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Technical Note on Proposed Adjustments to The Bank Group's Performance-Based Allocation System

Discussion Paper

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Abbreviations

ADF	African Development Fund
AEO	African Economic Outlook
AfDB	African Development Bank
AIDI	Africa Infrastructure Development Index
AIKP	Africa Infrastructure Knowledge Program
AsDB	Asian Development Bank
CDB	Caribbean Development Bank
CPA	Country Performance Assessment
CPIA	Country Policy and Institutional Assessment
CSP	Country Strategy Paper
DSF	Debt Sustainability Framework
FSF	Fragile State Facility
GNI	Gross National Income
GNP	Gross National Product
GR	Governance Rating
ICTs	Information and Communication Technologies
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IOP	Indicative Operational Programme
MDBs	Multilateral Development Banks
MDRI	Multilateral Debt Relief Initiative
NWC	North, West and Centre Regions according to Bank classification
PBA	Performance-Based Allocation
PCEF	Post-Conflict Enhancement Factor
PORT	Portfolio Performance
PPA	Portfolio Performance Assessment
RISP	Regional Integration Strategy Paper
RMC	Regional Member Country
SE	South and East Regions, according to Bank classification
UA	Unit of Account
WB	World Bank

TECHNICAL NOTE ON PROPOSED ADJUSTMENTS TO THE BANK GROUP'S PERFORMANCE-BASED ALLOCATION SYSTEM

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1. Introduction

1.1. During the second ADF-13 replenishment meeting, Management proposed to: (i) increase the minimum allocation to UA 15 million per cycle; and (ii) adjust the Performance-Based Allocation (PBA) formula by adding a new Cluster E to the Country Policy and Institutional Assessment (CPIA) questionnaire and including the Africa Infrastructure Development Index (AIDI) in the formula. The Deputies approved the increase of the minimum allocation. As regards the addition of Cluster E and the inclusion of the AIDI, they requested Management to **provide additional analytical information on the effects of the proposed adjustments and on their operational implementation.** In response to these recommendations, Management has prepared this technical note.

2. Historical overview of the Bank Group's PBA System

2.1. Like most other Multilateral Development Banks (MDBs), the African Development Bank Group (the Bank) established a PBA system for allocating ADF resources based on a methodology that strikes a **balance between the policy and institutional performance of its eligible Regional Member Countries (RMCs) and their development needs.**

2.2. A number of adjustments have been made to the PBA system since its creation in 1999 in order to take into account ADF strategic orientations and the creation of new allocation instruments. As shown in Figure 1, the system was modified to make it compatible with the creation of the Fragile States Facility (FSF) and to avoid the double-counting of governance. The adjustments also resulted in the definition of a single exponent for the Country Performance Assessment (CPA) factor, abolition of the Post-Conflict Enhancement Factor (PCEF) and distinction of the governance rating (Cluster D) from other CPIA Clusters (A, B and C). The Portfolio Performance Assessment (PPA) was practically halved.

Figure 1: Evolution of the PBA Formula

ADF-8

$$\text{PBA} = \text{Population} \times \text{GNI/pc}^{-0,125} \times \text{CPA}^{\alpha}\,(0{,}7\text{CPIA} + 0{,}3\text{PPA})$$

Where α = 1,75 if the performance factor is <3
= 2 if the performance factor is ≥3

ADF-9

$$\text{PBA} = \text{Population} \times \text{GNI/pc}^{-0,125} \times \text{CPA}^{2}\,(0{,}7\text{CPIA} + 0{,}3\text{PPA})$$

ADF-10

$$\text{PBA} = \text{Population} \times \text{GNI/pc}^{-0,125} \times \text{CPA}^{2}\,[(0{,}7\text{CPIA} + 0{,}3\text{PPA}) \times \mathbf{GR} \times \mathbf{PCEF}]$$

Since ADF-11

$$\text{PBA} = \text{Population} \times \text{GNI/pc}^{-0,125} \times \text{CPA}^{4}\,(\mathbf{0{,}26}\text{CPIA} + \mathbf{0{,}58GR} + \mathbf{0{,}16}\text{PPA})$$

Note : Before ADF-12, PPA was called Country Portfolio Performance Rating.

2.3. Adaptation of the Bank's PBA system has contributed to its consolidation and recognition by RMCs as a transparent and relevant approach for calculating PBA allocations. However, since Africa and the Bank have experienced major changes since ADF-11, Management holds the view that the system should be adjusted in order to reflect these changes. **This approach is in line with the practice of other MDBs, which have also adapted their respective PBA**

systems over time, while observing common basic principles (ref. Annex VI).

3. Limitations of the Current PBA System

Insufficient consideration of Africa's rapid transformation and its new challenges

3.1. The ADF-13 replenishment is taking place at a time when there is a broad consensus on the fact that Africa is experiencing a transformation, although the degree and speed of transformation differ from country to country. **There is agreement on the need to support this transformation on the continent by adapting the aid architecture and modalities of international assistance to the continent.** Specifically, emphasis is laid on the key role played by international assistance for **infrastructure development as the lever for more dynamic, inclusive and sustainable economic growth**[1]**.** At the same time, these efforts must be accompanied by reforms aimed at improving governance and the quality of policies in order to maximize the impact of invested resources and boost private sector development.

3.2. The current PBA system does not sufficiently take into account the issues of transformation and infrastructure development in Africa. The CPIA, in particular, does not enable an assessment of infrastructure sector policies and institutions. The needs component of the PBA system does not address this fundamental aspect, while RMCs have to undertake the structural transformation of their economies.

A system that is insufficiently adapted to the ADF's mandate and the Bank's Ten-Year Strategy

3.3. The Bank adopted its ten-year strategy for Africa through a broad-based consultative process to address the continent's challenges over the next decade. The five operational priorities of this strategy include infrastructure development, private sector development and the promotion of regional integration[2]. The importance that the Bank attaches to infrastructure is also reflected in its Indicative Operational Program for the next ADF cycle under which **three-quarters of the UA 7.6 billion programed will be allocated to infrastructure projects.** The same applies to regional integration since **over half of Indicative Operational Program resources will be used to finance 101 regional projects** out of a total of 258 planned national and regional projects.

3.4. The "performance" component of the Bank's PBA system has not followed this growing commitment to infrastructure and regional integration. For example, **of the 44 sub-criteria in the current CPIA questionnaire, only 6 can indirectly provide information on the infrastructure sector, and none assesses the policies and institutions that boost infrastructure sector development.** Three sub-criteria directly address regional economic cooperation and trade issues, but **important dimensions such as financial integration, movement of persons and labour and the integration of services are completely absent.** By way of comparison, two clusters of questions (A and D), with a total of 23 sub-criteria, focus on assessing governments' efforts in improving governance. The absence of direct questions on the two key sectors of infrastructure and regional integration restricts policy dialogue with beneficiary countries on these sectors which, nonetheless, receive the greatest amount of ADF resources.

3.5. The "needs" component also does not cover the Bank's commitments in the infrastructure sector, whereas there are robust indicators available for completing the assessment of these needs. It currently comprises only two factors - namely, population and GNI per capita - which may not acurately reflect the level of infrastructure development. Countries with the same GNI per capita and the same population size may have very different levels of infrastructure development. The reverse is equally true: countries with very different population sizes or income levels may have similar levels of infrastructure development. The current distribution of **ADF resources is therefore based on criteria somewhat disconnected from their**

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1 G8 communiqué of June 2013 and the statement of President Barack Obama during his recent visit to Africa.

2 The other two priorities of the Bank's ten-year strategy are the promotion of "Governance and Accountability" and "Skills and Technology".

utilization, whereas it is possible to fine-tune the needs analysis to ensure that resources are increasingly allocated there where they can have a greater impact on Africa's transformation.

4. Proposed Adjustments for Improving the Current PBA System

Preserving the basic principles common to MDBs and the balance of the PBA formula

4.1. With the proposed adjustments, **the PBA formula maintains its current linear form with two main components.** In the performance component, the weights of the governance factor and the portfolio performance factor remain the same. Furthermore, to preserve alignment and comparability with the IDA's CPIA questionnaire, the questions in CPIA Clusters A, B, C and D do not change. To factor in the addition of the new Cluster E to the CPIA questionnaire and to preserve the coefficients applied to governance (Cluster D) and to the portfolio performance rating, the total coefficient of Clusters A, B and C is reduced from 26% to 20% in order to give a 6% weight to Cluster E. In the needs component, the population and GNI per capita factors remain unchanged, while the AIDI is added. (Figure 2)

Figure 2: Proposed New PBA Formula[3]

$$A_i = (CPA)_i^4 \times \left(\frac{GNI}{P}\right)_i^{-0,125} \times P_i^1 \times AIDI_i^{-0,25}$$

$$CPA_i = 0.20\, CPIA_{(ABC)i} + 0.58\, CPIA_{(D)i} + 0.06\, CPIA_{(E)i} + 0.16\, PPA_i$$

4.2. The proposed adjustments are **broadly supported by the RMCs**[4] because they better address national infrastructure needs and further underpin national policies to develop this sector and promote regional integration.

4.3. Given the justifications provided, Management deems it necessary to **implement the two proposed adjustments (Cluster E and AIDI) jointly as a single package.** Adjusting the needs component is considered necessary to better respond to the demand of Bank clients and channel more resources to sectors where they can make the greatest difference in terms of the Bank's mandate. It will also allow to reduce the infrastructure gap between countries in a more direct manner - crucial to both economic growth and regional integration. At the same time, and to ensure that resource use is optimized through enabling legal and regulatory framework, it is crucial to consider the policies and institutions that boost infrastructure development and regional integration. Hence, performance assessment in these key sectors should be simultaneously strengthened.

4.4. Since the Bank's ten-year strategy covers ADF-13, 14 and 15, the current proposals should be viewed as **a dynamic exercise.** The relative weights of the needs and performance components could be reviewed when the largest infrastructure deficits have been addressed or when differences in GNI per capita have been reduced. A lesser weight could then, for example, be given to elements of the needs component. Furthermore, the new Cluster E could be gradually amended to align it fully to the Bank's strategy and to better take into account the issue of inclusive growth. For instance, country efforts to implement job creation or inequality reduction policies could be assessed.

[3] A_i is the allocation for country i; $AIDI_i$ is the Africa Infrastructure Development Index rating for country i; CPA_i is the country performance assessment for country i; $CPIA_{(ABC)i}$ is the rating for CPIA Clusters A, B and C for country i; $CPIA_{Di}$ is the rating for CPIA Cluster D (governance) for country i; $CPIA_{Ei}$ is the rating for the new CPIA Cluster E for country i; PPA_i is the portfolio performance rating for country i; P_i is the population of country i; GNI/P_i is the gross national income per capita for country i.

[4] RMC Representatives at the 2nd ADF-13 replenishment meeting supported the proposed adjustments.

Adding a new Cluster E and including the AIDI

Adding a Cluster E to the CPIA questionnaire

4.5. Cluster E is simple and proposes two new criteria on: (i) **infrastructure development** and (ii) **regional integration.** The first criterion targets three sub-criteria that respectively deal with sector strategy and policy; the legal and regulatory framework; and public resource management and accountability in the infrastructure sector. The second criterion broadens the assessment of regional economic cooperation and trade which already exists in the current CPIA to include the movement of persons and labour, and the right of establishment; and regional financial integration (ref. Annex I).

4.6. At the operational level, the process of calculating the PBA allocations will start with the country assessments through the CPIA questionnaire. In accordance with the usual work processes, the Bank's country economists will provide data on the 5 sub-criteria of Cluster E in addition to the 44 sub-criteria already in the questionnaire. **The questions of the new Cluster E have already been prepared, disseminated to the Bank's country economists and finalized with their comments and observations.** These staff members have already familiarized themselves with the new Cluster E and have had the opportunity to test it and provide preliminary ratings for each country (ref. Annex II), as used for the simulations in the document "ADF-13 Resource Allocation Framework" presented during the second replenishment meeting. The Cluster E questionnaire is ready to be incorporated into the CPIA online platform, which is the Bank's tool for preparing CPIA country notes. **Therefore, Cluster E is available can be operational at any time.**

Including the AIDI in the needs component of the PBA formula

4.7. Africa's infrastructure needs are estimated at USD 93 billion per year, of which an outstanding deficit of USD 31 billion per year remains to be addressed to ensure full coverage of investment and maintenance expenditure[5]. **The goal of including the AIDI in the PBA formula is to address this major challenge while remaining consistent with the Bank's comparative advantage.**

4.8. The Bank is a leading partner for RMCs. It is also an institution that produces and disseminates knowledge, especially in sectors where it is most active such as infrastructure. The transfer of leadership in the production of African infrastructure statistics from the World Bank (WB) to the AfDB is a concrete example of the recognition of the Bank's maturity in knowledge production and dissemination. Hence, **since 2010, the Bank has implemented the Africa Infrastructure Knowledge Program (AIKP). Under this program, the AIDI was developed in 2011,** and major capacity-building activities in the production of infrastructure statistics are underway for RMCs. **The AIDI was updated in 2013 to take into account the population's access to infrastructure in addition to the physical existence of infrastructure.** The tests conducted on the AIDI have demonstrated its robustness and stability between countries and from year to year. It is therefore operational.

4.9. **The AIDI, for which a 12-year data series exists (from 2000 to 2011)**, is an index that comprises four components (transport, electricity, ICTs, and water and sanitation), which are themselves broken down into nine indicators (ref. Annex III). The AIDI is proposed to be included in the PBA formula with an exponent of -0.25, so that countries with the largest infrastructure deficit will benefit the most. To avoid any excessive volatility in allocations, the rolling average of countries' scores over the last three years will be used (as is the case for GNI per capita in the PBA formula). **For the 2014 PBA allocations, the average AIDI rating for 2009-2011 will be used** (ref. Annex IV)[6].

4.10. **It is worth noting that there are many precedents for the use of indices in the calculation of PBA allocations.** For example, the Mo Ibrahim Index, the World Bank's Worldwide Governance Indicators and the Corruption Index of the international NGO *Transparency International* are used both as benchmark/ranking indices and as indices for assessing country performance under various CPIA clusters. The AIDI is consistent with this approach.

[5] African Development Bank, 2012. Africa's Infrastructure: A Time for Transformation.
[6] The final AIDI data for 2011 exists and will be published at the latest in October 2013.

5. Impact of the Proposed Adjustments

General Considerations

5.1. **It is important to note that the adjustments proposed by Management have no impact on two key processes that are partly linked to the PBA, namely the Debt Sustainability Framework (DSF) and the methodology for determining the AfDB-WB harmonized list of Fragile States**. The joint WB-International Monetary Fund DSF methodology will continue to determine the risk of debt distress and the financing modalities of each ADF-only country, especially its eligibility for grants. As regards the determination of the AfDB-WB harmonized list of Fragile States, the framework agreed between the two institutions will continue to apply. Hence, the new Cluster E will not be factored into the calculation of the overall CPIA average (Clusters A through D) in relation to which the threshold of 3.2 is used by both institutions to determine Fragile States.

5.2. To assess the impact of the proposed adjustments on the PBA allocations of countries and on the compliance with the performance incentive principle, Management carried out simulations based on the two ADF-13 replenishment scenarios[7]. The first scenario, "**Scenario 1**", assumes **zero nominal growth in donors' subscriptions** and an indicative PBA envelope of **UA 2845 million**. The second scenario, "**Scenario 2**", assumes **zero real growth in donors' subscriptions** and an indicative PBA envelope of **UA 3094 million**.

5.3. In both scenarios, the simulation results are compared with a baseline scenario. The baseline scenario and the simulation scenarios assume a minimum allocation of UA 15 million for the entire three-year cycle of the ADF and the same data[8] in terms of CPIA, PPA, population, GNI pc and Multilateral Debt Relief Initiative (MDRI) as those used to calculate the 2013 allocations. The only difference between the baseline scenario and the simulation scenarios is the addition of Cluster E and the inclusion of the AIDI. Cluster E ratings were proposed by the Bank's country economists based on the questionnaire submitted to them. As explained in the previous section, the AIDI is a rolling average score of the last three available years, namely 2009, 2010 and 2011.

Impact on the profile of future allocations: financially low, politically high

Moderate Quantitative Impact

5.4. **The addition of Cluster E and the inclusion of the AIDI leads to a reallocation of PBA resources of UA 33.48 million** per year (or UA 100.45 million for the three-year ADF cycle) in scenario 1 and **UA 36.28 million** per year (or UA 108.84 million for the three-year ADF cycle) in scenario 2. As Table 1 shows, in both scenario 1 and 2, 14 countries see a reduction in their allocation as compared to the baseline scenario, while 13 countries experience an increase. Most of the countries receiving a higher allocation have a major infrastructure deficit (ref. Annex V) and 7 are fragile states. As regards PBA resource reallocation per country, Annex V provides details on the countries that experience an increase or decrease in their allocation as well as the volume of this variation[9].

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7 See *Revised ADF-13 Replenishment and Resource Allocation Scenarios*, September 2013

8 Data related to DSF, list of fragile states and lending terms have been updated to the latest available.

9 In order to encourage a strategic and non-political reflection on the merits of the proposed adjustments, Management proposes country codes instead of country names. Countries whose codes start with NWC belong to the North, West or Centre region according to the Bank classification. Countries whose codes start with SE belong to the South or East region.

Table 1: Reallocated resources and number of countries receiving a higher/lower allocation

ADF-13 replenishment scenario	Nbr of countries receiving a higher allocation			Nbr of countries receiving a lower allocation			Nbr of countries whose allocation does not change			Reallocated resources (UA million)	Average increase (UA million)	Average decrease (UA million)
	FS	NFS	Tot	FS	NFS	Tot	FS	NFS	Tot			
Scénario 1	*7*	*6*	**13**	*2*	*12*	**14**	*8*	*6*	**14**	33.48	2.58	-2.56
Scénario 2	*7*	*6*	**13**	*2*	*12*	**14**	*8*	*6*	**14**	36.28	2.79	-2.78

FS: Fragile State; NFS: Non-fragile State; Nbr: Number; Tot: Total

Enhanced Impact on Policy Dialogue

5.5. Analysis of the use of the PBA system within the AfDB as well as discussions with the other MDBs show that the functions of PBA systems have diversified over time. The effects of PBA formula modifications are therefore not limited to the volumes allocated but also have significant qualitative impacts, especially through the CPIA questionnaire.

5.6. The PBA system and CPIA assessment are key instruments of the Bank for policy dialogue with its RMCs. The automation of the CPIA exercise through an electronic platform since last year has significantly improved the quality of CPIA country notes, both in terms of editing and content. It has also facilitated the drafting and revision of CPIA country notes, thus generating substantial time gains. Apart from serving to determine the PBA allocations of countries, CPIA country notes are tools for sensitization on the importance of good quality policies and institutions, and enable the Bank to communicate on policy improvement. The **CPIA has also been increasingly used to prepare Country Strategy Papers (CSP), Regional Integration Strategy Papers (RISP) and Bank programs and projects. Alignment of the CPIA questionnaire with the structure of the annual African Economic Outlook report since 2011 has transformed the CPIA country notes into one of the main inputs of the African Economic Outlook report.**

5.7. In this context, **the addition of a new Cluster E and the inclusion of the AIDI are an important stage in the consolidation of policy dialogue with RMCs because they cover key areas of the Bank's mandate and will be an opportunity to promote the most suitable policies**. These adjustments reflect the discussions and exchanges held on various occasions with RMCs and other MDBs[10] which, *inter alia,* underscored the need for policy dialogue under the PBA system and CPIA to give greater consideration to the current context of Africa's transformation. When viewed from this perspective, the proposed adjustments are essential to ensure that the Bank has the means to step up its dialogue with its RMCs. They are also important for reinforcing ownership of the PBA system and CPIA by RMCs, which have increasingly shown their willingness to understand how the system works and its impact on ADF allocations received each year.

5.8. In an effort to respond to recommendations made by Deputies during the first two ADF-13 replenishment meetings on the need to step up policy dialogue, **the Bank will produce an annual CPIA report as of 2014. This report will analyze trends and the key elements of change in CPIA scores for each of the 54 countries and 5 regions of the continent.** CPIA summary reports will also be produced for a number of countries in order to analyze progress and challenges in terms of policies, including in the areas of infrastructure and regional integration. These reports will be widely disseminated among RMCs and development partners. The discussions and exchanges that will take place during their dissemination will consolidate ownership of the PBA system and CPIA by RMCs. Furthermore, it will help to consolidate the Bank's leadership and role in knowledge production and dissemination on various development issues in Africa.

[10] For example, during the high-level seminar on "Aid Allocation Systems in a Changing Africa" organized in Mauritius in February 2012.

Impact on performance incentive: more than 60% of PBA resources flow to the best performing countries

5.9. The proposed adjustments preserve the performance incentive principle of the PBA system since the first two performance quintiles (that is, the 16 ADF countries with the best performance in terms of CPA) receive more than 60% of total PBA resources[11]. In concrete terms, in scenarios 1 and 2, the first two performance quintiles receive around 61% of the volume of PBA allocations (Table 2).

5.10. It is important to note that PBA resources are not reallocated only at the expense of countries with the best performance. For instance, among the 13 countries whose allocation increases in the simulation scenarios, 5 of them (38,5%) are in the first or second performance quintile. Similarly, of the group of 14 countries whose allocation decreases, 2 countries (14.3%) are in the fourth or fifth performance quintile.

Table 2: Impact of proposed adjustments on performance (in % of allocation volume to each performance quintile in terms of CPA)

Quintile	ADF-13 replenishment scenario			
	Scenario 1		Scenario 2	
	Baseline	Simulation	Baseline	Simulation
1st quintile	30.88	28.63	31.14	28.90
2nd quintile	33.20	34.61	33.20	34.61
3rd quintile	17.37	16.79	17.45	16.88
4th quintile	12.40	13.42	12.29	13.30
5th quintile	6.15	6.54	5.92	6.32

6. Recommendations and Conclusion

6.1. ***Implementation of the proposed adjustments will not cause any major operational constraints.*** The AIDI for 2011 is already available and the departments in charge of research and statistics (EDRE/ESTA) ensure its regular and timely production and publication. The Bank's country economists are not only familiar with Cluster E, but have also tested it. The model for calculating the PBA allocations and the CPIA electronic platform are ready to be updated at any time. Internally, various regional and sector departments have been informed about the adjustments proposed by Management and their potential impact on the PBA allocations of countries, especially in the context of preparing Country Strategy Papers. The Resource Mobilization and Allocation Unit (ORMU), responsible for coordinating the calculation of PBA allocations and the CPIA exercise, as well as the regional departments, are ready to step up and broaden policy dialogue in the identified areas as soon as the 2014 allocations exercise ends.

6.2. Following a cost-benefit analysis, **Management recommends that the proposed adjustments be adopted as a single package of measures in order to maintain the balance between rewarding performance and responding to the priority needs of RMCs, while giving the Bank the means to strengthen policy dialogue**. Management recommends a coefficient of 6% for the new Cluster E so as not to cancel out the leverage effect of the AIDI while deepening policy dialogue on issues relating to infrastructure development, free movement and right of establishment for persons and labor, and regional financial integration. Management proposes the inclusion of the AIDI in the needs component of the PBA formula to enable the Bank to better address the priorities of ADF-eligible RMCs in the current context of the transformation of their economies. To preserve the performance incentive principle of the PBA system while ensuring that a meaningful volume of PBA resources is reallocated to countries facing infrastructure deficits, Management proposes an exponent of -0.25.

6.3. The implementation of these measures will be evaluated at the mid-term review.

[11] The 60% threshold is the historic threshold of the Bank's PBA system. Since the institution of the PBA system under ADF-8, the first two performance quintiles have always received over 60% of PBA allocations.

Annex I : Summary of the Cluster E Questionnaire

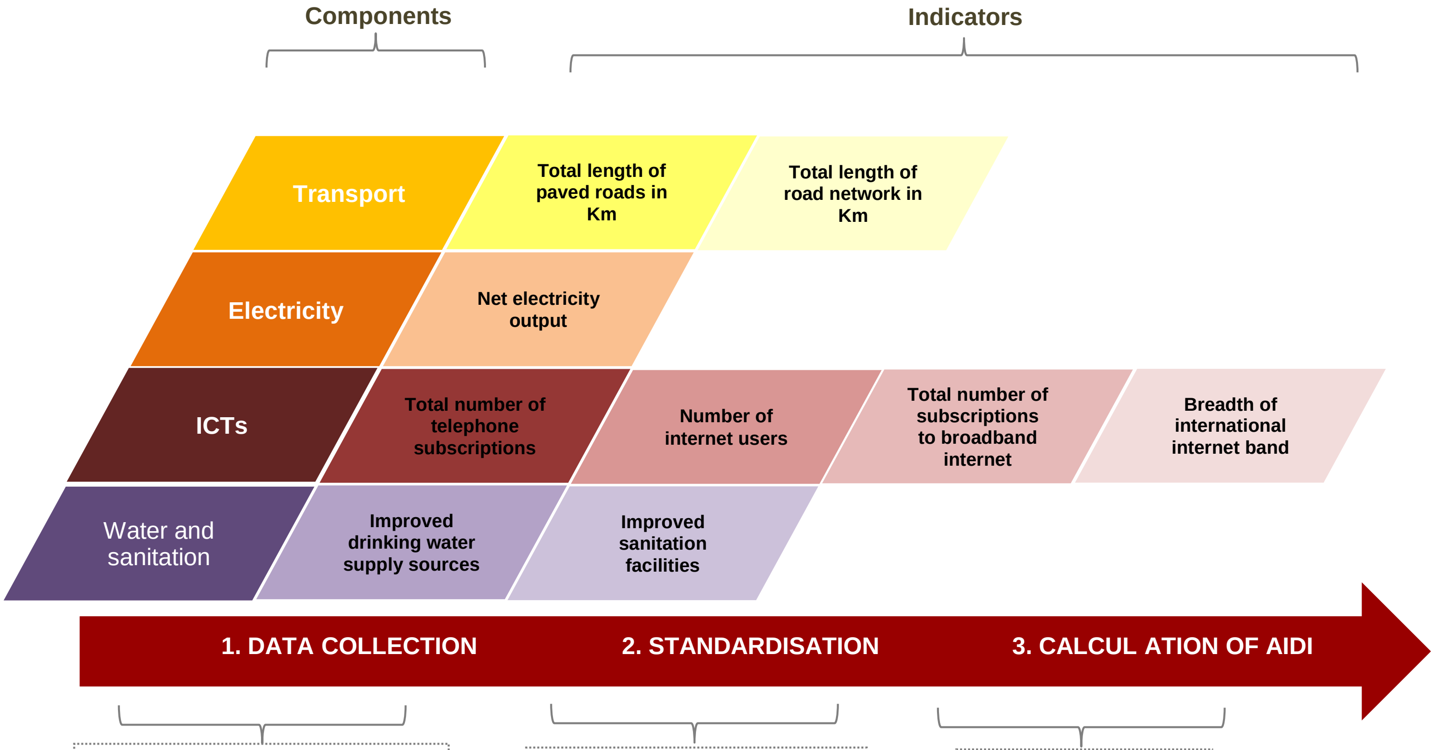
Criterion	Sub-criterion	Summary of Questions
Infrastructure Development	**Sector strategy and policy**	The extent to which: (i) the country's Poverty Reduction Strategy Paper or any other national development strategy covers infrastructure development; (ii) the infrastructure sector strategy is effectively implemented (use of planning tools such as master plans/multi-year action plans) and the necessary resources are allocated in the national budget; and (iii) infrastructure development plans/strategies are aligned with other sector strategies/plans, including agriculture, food security, regional integration, trade and private sector development.
	Legal and institutional framework	The extent to which there are: (i) clear and transparent legal and regulatory frameworks in the field of infrastructure; (ii) comprehensive laws and regulations covering all infrastructure sub-sectors and the country's infrastructure needs; and (iii) local human and institutional capacity to design and implement these laws and/or regulations.
	Public resource management and infrastructure sector accountability	The extent to which: (i) the Government is accountable for the use of funds allocated to infrastructure projects/programs (especially during the procurement process) and the results of actions it undertakes to develop infrastructure; (ii) the Government complies with environmental protection safeguards and consults the population and various stakeholders in the design/implementation of infrastructure projects/programs.
Promotion of regional integration	**Movement of persons and labor and right of establishment**	The extent to which: (i) the country implements protocols on the free movement of persons and labor within regional economic communities. It assesses, *inter alia,* the adoption of common passports, the softening of visa conditions and the extent to which the country facilitates the issuance of residence permits. The efficiency of national immigration offices at border posts/airports, as well as the requisite human and institutional capacity must also be evaluated.
	Regional financial integration.	The extent to which: (i) financial and investment protocols are implemented; (ii) countries promote the legal and regulatory frameworks that facilitate the free movement of capital within a given REC.

Annex II: Preliminary Cluster E Scores per ADF-eligible Country (listed in order of ranking)[12]

Country	Score	Country	Score	Country	Score	Country	Score
Senegal	4.89	Zambia	3.83	Madagascar	3.42	Côte d'Ivoire	3.06
Rwanda	4.61	Mali	3.78	Guinea-Bissau	3.33	Dem. Rep. of Congo	3.00
Ghana	4.56	Tanzania	3.78	Djibouti	3.33	Lesotho	3.00
Cape Verde	4.44	Mauritania	3.70	Mozambique	3.31	Sudan	2.89
Niger	4.11	Liberia	3.68	Benin	3.25	Cent. African Rep.	2.33
Nigeria	4.11	Gambia	3.67	Eritrea	3.22	Sao Tome and Principe	2.33
Uganda	4.06	Sierra Leone	3.53	Ethiopia	3.17	South Sudan	2.22
Kenya	3.94	Burundi	3.42	Malawi	3.11	Zimbabwe	2.22
Burkina Faso	3.89	Rep. of Congo	3.42	Chad	3.08	Comoros	1.56
Cameroon	3.83	Guinea	3.42	Togo	3.08	Somalia	1.00

[12] According to a preliminary assessment conducted by AfDB country economists in May 2013.

Annex III: Composition of and Principal Stages in AIDI Calculation



Under the Africa Infrastructure Knowledge Program and from renowned and reliable sources (UNICEF, FAO, ITU, WB, etc.).

In order to make the values of the components comparable and adjust their distribution from 0 to 100.

Combination of components.

Annex IV: AIDI Scores and Ranking of African Countries (2009-2011)

Year 2009			Year 2010			Year 2011			Average (2009-2011)		
Country	Score	Rank	Country	Score	Rank	Country	Score	Rank	Country	Score	Rank
Seychelles	77.98	1st	Seychelles	84.41	1st	Seychelles	90.38	1st	Seychelles	84,25	1st
Egypt	70.17	2nd	South Africa	79.01	2nd	South Africa	89.54	2nd	Egypt	78,27	2nd
Libya	68.95	3rd	Egypt	77.66	3rd	Egypt	86.99	3rd	South Africa	75,86	3rd
Mauritius	63.17	4th	Libya	71.36	4th	Mauritius	75.38	4th	Libya	70,76	4th
South Africa	59.04	5th	Mauritius	67.01	5th	Libya	71.96	5th	Mauritius	68,52	5th
Tunisia	52.38	6th	Tunisia	59.53	6th	Tunisia	63.19	6th	Tunisia	58,37	6th
Morocco	45.08	7th	Morocco	51.83	7th	Morocco	59.42	7th	Morocco	52,11	7th
Algeria	43.70	8th	Algeria	47.80	8th	Algeria	50.12	8th	Algeria	47,21	8th
Cape Verde	40.44	9th	Cape Verde	44.11	9th	Cape Verde	47.32	9th	Cape Verde	43,96	9th
Botswana	32.58	10th	Botswana	33.50	10th	Botswana	34.48	10th	Botswana	33,52	10th
Namibia	26.05	11th	Namibia	27.83	11th	Namibia	29.99	11th	Namibia	27,95	11th
Gabon	25.29	12th	Gabon	25.91	12th	STP	27.47	12th	Gabon	25,95	12th
Gambia	24.07	13th	STP	24.75	13th	Gabon	26.64	13th	STP	25,15	13th
STP	23.23	14th	Zimbabwe	24.72	14th	Zimbabwe	26.04	14th	Gambia	24,66	14th
Zimbabwe	22.94	15th	Gambia	24.71	15th	Kenya	25.71	15th	Zimbabwe	24,56	15th
Djibouti	22.15	16th	Djibouti	23.45	16th	Djibouti	25.71	16th	Djibouti	23,77	16th
Swaziland	20.96	17th	Swaziland	22.31	17th	Gambia	25.19	17th	Swaziland	22,55	17th
Comoros	20.47	18th	Senegal	21.68	18th	Swaziland	24.37	18th	Senegal	21,59	18th
Senegal	20.31	19th	Ghana	21.11	19th	Senegal	22.78	19th	Ghana	21,12	19th
Ghana	19.57	20th	Comoros	20.95	20th	Ghana	22.68	20th	Comores	20,87	20th
Zambia	18.86	21st	Zambia	20.14	21st	Zambia	21.30	21st	Kenya	20,13	21st
Rwanda	18.06	22nd	Rwanda	18.65	22nd	Comoros	21.20	22nd	Zambia	20,10	22nd
Côte d'Ivoire	17.01	23rd	Kenya	18.43	23rd	Uganda	20.85	23rd	Rwanda	19,09	23rd
Cameroon	16.59	24th	Uganda	17.88	24th	Nigeria	20.66	24th	Uganda	18,26	24th
Kenya	16.24	25th	Côte d'Ivoire	17.76	25th	Rwanda	20.57	25th	Nigeria	18,06	25th
Uganda	16.05	26th	Nigeria	17.59	26th	Côte d'Ivoire	18.75	26th	Côte d'Ivoire	17,84	26th
Nigeria	15.94	27th	Equat. Guinea	17.31	27th	Equat. Guinea	17.64	27th	Cameroon	16,73	27th
Malawi	15.42	28th	Cameroon	16.80	28th	Malawi	17.28	28th	Equat. Guinea	16,62	28th
Equat. Guinea	14.91	29th	Malawi	16.45	29th	Cameroon	16.81	29th	Malawi	16,38	29th
Lesotho	14.42	30th	Lesotho	15.11	30th	Angola	16.67	30th	Angola	15,14	30th
Burundi	14.37	31st	Angola	15.00	31st	Burundi	15.40	31st	Lesotho	14,94	31st
Angola	13.75	32nd	Burundi	14.57	32nd	Lesotho	15.28	32nd	Burundi	14,78	32nd
Benin	12.30	33rd	Benin	13.72	33rd	Benin	14.31	33rd	Benin	13,44	33rd
Guinea	12.23	34th	Sudan	13.22	34th	Sudan	13.59	34th	Sudan	12,67	34th
Mauritania	11.61	35th	Rep. of Congo	13.12	35th	Rep. of Congo	13.49	35th	Rep. of Congo	12,64	35th
Rep. of Congo	11.29	36th	Mauritania	12.53	36th	Mauritania	13.36	36th	Mauritania	12,50	36th
Sudan	11.21	37th	Guinea	12.43	37th	Guinea	12.57	37th	Guinea	12,41	37th
Togo	10.50	38th	Burkina Faso	11.53	38th	Burkina Faso	12.39	38th	Burkina Faso	11,46	38th
Burkina Faso	10.45	39th	Liberia	11.19	39th	Liberia	11.91	39th	Liberia	11,06	39th
Guinea-Bissau	10.30	40th	Togo	10.80	40th	Mali	11.44	40th	Guinea-Bissau	10,68	40th
CAR	10.19	41st	Guinea-Bissau	10.61	41st	Tanzania	11.22	41st	Togo	10,67	41st
Liberia	10.08	42nd	CAR	10.53	42nd	Guinea-Bissau	11.14	42nd	CAR	10,52	42nd
Mozambique	9.87	43rd	Mozambique	10.46	43rd	Mozambique	10.98	43rd	Mozambique	10,43	43rd
Tanzania	9.37	44th	Mali	10.30	44th	CAR	10.85	44th	Mali	10,30	44th
Mali	9.17	45th	Tanzania	10.21	45th	Togo	10.71	45th	Tanzania	10,27	45th
Eritrea	7.12	46th	Sierra Leone	7.55	46th	DRC	8.17	46th	Sierra Leone	7,41	46th
Sierra Leone	6.61	47th	Eritrea	7.25	47th	Sierra Leone	8.07	47th	Eritrea	7,26	47th
DRC	6.56	48th	DRC	6.81	48th	Eritrea	7.41	48th	DRC	7,18	48th
Madagascar	6.34	49th	Madagascar	6.60	49th	Madagascar	6.91	49th	Madagascar	6,62	49th
Chad	5.29	50th	Chad	5.46	50th	Ethiopia	6.88	50th	Ethiopia	5,62	50th
Niger	4.69	51st	Ethiopia	5.37	51st	Chad	5.59	51st	Chad	5,45	51st
Ethiopia	4.62	52nd	Niger	5.04	52nd	Niger	5.43	52nd	Niger	5,05	52nd
Somalia	2.81	53rd	Somalia	2.79	53rd	Somalia	2.90	53rd	Somalia	2,84	53rd

STP: Sao Tomé and Principe. CAR: Central African Republic. DRC: Democratic Republic of Congo. Equat. Guinea: Equatorial Guinea.

Annex V: Impact of the Proposed Adjustments on the PBA Allocations of Countries under the two ADF-13 replenishment scenarios

Country Code	CPA Quintile (2013)	AIDI Quintile (2009- 2011 average)	Scenario 1 (UA 2,845 million)			Scenario 2 (UA 3,094 million)		
			Baseline	Simulation	Variation (UA million)	Baseline	Simulation	Variation (UA million)
NWC-1	4th	4th	5,00	5,00	0,00	5,00	5.00	0.00
NWC-2	3rd	2nd	28,27	26,37	-1,91	30,90	28.84	-2.07
NWC-3	4th	1st	5,00	5,00	0,00	5,00	5.00	0.00
NWC-4	1st	1st	0,47	0,35	-0,12	0,52	0.38	-0.13
NWC-5	4th	4th	4,85	5,14	0,29	5,50	5.82	0.31
NWC-6	3rd	3rd	13,74	13,83	0,08	15,01	15.10	0.09
NWC-7	4th	5th	55,38	63,35	7,97	60,11	68.74	8.63
NWC-8	1er	4th	17,27	18,89	1,62	19,78	21.54	1.76
NWC-9	2nd	2nd	45,03	45,00	-0,03	49,30	49.27	-0.03
NWC-10	5th	4th	5,00	5,00	0,00	5,00	5.00	0.00
NWC-11	2nd	4th	8,67	9,13	0,46	9,44	9.94	0.49
NWC-12	4th	1er	5,00	5,00	0,00	5,00	5.00	0.00
NWC-13	3rd	3rd	5,00	5,00	0,00	5,00	5.00	0.00
NWC-14	1st	1er	51,68	46,23	-5,44	56,85	50.94	-5.90
NWC-15	1st	4th	35,70	36,39	0,68	39,02	39.76	0.74
NWC-16	2nd	5th	30,34	39,92	9,58	33,03	43.42	10.38
NWC-17	1st	3rd	16,04	15,16	-0,87	18,03	17.08	-0.95
NWC-18	3rd	5th	6,33	7,68	1,35	7,00	8.46	1.46
NWC-19	1st	1st	28,99	26,07	-2,92	32,06	28.89	-3.16
NWC-20	4th	2nd	16,26	14,75	-1,51	17,90	16.27	-1.63
NWC-21	2nd	3rd	5,00	5,00	0,00	5,00	5.00	0.00
NWC-22	4th	5th	10,54	13,02	2,49	11,41	14.10	2.69
SE-1	1st	2nd	98,00	86,76	-11,24	106,21	94.02	-12.18
SE-2	5th	1st	5,00	5,00	0,00	5,00	5.00	0.00
SE-3	5th	3rd	17,03	17,58	0,55	18,45	19.04	0.59
SE-4	3rd	2nd	51,37	46,16	-5,21	56,53	50.88	-5.65
SE-5	5th	1er	5,00	5,00	0,00	5,00	5.00	0.00
SE-6	3rd	2nd	25,09	26,34	1,25	27,85	29.20	1.35
SE-7	3rd	1st	5,00	5,00	0,00	5,00	5.00	0.00
SE-8	1st	2nd	33,40	30,48	-2,92	36,32	33.15	-3.16
SE-9	2nd	5th	96,02	96,02	0,00	104,63	104.63	0.00
SE-10	2nd	4th	91,97	96,25	4,28	100,17	104.81	4.64
SE-11	3rd	2nd	23,52	22,33	-1,19	25,69	24.40	-1.29
SE-12	5th	5th	5,00	5,00	0,00	5,00	5.00	0.00
SE-13	5th	5th	5,00	5,00	0,00	5,00	5.00	0.00
SE-14	4th	3rd	11,01	10,72	-0,29	11,92	11.61	-0.31
SE-15	5th	4th	5,00	5,00	0,00	5,00	5.00	0.00
SE-16	5th	5th	9,04	11,93	2,89	10,29	13.43	3.13
SE-17	2nd	2nd	20,65	18,41	-2,24	22,65	20.22	-2.43
SE-18	2nd	3rd	5,00	5,00	0,00	5,00	5.00	0.00
TOTAL			**911.66**	**909.24**	**-2,42**	**991,57**	**988,94**	**-2,63**

Annex VI : Comparative Analysis of the PBA Formulas of the AsDF, CDB and IFAD Relative to that of the IDA

Institution	PBA Formula	Elements of differentiation in relation to the PBA formula of IDA
Asian Development Fund (AsDF)	$POP^{0.6} x\ GNIPC^{-0.25} xES\_CPIA^{1.4}\ x\ PORT^{0.6} x\ GOV^{2.0}$	The population factor has a lower exponent than IDA's; however, the GNIpc exponent is larger in absolute terms. The exponent used for the entire performance component is 2.5x lower than in IDA.
Caribbean Development Bank (CDB)	$LogPOP\ x\ POOR^{0.1} xGNPPC^{-0.9} x\ VUL^{2.0} x[0.7CPIA_{A-D} + 0.3PORT]^{2.0}$	The population factor is measured on a logarithmic scale. The income factor is GNP pc instead of GNI pc and it has a much greater weight. Furthermore, the needs component includes two other key elements: a variable on poverty and a factor that indicates the country's vulnerability. The latter is a key element for determining allocations since its exponent is as large as that of performance. In the performance component, the criteria of the CPIA (A through D) are not separated (differentiated). The exponent of the performance component is 2.5x lower than in IDA.
International Fund for Agricultural Development (IFAD)	$RuralPOP^{0.45} x\ GNIPC^{-0.25} x[0.2CPIA_{A-D} + 0.35PORT + 0.45RuralCPIA]^{2.0}$	The population factor is the rural population and its exponent is less than half of IDA's. The exponent on GNIpc is more strongly negative than IDA's. On the performance component, the exponent is 2.5x lower. CPIA criteria A through D are not separated (differentiated). However, the formula includes its own CPIA on rural issues. The weights (coefficients) of the rural CPIA and the portfolio performance factor are higher than the weight of the main CPIA.
International Development Association (IDA)	Current: $POP^{1.0} x\ GNIPC^{-0.125} x[0.24CPIA_{A-C} + 0.68CPIA_{D} + 0.08PORT]^{5.0}$ Proposed for IDA-17: $POP^{1.0} x\ GNIPC^{-0.125} x[0.24CPIA_{A-C} + 0.68CPIA_{D} + 0.08PORT]^{4.0}$	With an exponent of 5, the PBA allocations are mainly determined by the performance component, but this is proposed to be reduced to 4 for IDA-17. The weight of governance is also very high (68% of the CPA) as compared to other MDBs.

Variables: CPIA = Country Policy and Institutional Assessment; ES_CPIA = Economic and Social Performance Criteria in CPIA (for the AsDB); GOV = Average of the five criteria the "Public Sector Management" Cluster in the AsDB and IDA or Average of the five criteria in the "Public Sector Governance and Performance" Cluster in the ADF; GNIPC = Gross national income per capita; GNPPC = gross national product per capita; Log = logarithm; POOR = poverty variable (CDB); POP = Population; PORT = Portfolio rating; Rural CPIA = Performance rating for rural development policies and institutions (IFAD); VUL = Country vulnerability (CDB).