisfactory in both the PMR and the second filter. If the PMR flags the project “on alert” or “problem” or the second-filter indicators flag the project as “unsatisfactory”, the ULB of that project is counted towards the unsatisfactory ULB of the portfolio (Table 3).

Table 3. Interaction of PPI filters

First filter	Second filter	PPI
PMR	Time-elapsed indicators with Bank-wide benchmarks	
Satisfactory	Satisfactory	Satisfactory
Satisfactory	Unsatisfactory	Unsatisfactory
Alert	Satisfactory	Unsatisfactory
Alert	Unsatisfactory	Unsatisfactory
Problem	Satisfactory	Unsatisfactory
Problem	Unsatisfactory	Unsatisfactory

Source: VPC.

- 2.9 **In 2019, further enhancements were made to the PMR, in response to feedback from key users of the PMR in a series of workshops and the Office of Evaluation and Oversight’s (OVE) 2018 evaluation of the implementation and results of the IDB-9 increase.**⁸ The latter highlighted that the PMR focusses on the physical and financial progress of outputs but does not allow assessment of whether development outcomes will likely be achieved. Among the main enhancements were the exclusion of stage 1 indicators (prior to project eligibility) from the performance classification⁹ and allowing space for a qualitative assessment of project execution progress, main challenges and likelihood of achieving expected results.¹⁰

B. PMR validation and PPI scope

- 2.10 **PMR classifications are validated internally, through a process that requires involvement from both sides of the organizational matrix.** Project team leaders report on project execution for the relevant period in the operational platform (Convergence),

⁸ OVE (2018) “IDB’s Ninth General Capital Increase: Implementation and Results” (RE-515-4).

⁹ Although Stage 1 indicators will no longer be used as part of the performance classification, they will continue to track the length of time elapsed between approval and legal effectiveness and between legal effectiveness and eligibility. The rationale for this change was that there is no physical or financial execution prior to eligibility for disbursement, and performance in this stage is heavily affected by factors that are exogenous to the operation.

¹⁰ “Progress Monitoring Report (PMR): Update to the Methodology and Validation Process. Approved version.” OP-1072-5.

which generates an automatically calculated PMR classification (“draft” classification). The respective Chief of Operations (CoOs) can opt to either accept the proposed PMR classification or recommend a different classification. The recommendation needs to be justified in writing, reviewed and validated by the relevant Division Chief and approved by the Representative. The Representative can also opt to recommend a different classification; he or she has the final decision on the project classification. The PMR classification at the end of this process is the “validated” classification and is final.

- 2.11 **The scope of projects included in the PPI has been all projects covered by the PMR plus PBLs.** The PMR covers all operations financed and managed by the IDB, operations funded by donors and managed by the IDB, and operations co-financed with donors where the donors manage their funds. Investment grant (IGR) operations in excess of US\$3 million are reported in the PMR and receive a performance classification.¹¹ Operations smaller than US\$3 million and all technical cooperation operations report progress under the Technical Cooperation Monitoring and Reporting (TCM), rather than the PMR. Consequently, important exclusions are: (i) Operations with an approved PCR; (ii) cancelled operations; (iii) emergency loans; (iv) investment grants under the Mesoamerican Health Initiative; (v) SUP operations not expressly linked to other operations; (vi) Technical cooperation (TCs); and (vii) investment grants of less than US\$3 million. PBLs have PMRs but do not have a PMR classification. PBLs are theoretically included in the PPI under the second filter, but in practice invariably do not form part of ULB given their fast-disbursing nature. The same methodology for calculating the Portfolio Performance Indicator (PPI) was used for the 2015-2016, 2017-2018 and 2019-2020 allocations.

C. Overall experience with the PPI

- 2.12 In general, the PPI has worked as designed and it has provided incentives for improved portfolio performance. However, it has been too narrowly focused on disbursement speed – as opposed to broader development effectiveness-, overly-sensitive to large individual projects, and the second filter has been largely redundant.

1. The primary allocation function has worked as designed

- 2.13 **The PPI has performed its primary role by allocating, on the margin, relatively more resources to countries with the strongest portfolio implementation capacity.** To the extent that “strong portfolio implementation capacity” is a good proxy for countries that are best able to use the resources promptly and productively, the PPI has likely helped to support the development effectiveness of scarce concessional resources. By design in the EPBA, countries with relatively higher PPI scores have received larger allocations of concessional allocations, all other variables equal.

2. The PPI has provided incentives to improve measured portfolio performance

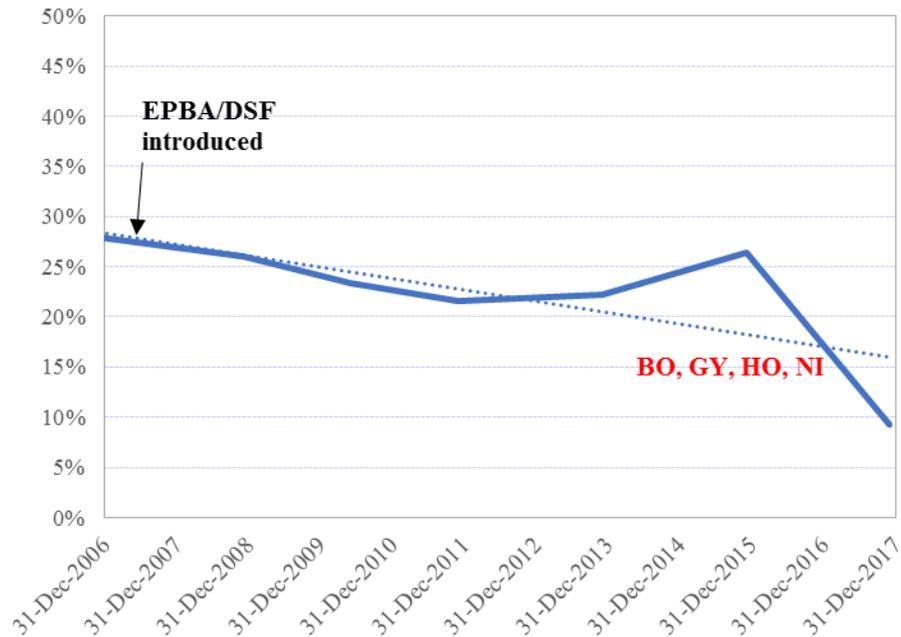
- 2.14 **The role of the PPI in biennial concessional allocations has provided incentives to improve measured portfolio performance.** Countries and country offices take actions to

¹¹ The source of funding is not a determinant of the reporting or classification of operations under the PMR.

improve measured portfolio performance, and such improvements clearly affect subsequent allocations. In addition, country offices report that the PPI aids their dialogue with governments regarding portfolio management.

- 2.15 **Measured portfolio performance has improved since the EPBA/DSF was introduced.** The average proportion of undisbursed loan balances in “unsatisfactory” projects has declined from 28% of total ULB in Bolivia, Guyana, Honduras and Nicaragua at December 31, 2006, immediately before the introduction of the EPBA/DSF, to 9% at December 31, 2017 (Figure 1).

Figure 1. ULB in “Unsatisfactory” Projects as % of Total ULB



Source: VPC based on GN-2442-57, GN-2442-53, GN-2442-46, GN-2442-41, GN-2442-32, GN-2442-16.

- 2.16 **However, it is conceivable that not all portfolio decisions and actions that improve portfolio performance, as it has been measured to date, are truly meaningful for development effectiveness.** Similarly, the incentives embedded in the PPI may not always have been correctly aligned. For example, reformulation of a project in the run up to a PPI measurement date has the effect of “resetting the clock” and ensuring that that project’s ULB is counted as “satisfactory” on the PPI measurement date. From 2010-2019, three concessional-eligible countries accounted for a disproportionate number of loan reformulations (4 out of 11 for the Bank as a whole). All four loan reformulations for

concessional-eligible countries were approved in the month prior to a PPI measurement date, and two had significant consequences for the country’s subsequent PPI score.¹²

3. Volatility and over-sensitivity to large individual projects

- 2.17 **PPI scores have been volatile.** For the period 2008-2017, the standard deviation of the PPI has been between 1.4 and 6 times that of the other measure of country performance – the CIPE (Table 4). In addition, execution problems in only one or two large projects has at times had a powerful impact on the PPI. Both Guyana and Honduras have experienced one unusually low biennial allocation due to such effects.¹³ The PPI has been sensitive to one or two large projects.

Table 4. Standard Deviation of PPI and CIPE

Country	Standard deviation 2008-2017		Ratio
	PPI	CIPE	
Guyana	1.12	0.19	6.0
Honduras	0.81	0.21	3.9
Nicaragua	0.15	0.11	1.4

Source: VPC based on GN-2442-57, GN-2442-53, GN-2442-46, GN-2442-41, GN-2442-32, GN-2442-16.

4. Apparent redundancy of the second filter

- 2.18 **Notwithstanding the sound precautionary rationale for including the “second filter” in the PPI, in practice the second filter was largely redundant in the last three allocations of concessional resources.** The second filter confirmed the classification of the first filter (the PMR) in the case of 81% of ULB (Table 5). For a further 17.3% of ULB, a satisfactory classification by the second filter was invalidated by an “unsatisfactory”

¹² The reformulation of the “Puerto Cortés Expansion and Modernization Program” (HO-L1037), approved December 2, 2015, improved Honduras’ PPI score at December 31, 2015 from a potential 4.26 to an actual 6.00. The reformulation of the “Road Network and Upgrade Program” (GY-L1031), approved December 7, 2017, improved Guyana’s PPI score at December 31, 2017 from a potential 2.39 to an actual 4.11. It should be noted that there were sound developmental reasons for these reformulations and that they were carried out in agreement with the client and in accordance with the relevant Bank policies and procedures. Nevertheless, the relative frequency and timing of reformulations in concessional eligible countries is one example that indicates that: (i) the incentives embedded in the PPI do have an impact; (ii) how portfolio performance is measured is important; and (iii) the Bank’s concessional framework needs to ensure that incentives are correctly aligned to support actions that truly contribute to development effectiveness. AsDB (2008) noted that the PPIs of the AsDB and [World Bank](#) have also experienced incentive effects, related to operational staff under-reporting project risks.

¹³ At December 31, 2013 (the PPI measurement data for the 2015-2016 allocation), one project with US\$135 million of ULB (27% of Honduras’ entire portfolio’s ULB) was classified as a “Problem” project in the PMR. As a consequence, Honduras’ unsatisfactory ULB was 46% of total ULB at December 31, 2013, compared with a range of 18-29% in the three previous allocations and 0% in the two subsequent allocations (Annex 1). In 2015, one project accounting for 41% of ULB in Guyana was classified as a “Problem” project in the PMR. Overall, 84% of Guyana’s ULB was classified as “unsatisfactory” and the PPI score for the 2017-2018 allocation was only 1.67 (Annex I). Mainly as a result, Guyana’s share of the EPBA envelope declined from 5.2% in 2015-2016 to 2.9% in 2017-2018.

classification on the PMR. Consequently, on average the second filter impacted the classification of only 1.7% ULB during the last three allocations.

Table 5. Distribution of ULB by filter (2013, 2015, 2017)

First filter	Second filter	Distribution of ULB (average for 2013, 2015, 2017)
PMR	Time-elapsed indicators with Bank- wide benchmarks	
Satisfactory	Satisfactory	80.3%
“Unsatisfactory”	Satisfactory	17.3%
Satisfactory	Unsatisfactory	1.7%
“Unsatisfactory”	Unsatisfactory	0.7%

Source: VPC based on PPI calculations for the concessional allocation proposals for 2015-2016 (GN-2442-46), 2017-2018 (GN-2442-53), and 2019-2020 (GN-2442-57).

- 2.19 **Within the second filter, the only indicator to have an impact has been the extensions on final disbursement dates.** The indicators for the stage 1 of projects’ life cycle have not flagged any projects as unsatisfactory and have not had any impact in determining the classification of ULB. This correlates with the successive shortening of time taken between approval and project eligibility Bank-wide over the 2013-2017 period (Table 2). In sum, the historical evidence suggests that the time-elapsed indicators from approval to legal effectiveness, and from legal effectiveness to project eligibility, are redundant and could be removed with no adverse impact.
- 2.20 **As a corollary of the second filter’s limited impact on the classification of ULB, it has had limited impact on PPI scores.** For example, at the December 31, 2017 measurement of the PPI, the actual PPI scores using the second filter were only marginally different than the scores if only the first filter (PMR) had been used (Table 6). On average, the second filter reduced PPI scores by 0.04 points, on the 1 to 6 scale.

Table 6. 2017 PPI – Actual and without second filter

	PPI 2017	PMR-only
Guyana	4.15	4.20
Haiti	4.31	4.38
Honduras	6.00	6.00
Nicaragua	5.51	5.53
Average	4.99	5.03

Source: VPC based on PPI calculations for the “Proposal for the Allocation of Concessional Resources 2019-2020”, GN-2442-57.

Note: the PPI score for Haiti was calculated for information purposes only and, since Haiti was not part of the EPBA/DSF for 2019-2020, the calculation had no operational implications.

2.21 **The time-elapsd indicator of extensions of the date of final disbursement has likely acted as a deterrent and limited the number of lengthy disbursement extensions.** In contrast to the situation with the Stage 1 indicators, where the concessional-eligible countries appear to have been part of a broader Bank trend, the experience of concessional-eligible countries with respect to project extensions has been different to the broader Bank trend. First, the Office of the Executive Auditor has noted that 77% of the projects that closed from 2014-2018 Bank-wide had extensions to the final disbursement date and that 58% of these extensions were for more than 24 months.¹⁴ Second, the 80th percentile of extensions of final disbursement dates in Bank projects rose from 17 months in the period 2011-2013 to 24 months by 2015-2017 (Table 2). Third, a study by staff in SPD noted that the IDB achieved constant reductions in the number of projects with final disbursement extensions over 24 months between 2005 and 2012 but that number had increased since 2013.¹⁵ The turning point in the trend coincides with the timing of the replacement of the PPMR by the PMR and the elimination of extensions over 24 months as a factor in the Bank’s institutional measure of portfolio performance. Unlike for the majority of the Bank’s borrowing member countries, the length of extensions of the final disbursement date remained relevant for concessional eligible countries after 2013 because of its inclusion in the second filter of the PPI and its influence on subsequent allocations.

5. Internal harmonization with the Bank’s institutional measure

2.22 **The second filter consists of a continuation of three indicators that were approved when the PBA and PPI were initially established in 2002.** Nevertheless, since 2013 these indicators have been outside of, rather than part of, the Bank’s standard institutional measure of portfolio performance. The standard arguments in favor of harmonization, including simplification, transparency and cost reduction, also apply in the case of the PPI.

6. It is unclear whether what is measured is what counts

2.23 **To date the PPI has essentially measured the speed of implementation and project costs.** While these are relevant and important aspects of portfolio performance from the standpoint of an efficient allocation of concessional resources, other important aspects of development effectiveness – such as relevance, effectiveness and sustainability – have not been captured. Ensuring that development projects are executed reasonably promptly contributes to the productive use of resources and development effectiveness. But a broader

¹⁴ IDB Office of the Executive Auditor (September 2019) “Advisory Report on Project Extensions”, restricted distribution.

¹⁵ Avellán, L. et al (2018) “Why Is the Number of IDB Projects with Extensions beyond 24 Months Increasing? Should We Be Concerned?”, Office of Strategic Planning and Development Effectiveness, IDB, IDB-TN-01479.

approach would also consider the relevance, effectiveness and sustainability of such projects.¹⁶

III. THE RATIONALE FOR CHANGING THE PPI

A. The PCR

- 3.1 **The Bank evaluates project performance and results for sovereign-guaranteed (SG) operations at project closure through Project Completion Reports (PCRs).**¹⁷ The methodology measures project success against the project’s development objectives as stated at approval. Four core criteria are used to measure project performance: (i) relevance (how relevant the project’s development objectives and design were); (ii) effectiveness (to what extent the objectives were achieved); (iii) efficiency (how efficiently project resources were used); and (iv) sustainability (how sustainable the achieved results are). Projects are assigned a performance rating on each of the four criteria. There are four possible ratings: (1) “Unsatisfactory”; (2) Partly Unsatisfactory; (3) Satisfactory; and (4) “Excellent”. The ratings on the four criteria are then combined into an overall project development outcome rating by giving a weight of 20% each to the relevance, efficiency and sustainability ratings and a 40% weight to the effectiveness rating.¹⁸ The overall project development outcome has a rating scale from 1-6: (1) “Highly unsuccessful”; (2) “Unsuccessful”; (3) Partly unsuccessful; (4) Partly Successful; (5) Successful; and (6) “Highly successful”. The rating scale of 1-6 is identical to that of the existing PPI.
- 3.2 **Bank policy requires a PCR for each completed lending operation.**¹⁹ This requirement covers PBLs, although PBLs are not rated on the efficiency criterion.²⁰ PCRs are expected

¹⁶ Among the seven institutions using a PBA system, the Global Environment Facility (GEF) was the pioneer in introducing project completion report ratings into its Portfolio Performance Indicator (PPI). When the PBA was introduced in 2005, an indicator developed from implementation completion reports of World Bank environment-related projects was assigned an equal weighting to GEF project implementation reports in its PPI. In 2010, the GEF started to use GEF terminal evaluation reports (TER) from the GEF Independent Evaluation Office in place of World Bank implementation completion reports. Furthermore, it raised the weight of the TERs to 60% of the PPI, with the remaining 40% derived from implementation progress ratings. TERs rate project outcomes on three dimensions – relevance, effectiveness and efficiency – on the same 1-6 scale as IDB PCRs. The Caribbean Development Bank has also incorporated the criteria of strategic relevance, effectiveness and sustainability as well as cost efficiency in its PPI.

¹⁷ The IDB has adopted the PCR as its instrument to record and report on the development effectiveness of its projects. The IDB follows the [Good Practice Standards for the Evaluation of Public Sector Operations](#), from the Evaluation Cooperation Group. This is the gold standard for reporting credible, transparent achievement of results and development effectiveness.

¹⁸ The efficiency criterion is not applied to PBLs. The 20% weight assigned to the efficiency criterion for investment loans is added to the effectiveness criterion for PBLs, thereby giving a weight of 60% for the effectiveness rating for PBLs.

¹⁹ Operations that execute 30% or less of the approved amount require a cancellation note rather than a PCR.

²⁰ From the perspective of concessional allocations, PCR classification of PBLs represents an opportunity for the PPI to better capture the entire scope of portfolio implementation, since PBLs do not receive a classification under the PMR. PBLs may represent up to 30% of loan approvals (by value) in a biennial concessional allocation.

to be completed by project teams, approved by the relevant Country Manager and sent to OVE within 6 months after an operation reaches CO in Convergence for validation.²¹

- 3.3 **The PCR methodology has been strengthened in recent years.** New guidelines for the preparation of PCRs were adopted in 2018 and then further refined in 2020.²² Furthermore, OVE independently reviews and validates the PCRs that are produced under a self-evaluation system.²³ Since 2018, OVE’s overall project outcomes have been used for corporate reporting in the Development Effectiveness Overview (DEO).
- 3.4 **The 2019/2020 validation cycle was the fourth consecutive cycle validated by OVE.** The cumulative number of OVE-validated PCRs for SG operations has increased to 182 Bank-wide and to 35 for concessional-eligible countries. As OVE notes, over time, as more projects are rated and validated under the strengthened system, the repository of validated results will grow.²⁴

B. Development effectiveness and sustainability

- 3.5 **The Bank is continually seeking to maximize the development effectiveness of the projects it supports.** Efforts to maximize development effectiveness are especially important in the countries that are eligible for concessional resources, partly because they have the lowest per capita incomes and largest development gaps, and partly to assure their sustainability. The “Proposal for the Allocation of Concessional Resources 2019-2020” (GN-2442-57) drew attention to the fact that public external debt to the IDB cannot grow faster indefinitely than countries’ underlying debt servicing capacities (as measured by GDP, exports and government revenues) (Figure 2).

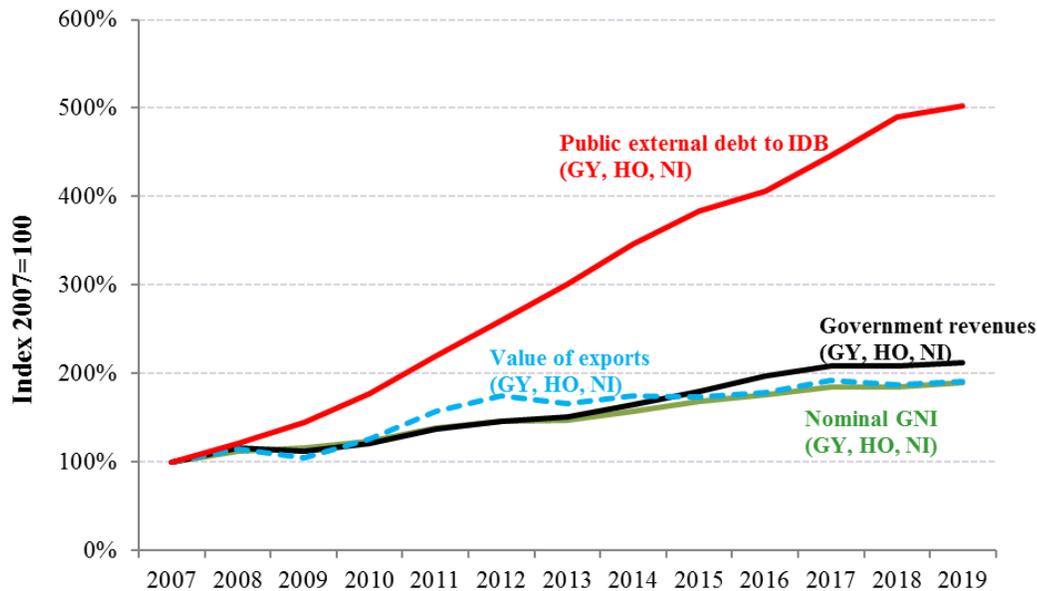
²¹ The timeline is extended by 24 months for PBLs given their fast-disbursing nature and the infeasibility of observing realized outcomes at closure.

²² OP-1696-5 “Proposed Adjustments to the Development Effectiveness Framework Tools for Sovereign Guaranteed Operations”, May 2020.

²³ OVE (2017) “IDB and IIC Project Performance: OVE’s Review of 2016 Project Completion Reports and Expanded Supervision Reports” and OVE (2019) “OVE’s Review of Project Completion Reports (PCRs) and Expanded Supervision Reports (XSRs) – 2018/2019 Validation Cycle”, (RE-544-1).

²⁴ OVE (2019) “OVE’s Review of Project Completion Reports (PCRs) and Expanded Supervision Reports (XSRs) – 2018/2019 Validation Cycle”, (RE-544-1).

Figure 2. Public external debt to IDB versus indicators of debt carrying capacity (2007-2019)



Source: VPC based on IDB annual reports; World Bank World Development Indicators database; IMF World Economic Outlook database.

3.6 Different projects may have different economic, social and environmental development objectives and it is neither necessary nor desirable that every project in concessional-eligible countries be oriented towards increasing a country’s GDP, exports or government revenues. Nevertheless, the portfolio as a whole must increase debt servicing capacities somewhat in order to compensate for the increased future debt service obligations inherent in debt-financed development projects.²⁵²⁶ In this context, strengthening the incentives to maximize the development effectiveness of the projects the Bank supports – through an increased emphasis on aspects such as project relevance, effectiveness, efficiency and sustainability -- can contribute to debt sustainability.

²⁵ This would not necessarily be true if the IDB were only a small part of countries’ total public external debt. However, the IDB accounts for more than 30% of public external debt in Guyana, Honduras and Nicaragua.

²⁶ In principle, the development benefits of Bank financing should easily outstrip increased debt servicing costs, especially in concessional-eligible countries. The default discount rate in project cost-benefit analysis is 12%, while average effective interest rates for concessional-eligible countries are typically in the range of 1% to 4%. Cost-benefit analysis is not applied to all projects, with notable exclusions being PBLs and social sectors, where cost-effectiveness analysis is typically applied. Nevertheless, infrastructure and environment sectors, where cost-benefit analysis is the norm, accounted for between 50-60% of the value of all operations approved in concessional-eligible countries in both 2015-2016 and 2017-2018 (Review of the Implementation of the Debt Sustainability Framework and Enhanced Performance-Based Allocation 2017-2018 [GN-2442-66]). The apparent disconnect between robust observed benefits at the project level and ineffectiveness at the aggregate, macroeconomic level – the so-called “micro-macro paradox” – has long troubled development economists (e.g. Paul Mosely [1987] “Foreign Aid: Its Defense and Reform”, The University Press of Kentucky). Mosely (1987) points to three possible explanations for the micro-macro paradox: (i) inaccurate measurement; (ii) fungibility within the public sector; and (iii) negative side-effects or “back-wash effects” on the investment or output of the private sector. These issues are beyond the scope of this Proposal. The Proposal relies merely on the proposition that any measure to increase the developmental effectiveness of projects in concessional-eligible countries is worthwhile.

C. Justification

- 3.7 **The Proposal seeks to take advantage of an opportunity for a “win-win” reform.** The Bank’s concessional resources framework can benefit from the Bank’s substantial efforts in recent years to strengthen the project completion report methodology and maximize the effectiveness of development interventions. On the other side, utilization of the PCR-validation system for operational and resource allocation purposes would help to give weight and draw attention to the development effectiveness of projects as captured by the PCR results.
- 3.8 **The proposed amendments would broaden the scope of measured portfolio performance for concessional resources allocations to include criteria such as relevance, effectiveness, and sustainability, in addition to the current emphasis on delivering project outputs on time and within budget.** It would also tap information from a wider source of projects – PBLs as well as investment loans, and recently completed projects as well as those in the active portfolio. This will help representativity and help to reduce volatility in PPI scores and countries’ allocations.
- 3.9 **The second filter for the PPI will be phased out.** Considerations of internal harmonization suggest that the PPI should rely solely on inputs from the Bank’s standard institutional measure of portfolio performance and that the second filter should be eliminated. However, the second filter indicator on extensions of final disbursement seems to have acted as a form of “second-best” protection and its elimination could lead to a growing number of extensions of the final date of disbursement over 24 months in concessional-eligible countries. Thus this proposal affirms the principle that the PPI should eventually rely solely on inputs from the Bank’s standard institutional measures; and moves forward the phase out of the second filter by eliminating immediately those indicators that are clearly redundant, and eliminating the last remaining indicator – extensions of final disbursements – at a future date, once its usefulness has diminished.
- 3.10 In sum, the Proposal constitutes a zero-cost avenue for strengthening the incentives for increased development effectiveness of the Bank’s projects in the poorest and most vulnerable member countries.

IV. THE PROPOSAL

- 4.1 **The Proposal consists of: (i) including the PCR scores in the PPI; and (ii) phasing out the current second filter.**

A. Include PCR scores in the PPI

- 4.2 **The core element of this Proposal is to include PCR scores in the calculation of the PPI.**²⁷ The simple average of a country’s ratings in PCRs published in the Bank’s annual DEO would have a weight of 50% in the PPI and, as a corollary, the weight of the existing PMR component would be reduced to 50%. The average overall rating of a country’s PCRs

²⁷ This measure addresses an OVE recommendation shortly after the introduction of the PBA system in the IDB: “Results-focused performance criteria, therefore, ought to include data on the results obtained from past Bank projects in eligible countries”, (OVE, “Oversight note on the performance criteria for allocating concessional resources”, RE-279, June 2003).

in the latest four annual DEOs would be used in order to generate a greater number of total PCR rating scores.²⁸ The validated OVE rating scores would be used to ensure complete independence in ratings.

- 4.3 **No adjustment or re-scaling to the PCR scores would be necessary** because both the existing PMR-based scores and PCR scores use the same 1-6 rating scale and there is an excellent compatibility between the two rating systems (Figure 3).

Figure 3. Comparison of PMR-based PPI and PCR Scoring

Existing PPI scoring			PCR scoring	
	Unsatisfactory ULB as % of Total ULB	PPI score		
Maximum	0%	6	Highly successful	6
	20%	5	Successful	5
	40%	4	Partly successful	4
	60%	3	Partly unsuccessful	3
	80%	2	Unsuccessful	2
Minimum	100%	1	Highly unsuccessful	1

- 4.4 Higher PPI scores can be obtained by both a lower share of the ULB in the existing portfolio being classified as “problem” and “on alert” in the PMR, and a higher average rating in PCRs for the country (Figure 4).

Figure 4. Simplified illustration of proposed PPI scoring

Unsatisfactory ULB as % of total ULB	0%	3.50	4.00	4.50	5.00	5.50	6.00
	20%	3.00	3.50	4.00	4.50	5.00	5.50
	40%	2.50	3.00	3.50	4.00	4.50	5.00
	60%	2.00	2.50	3.00	3.50	4.00	4.50
	80%	1.50	2.00	2.50	3.00	3.50	4.00
	100%	1.00	1.50	2.00	2.50	3.00	3.50
		Highly unsuccessful	Unsuccessful	Partly unsuccessful	Partly successful	Successful	Highly successful
		Average PCR rating					

²⁸ As such the PCR ratings from the DEOs for 2017-2020 would be used as inputs to the PPI for the “Proposal for the Allocation of Concessional Resources 2021-2022” and the PCR ratings from the DEOs for 2019-2022 would be used as inputs to the PPI for the “Proposal for the Allocation of Concessional Resources 2023-2024”.

- 4.5 **Countries' PPI scores would remain on the same 1-6 rating scale that has been used since 2007.** Consequently, the aforementioned change in the methodology to calculate the PPI would not affect the EPBA formula itself in terms of its components or the weights attached to different components.
- 4.6 **Notwithstanding that the Proposal would not change the EPBA formula, it does represent a departure from the methodology used for calculating the PPI that was originally proposed to the Board in 2002.** The 100% weight assigned to the percentage of undisbursed balances represented by projects classified as “problem” and “on alert” in the Bank’s portfolio monitoring system in GN-1856-31 (paragraph 3.6) and reiterated in GN-2442 (paragraph 3.5) would decline to a 50% weight.
- 4.7 The proposed changes to the methodology for calculating the PPI would include portfolio performance being based on PCR ratings in addition to the percentage of undisbursed balances represented by projects classified as “problem” and “on alert” in the Bank’s portfolio monitoring system.
- 4.8 **The proposed introduction of PCR ratings into the PPI will be phased in, in two steps.** Since the cumulative stock of PCRs in the concessional-eligible countries from 2016-2019 represents 29% of the combined stock of PCRs plus PMRs at December 2019, the PCR rating will have a weight of 25% in the PPI for the upcoming allocation for 2021-2022 (with 75% weighting for the PMR-based ULB measure). PCR ratings and PMR-based ULB will start to have an equal 50% weight for the 2023-2024 allocation, since by that time the number of PCR ratings will have grown considerably.

B. Phase out the second filter

- 4.9 **The second element of the Proposal is to phase out the second filter for the purposes of calculating unsatisfactory ULB in the PPI.** Elimination of the second filter would enhance internal Bank harmonization because the PPI for concessional allocations would become determined solely by two standard, institution-wide evaluation measures. Two of the three indicators in the second filter – the time elapsed from Bank approval to legal effectiveness and the time elapsed from legal effectiveness to project eligibility -- would be eliminated immediately upon approval of the Proposal.
- 4.10 **The remaining indicator in the second filter – extensions of the final disbursement date – would remain in place until Management is confident that it is no longer of value.** Management would inform the Board of its termination in the respective proposal for the allocation of concessional resources. The threshold for the indicator will be 24 months, which: (i) was the threshold for 14 out of 18 years; (ii) was the same threshold used for the 2019-2020 allocation, implying continuity; (iii) is an administrative threshold for delegation of authority; and (iv) is the threshold commonly used in analysis to distinguish between minor and major extensions.
- 4.11 Once both elements of the Proposal have been phased in, the combined effect of incorporating average PCR ratings and eliminating the second filter would be as summarized in Figure 5.

Figure 5. Simplified Comparison of Current PPI and Proposed PPI

$$\text{Current PPI} = \text{PMR} + \text{2nd filter}$$

$$\text{Proposed PPI} = \frac{(\text{PMR} + \text{PCR})}{2}$$

C. Expected Impact of Changes

4.12 In terms of the expected impact of the proposed changes, Management expects the following:

1. No impact on the size of the EPBA envelope

4.13 The proposed changes to the methodology for calculating the PPI would have no impact on the size of the aggregate EPBA envelope for concessional allocations.

2. Little, if any, impact on allocation shares

4.14 **A priori, the proposed changes are expected to have minimal impact on countries' allocation shares of the EPBA envelope compared to the existing methodology.** A simulation/back-test of the 2019-2020 allocation using the Proposed methodology showed almost identical allocations with and without the changes in methodology (Annex III).²⁹ This result was due to the significant correlation between countries' PCR scores to date with PMR scores in 2017. Countries with stronger portfolio performance measured by the PMR also tended to have higher PCR scores.

4.15 **It is important to note that there is no guarantee that such a correlation will continue to hold in the future.** Indeed, the incentive to improve PCR ratings derives precisely from the risk of falling behind improvements in other countries – and hence receiving a lower allocation in the future. However, there is no *a priori* reason to expect some countries to improve their scores at a faster or slower pace than others. Hence, Management is not aware of any reason to believe that the change in methodology would favor or disadvantage any individual country.

4.16 **Notwithstanding Management's expectation that the methodological change will not have noticeable impacts in individual country's allocations, in the event that it did, this should be regarded as an improvement in the efficiency of the EPBA.** It would imply that the PBA system had steered relatively more (scarce concessional) resources to

²⁹ Guyana's actual annual EPBA allocation for 2019-2020 was US\$13.03 million and would have been US\$14.19 million if the proposed methodology had been used; for Honduras the actual annual EPBA allocation was US\$124.02 million and would have been US\$123.65 million if the proposed methodology had been used. Nicaragua's actual annual EPBA allocation was US\$93.87 million and would have been US\$93.08 million under the proposed methodology. Such differences are trivial compared to the routine biennial changes caused by variations in the four input variables for the EPBA. For example, the standard deviation of EPBA allocations from 2007-2019 was US\$31 million for Honduras and US\$49 million for Nicaragua.

a country that – all else constant – was using such resources most effectively, as measured by an improved and broader measure of development effectiveness.

3. Strengthened incentives to improve development impact

- 4.17 **The principal impact of the methodological change is expected to be a strengthening of incentives to improve the development impact of the projects the Bank finances in concessional-eligible countries.** Inclusion of PCR ratings in the PPI provides incentives to strengthen efforts to enhance the relevance, effectiveness, efficiency and sustainability of development projects as well as their prompt execution. Measured portfolio performance in concessional-eligible countries has improved since 2007, and it is hoped that inclusion of PCR ratings will provide a similar spur for improvements in areas measured by PCRs. An improvement in development effectiveness is the principal expected benefit of this Proposal for the concessional-eligible countries.³⁰

4. Reduced volatility in PPI scores

- 4.18 **The broadening from one to two sources of inputs for determining the PPI scores will almost certainly help to reduce volatility and stabilize PPI scores between different biennial allocation periods.** PPI scores would be derived from a larger number of projects (projects that have exited the portfolio in recent years as well as projects still in the portfolio), which would reduce the weight and influence of any single project with a large ULB. This would help to avoid abrupt declines in individual countries' allocations.

V. RECOMMENDATIONS

- 5.1 Based on the information and analysis provided in this document, Management recommends that the Board of Executive Directors approves the proposal as described in Chapter IV., Sections A and B of the document.

³⁰ Such impact of the Proposal could be evaluated in several years along two lines: (i) Have the average PCR ratings in concessional-eligible countries improved after approval of the Proposal relative to the 2016-2020 baseline?; and (ii) Have the average PCR ratings in concessional-eligible countries improved after approval of the Proposal relative to the average PCR ratings Bank-wide? More immediate and intermediate effects might be reflected in an improved timeliness in the completion and higher quality (as assessed by OVE) of PCRs in concessional-eligible countries.

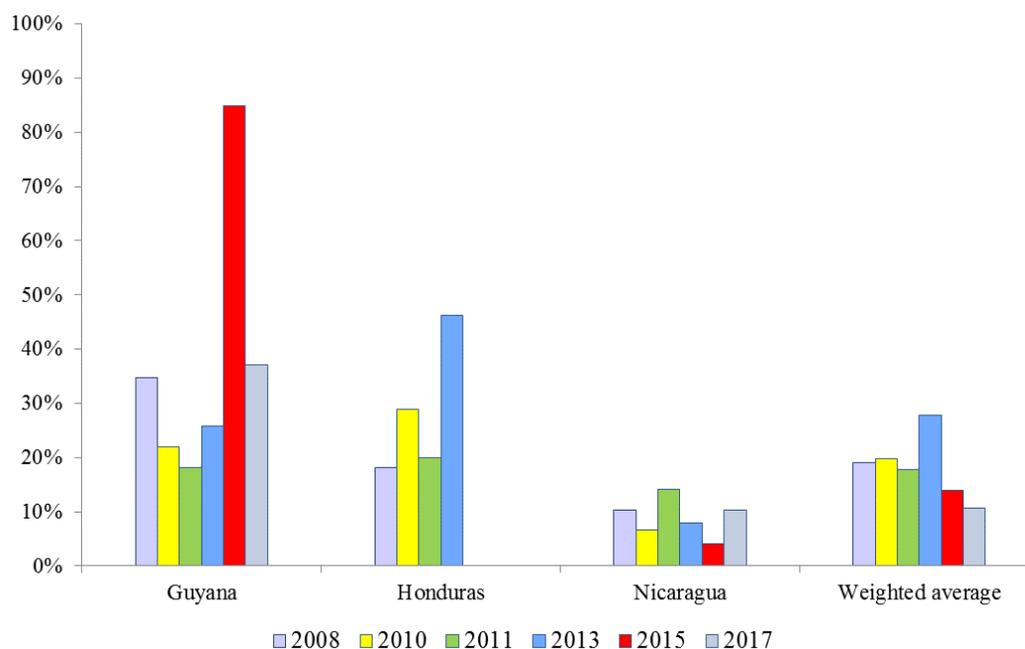
ANNEX I
PORTFOLIO PERFORMANCE 2008-2017

Table AI.1 Evolution of the Percentage of Undisbursed Loan Balances (ULB) represented by projects classified as “unsatisfactory” (on alert and problem)

Country	2008	2010	2011	2013	2015	2017
Guyana	34.7%	22.0%	18.1%	25.8%	84.9%	37.1%
Honduras	18.1%	28.9%	20.1%	46.3%	0.0%	0.0%
Nicaragua	10.2%	6.7%	14.1%	8.0%	4.1%	10.3%
Weighted average	19.0%	19.7%	17.8%	27.8%	14.0%	10.6%

Source: GN-2442-57; GN-2442-53, GN-2442-46, GN-2442-42, GN-2442-32, GN-2442-16.

Figure AI.1 “Unsatisfactory” Project Classification for the EPBA (as % of ULB)



Source: Table above.

Note: No column appears for Honduras in 2015 and 2017 because the unsatisfactory ULB was 0%. In 2015, a new governing party took office in Guyana after 23 years in opposition, which led to staff changes and a prolonged review of investment priorities.

ANNEX II

EVOLUTION OF THE PMR AND PPI 2009-2018

In 2009, the Progress Monitoring Report (PMR) was launched to replace the PPMR. Under the PMR, a project's results matrix – which includes the project's objectives, outputs and outcomes – is used to report on progress. In addition, the PMR introduced a quantitative approach to track the achievement of a project's outputs relative to its scheduled time and cost, through the schedule performance index (SPI) and the cost performance index (CPI) respectively. These two quantitative indicators generated a Performance Index (PI), which was a cumulative indicator of project performance based on an Earned Value concept. The PI was used to classify project execution performance in three categories: “satisfactory”, “alert” and “problem”.

As part of the 2013 GCI-9 evaluation³¹, OVE reviewed the PMR methodology and found that, among other things, having only one index, the PI, to determine project classification was limited and could create false positive cases. Based on this evaluation and other lessons learned, a review of the PMR and a related proposal for adjustments was approved by the end of 2013.³²

The reformed PMR, which started implementation in 2014, foresaw the use of different performance indicators according to the stage in the operation life cycle, capturing different dimensions of projects' performance. After Board approval and before reaching eligibility (Stage 1), two monitoring indicators are calculated: the time elapsed from approval to legal effectiveness and the time elapsed from legal effectiveness to eligibility. Between eligibility and up to 95% disbursement (Stage 2), five monitoring indicators are calculated: a revised version of the SPI and the CPI, measured against the original start-up plan; the SPI and the CPI measured against the annually revised plan; and the disbursement indicator. Between 95% disbursement and project closure (Stage 3), six monitoring indicators are calculated: the five indicators used in Stage 2, plus the time elapsed from the date when 95% of disbursement was achieved until project closure. Indicators are evaluated against project and country-specific benchmarks.³³ A synthetic indicator (SI), reflecting a weighted sum of the ratings assigned to the monitoring indicators of the operation serves as the basis of the project classification after the projects become eligible for disbursements.³⁴ Projects are then classified as “satisfactory” (if the SI is equal or above 2.5), “alert” (above 2 and less than 2.5) or “problem” (if it is below 2).

Use of the PMR for the concessional allocation PPIs was phased in. Because only one year of PMR data was available at the cut-off date for the 2011-2012 allocation, that PPI used a transitory mechanism based on PPMR information in addition to PAIS indicators.³⁵ The 2013-2014 FSO allocation exercise used the PMR classification for the first time and, partly mirroring the previous

³¹ Overview: Mid-term Evaluation of IDB-9 Commitments” (RE-425-4).

³² “Review of Progress Monitoring Report & Proposal of adjustments to be included in the convergence to the Sovereign Guarantee supervision platform” (OP-1072-1).

³³ The country benchmark is a historic 10-year average of the data collected from the portfolio of operations that receive a classification.

³⁴ “Review of Progress Monitoring Report & Proposal of adjustments to be included in the convergence to the Sovereign Guarantee supervision platform” (OP-1072-1).

³⁵ “Fund for Special Operations. Proposal for the allocation of resources 2011-2012.” (GN-2442-32), November 2010.

PPMR, it supplemented the PI-based PMR with time-elapsd indicators that aimed to assess the opportunity cost of scarce concessional resources.³⁶ Projects with the respective elapsed time greater than the respective thresholds were considered as “on alert” or “problem” for the purpose of the allocation of FSO resources.

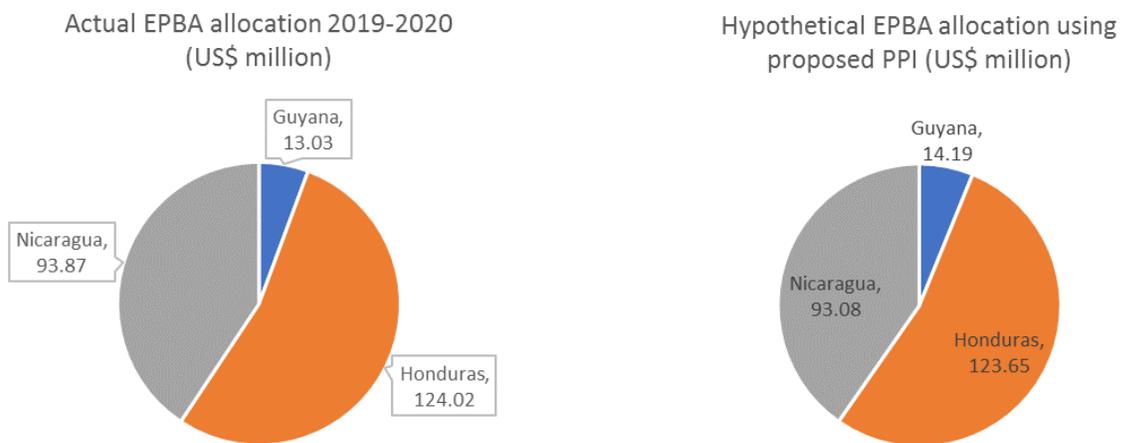
³⁶ “Fund for Special Operations. Proposal for the allocation of resources 2013-2014. Revised version.” (GN-2442-42), December 2012.

ANNEX III

A SIMULATION OF IMPACT

A priori, the proposed changes are expected to have minimal impact on countries' allocation shares of the EPBA envelope compared to the existing methodology. Based on PCRs in the DEOs for 2017-2020, if the proposed methodology had been used for the 2019-2020 concessional resources allocation, the allocation would have been almost identical. Guyana would have received an EPBA allocation US\$1.2 million higher, Honduras an allocation US\$0.4 million lower and Nicaragua an allocation nearly US\$0.8 million lower (Figure AIII.1).

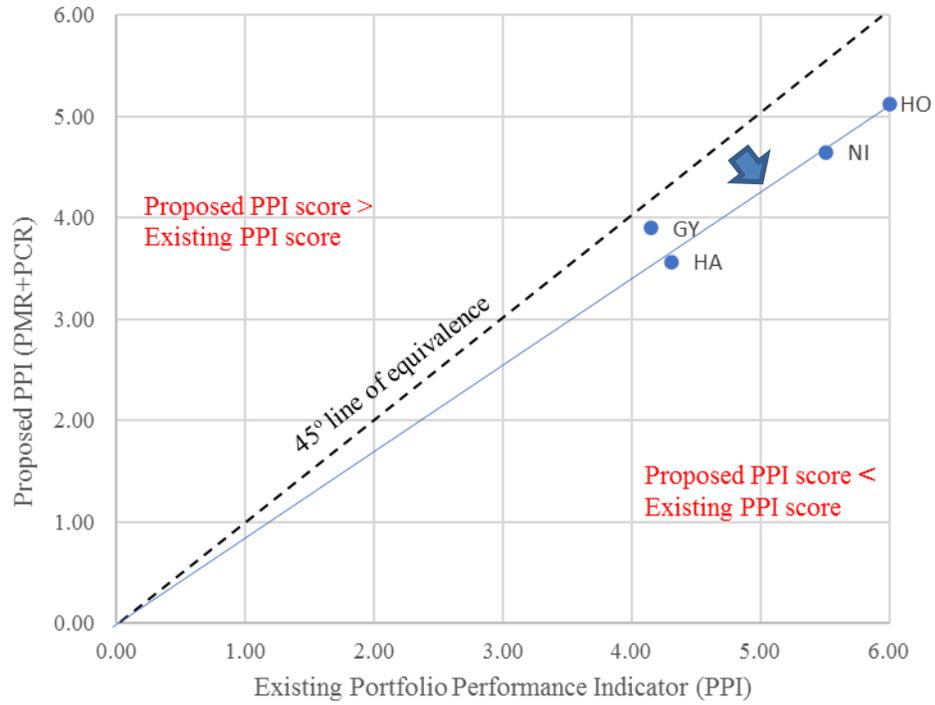
Figure AIII.1 Comparison of actual EPBA allocation for 2019-2020 and allocation if proposed PPI methodology had been used



Source: GN-2442-57 and VPC estimates.

The reason that the impact on allocation shares would have been minimal is that – based on PCR data to date – countries' PCR scores were significantly correlated with PMR scores in 2017. Countries with stronger portfolio performance measured by the PMR also tended to have higher PCR scores. Average PCR scores for all countries are lower than their respective PMR-based scores. However, they are lower by an almost identical proportion for Haiti, Honduras and Nicaragua. Hence, the relative scores between the three largest countries in an allocation (which would likely account for roughly 95% of an EPBA envelope) would have been the same for the 2019-2020 allocation with or without the proposed changes (Figure AIII.2).

Figure AIII.2 Comparison of actual 2017 PPI scores and scores if proposed PPI methodology had been used



Source: GN-2442-57 and VPC estimates based on PCR ratings in DEOs for 2020, 2019, 2018 and 2017.