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FUND FOR SPECIAL OPERATIONS

PROPOSAL FOR THE ALLOCATION OF RESOURCES 2015-2016

DECEMBER 2014

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ABBREVIATIONS

CIPE	Country Institutional and Policy Evaluation
CPIA	Country Policy and Institutions Assessment
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
EPBA	Enhanced Performance-Based Allocation
FSO	Fund for Special Operations
IDA	International Development Association
IDB-9	Ninth General Increase in Resources of the Inter-American Development Bank
IFF	Intermediate Financing Facility
MDRI	Multilateral Debt Relief Initiative
NSG	Non-Sovereign Guaranteed Operations
OC	Ordinary Capital
PBL	Policy Based Loan
PI	Performance Index
PMR	Progress Monitoring Report
PPMR	Project Performance Monitoring Review
SGO	Sovereign Guaranteed Operations

I. INTRODUCTION

1.1 On February 21, 2007, the Board of Executive Directors (Board) approved document GN-2442 entitled "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 presents an enhanced performance-based allocation system for the distribution of Fund for Special Operations (FSO) resources, under a blended lending structure, based on the DSF/EPBA criteria. Under the DSF/EPBA, the overall allocation of concessional resources is determined by a combination of country needs and performance, which determines the FSO allocation (as per the EPBA); and the level of risk of debt distress, which defines the appropriate blend of Ordinary Capital (OC) resources (as per the DSF). As such, the DSF/EPBA links concessional resource allocation with absorption capacity, while preserving alignment with debt sustainability.

1.2 In 2010, the Board approved an update to the Country Institutional and Policy Evaluation (CIPE), one of the performance components used in the EPBA, by: (i) updating the variables and the questionnaire through the harmonization with the Country Policy and Institutions Assessment (CPIA) of the World Bank; and (ii) including quantitative indicators in the assessment. The updated CIPE was implemented in the 2011-2012 allocation cycle (document GN-2442-32). Section II summarizes previous revisions to the CIPE applicable to the 2015-2016 allocation cycle and presents the calculation of the portfolio performance indicator, the other performance component in the EPBA.

1.3 The purpose of this document is to submit for the consideration of the Board of Executive Directors Management's proposal for the allocation of concessional resources for the 2015-2016 period according to the DSF/EPBA methodology presented in document GN-2442[1].

II. PERFORMANCE COMPONENTS OF THE ENHANCED PERFORMANCE-BASED ALLOCATION

A. Enhanced Performance-Based Allocation

2.1 The EPBA formula for FSO resources has two components: (i) **needs and economic strength**, comprised of population and Gross National Income (GNI) per capita[2]; and (ii) **country performance**, estimated as the weighted average of portfolio performance (30%) and the quality of the country's institutional and policy framework (70%), as measured by the CIPE. Each of these variables in the allocation formula has a defined exponent for the calculation of the distribution coefficient as determined in document GN-2442[3].

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[1] Information on the utilization of FSO resources allocated for the 2013-2014 cycle will be included in the 2015 report on the implementation of the DSF/EPBA framework to be presented to the Board of Governors pursuant to Resolution AG-3/07.

[2] Data for population and GNI per capita is taken from the World Development Indicators, published by the World Bank.

[3] The performance-based allocation formulas for concessional resources in other multilateral development banks (MDBs) also comprise the same two components although each institution has a specific weight for each variable.

B. Country Institutional and Policy Evaluation

2.2 The criteria and methodology for calculating the CIPE were originally introduced in 2002 in the context of the first proposal for a Performance Based Allocation for FSO resources (documents GN-1856-31 and CC-5819). CIPE criteria or variables are grouped into four major policy clusters, each with a specific weight in the total CIPE score: 1) Economic Management (15%); 2) Structural Policies (20%); 3) Policies for Social Inclusion/Equity (35%); and 4) Public Sector Management and Institutions (30%). The weights attached to each policy cluster were approved by the Board.

2.3 The CIPE was reformed in 2010 (document GN-2442-32) and 2012 (GN-2442-42) in order: (i) to update the variables and the respective rating guide; (ii) to include quantitative indicators to increase objectivity in the assessment, as recommended by OVE (documents RE-279 and RE-376); and (iii) to harmonize methodologies with other MDBs[4]. The 2014 CIPE, to be applied to the 2015-2016 allocation cycle, remains the same as the 2012 CIPE, approved in GN-2422-42. Annex V presents the CIPE variables, and the selected quantitative indicators, as well as the basic procedures and rating guide to calculate the ratings for each variable and thus the overall CIPE score. Annex V also presents the CIPE scores, disaggregated at the level of the 16 variables.

2.4 **Disclosure of CIPE Scores**. As in 2012, and in accordance with the recommendations made by OVE, the score of all the 16 CIPE variables will be disclosed as part of the Proposal for the Allocation of Resources for the 2015-2016 cycle.

C. Portfolio Performance

2.5 Portfolio performance has been assessed on the basis of the percentage of undisbursed balances represented by projects classified as "on alert" and "problem". The criteria for classifying projects as "satisfactory" or "on alert" and "problem" have evolved over time. From 2009, the Bank began to implement the Progress Monitoring Report (PMR) as the monitoring tool for operations, replacing the Project Performance Monitoring Review (PPMR). Project performance in the PMR was measured by the Performance Index (PI), which used a quantitative approach to track the achievement of a project's outputs relative to its estimated time and cost parameters. The PI was used in order to classify projects as "problem", "alert" or "satisfactory".

2.6 As part of the recent GCI-9 evaluation[5], OVE reviewed the PMR methodology and found that, among other things, having the PI as the only indicator to determine project classification was limited and could create false positive cases. In view of this and other lessons learned, a review to the PMR and the respective proposal for adjustments was approved in December 2013 (the new PMR)[6]. The new PMR includes additional indicators, capturing different dimensions of projects' performance. Additionally, these

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[4] Since 2004 most MDBs harmonized with the World Bank's CPIA. Harmonization was recommended by an Independent Panel that reviewed the CPIA and found little value added in having similar, highly correlated methodologies among MDBs. The harmonization was also consistent with the Managing for Development Results Framework (MfDR) objective of minimizing duplication in multilateral assessment approaches.

[5] "Overview: Mid-term Evaluation of IDB-9 Commitments" (RE-425-4).

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

indicators will be measured at each stage of a project's life cycle, that is: (i) after Board approval and before reaching eligibility; (ii) between eligibility and up to 95% disbursement; and (iii) between 95% disbursement and project closure. A synthetic indicator (SI), reflecting a weighted average of the indicators used for rating the project's execution performance, serves as the basis of the project classification after the projects become eligible for disbursements. Time-elapsed indicators in the new PMR are measured against a country-specific benchmark (a historical average). For this reason, and in order to measure also for relative performance among countries, projects will be evaluated by comparing them against Bank-wide benchmarks as well.

2.7 As anticipated in document GN-2442-42, Management reviewed the thresholds traditionally used to measure time-elapsed indicators and updated them in line with improvements in project execution and the behavior of the portfolio (See Annex VI).

III. PROPOSED ALLOCATIONS OF FSO RESOURCES FOR 2015-2016

3.1 The allocation of FSO resources for the 2015-2016 period was calculated according to the Enhanced Performance-Based Allocation formula set forth in document GN-2442 and the performance components according to the updates described in Section II. Annex I summarizes the variables and application of the EPBA for the 2015-2016 exercise.

3.2 **C and D1 countries**. Eligibility for FSO funding to C and D1 countries is based on a per-capita income threshold, which can be revised to reflect changes in economic conditions[7]. Management proposes to update the eligibility threshold for FSO funding to take into account of inflation, applying the same criteria and methodology used in past cycles. The resulting lending eligibility threshold is calculated at US$2,579 in 2009 prices[8]. Since the estimated per capita GDP (average 2012-2013) for Paraguay (US$3,734) and for Guatemala (US$3,231) exceed the threshold, these two D1 countries would no longer be eligible for FSO lending (Annex II).[9] Guatemala and Paraguay will continue to qualify for receiving non-reimbursable technical cooperation through the Small and Vulnerable Countries Program, up until the end of 2015.[10]

3.3 **Total annual amount of FSO Financing**. Management proposes an annual allocation for the D2 countries (except Haiti) of US$277.6 million in FSO financing for the 2015-2016 allocation period. This amount reflects the demand analysis and approval levels discussed in the context of the Report on the Ninth General Increase in the Resources of the Inter-American Development Bank (GCI-9). Management also proposes that the

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7 "Report on the Eighth General Increase in the Resources of the Inter-American Development Bank" (AB-1683).

8 The original per capita GDP threshold of US$1,600 at 1988 prices was rebased to 2009 prices, since 2009 is the base year for the US GDP deflator in the IMF's World Economic Outlook.

9 Guatemala and Paraguay are the last two D1 countries to lose eligibility for concessional lending. The Dominican Republic and Jamaica lost access to the Intermediate Financing Facility in the 2004-2005 allocation and El Salvador, Ecuador and Suriname lost eligibility for blended FSO/OC loans in the 2009-2010 allocation.

10 Small and Vulnerable Countries Program (GN-2616-1).

US$30 million annually committed in the GCI-9 for Guatemala and Paraguay, which would be released for this allocation period, be used to preserve resources in the FSO.

3.4 **Carry-overs**. In 2011, the Board approved the elimination of the No-Carry-Over policy applicable to FSO resources within the biannual period, which allows countries to back-load or front-load resources within the allocation period in order to increase flexibility in the use of the resources (document GN-2442-34). Nonetheless, and in accordance with DSF/EPBA provisions, there will be no reallocations or carry-overs of FSO country specific allocations between allocation periods. Unused balances by the end of the biannual allocation period will be returned to the FSO pool for future allocations.

3.5 **Grant Element and Proposed Blends**. The appropriate grant element or degree of concessionality for Bolivia, Guyana, Nicaragua, and Honduras is derived from the risk of debt distress resulting from the DSF. These concessionality levels are achieved through a combination of OC loans and FSO loans, which have the following characteristics:

- FSO loans with a 40-year bullet repayment and a 0.25% lending rate.
- OC loans (i.e. 3-month LIBOR-based lending rate Single Currency Facility) with 30-year maturity and 5.5-year average grace period. The lending rate is automatically fixed at the prevailing market rate when the outstanding disbursed amount reaches 25% of the loan amount, or US$3 million, whichever is greater.

The level of concessionality embedded in the blended structure is presented in Annex III.

3.6 A summary of the main assumptions and results of the debt sustainably analysis according to the DSF methodology performed for Bolivia, Guyana, Honduras and Nicaragua is presented in Annex IV. The risk of debt distress for **Guyana** continues to be assessed as "moderate". Accordingly, for the 2015-2016 allocation, Management proposes to maintain the blend of FSO and OC resources approved for 2013-2014, namely a blend of 50% of FSO and 50% of OC resources for Guyana.

3.7 The **Government of the Plurinational State of Bolivia** has requested a change in the lending blend from 20% FSO and 80% OC to 15% FSO and 85% OC in 2016, in order to leverage more OC resources. In the debt sustainability analysis incorporating this change in blend, the risk of debt distress for Bolivia continues to be assessed as "low" (Annex IV). Accordingly, for the 2015-2016 allocation, Management proposes to maintain the blend of FSO and OC resources for 2015 (20% FSO and 80% OC) and then change to 15% FSO and 85% OC for 2016.

3.8 For **Nicaragua**, the risk of debt distress continues to be assessed as "moderate". Nevertheless, debt sustainability is stronger than at any time since 2007 and the risk of debt distress would have been assessed as "low" were it not for a threshold breach of one variable under one stress test. Since Nicaragua appears to be transitioning to a "low" risk of debt distress, Management proposes to change the blend of FSO and OC resources approved for Nicaragua from 50% of FSO/50% of OC to 40% of FSO/60% of OC for the 2015-2016 allocation.

3.9 For **Honduras**, the risk of debt distress is assessed as "moderate". This is the first time since 2007 that the risk of debt distress has not been assessed as "low". In order to prevent an abrupt shock in programming and given the new government's indications of

a change in fiscal policies, Management proposes to limit the change in the blend of FSO and OC resources approved for Honduras from 30% of FSO and 70% of OC to 40% of FSO and 60% of OC for the 2015-2016 allocation.

3.10 Tables 1 and 2 present the annual allocations for 2015 and 2016 according to the DSF/EPBA.

Table 1. Proposed Annual Allocations for 2015 (US$ million)

	Risk of Debt Distress (DSF)	Blend		DSF-EPBA 2015 Allocation		
		FSO	OC	FSO	OC	Total
Bolivia	Low	20%	80%	95.0	380.0	475.1
Guyana	Moderate	50%	50%	14.3	14.3	28.6
Honduras	Moderate	40%	60%	68.0	102.0	170.0
Nicaragua	Moderate	40%	60%	100.3	150.4	250.7
Total				277.6	646.7	924.3

Table 2. Proposed Annual Allocations for 2016 (US$ million)

	Risk of Debt Distress (DSF)	Blend		DSF-EPBA 2016 Allocation		
		FSO	OC	FSO	OC	Total
Bolivia	Low	15%	85%	95.0	538.4	633.4
Guyana	Moderate	50%	50%	14.3	14.3	28.6
Honduras	Moderate	40%	60%	68.0	102.0	170.0
Nicaragua	Moderate	40%	60%	100.3	150.4	250.7
Total				277.6	805.1	1,082.7

IV. RECOMMENDATION

4.1 Management recommends that the Board of Executive Directors approve: (a) the updated FSO portfolio performance indicator, as presented in Annex VI; (b) the updated eligibility threshold for C and D1 countries, as presented in paragraph 3.2 and Annex II; and (c) the allocation of FSO and OC resources among D2 countries (excluding Haiti) for the years 2015 and 2016, as presented in Tables 1 and 2 of this document.

ANNEX I

APPLICATION OF THE EPBA FOR FSO RESOURCES FOR 2015-2016

	Total Population 2013	GNI p/c (US$) 2013	Portfolio (1-6 Scale)	CIPE (1-6 Scale)	Population Exponent	GNI p/c Exponent	Performance Exponent	Allocation Number	Allocation Shares EPBA	Yearly FSO Allocations (US$ million)	Allocation per capita (US$)
					0.5	**-1**	**2**				
Bolivia	10,671,200	2,550	5.22	3.68	3,267	0.0004	17.14	21.96	34.2%	95.0	8.9
Guyana	799,613	3,750	4.71	3.30	894	0.0003	13.87	3.31	5.2%	14.3	17.9
Honduras	8,097,688	2,180	3.69	3.38	2,846	0.0005	12.04	15.71	24.5%	68.0	8.4
Nicaragua	6,080,478	1,780	5.60	3.44	2,466	0.0006	16.73	23.17	36.1%	100.3	16.5
Total D2 (w/o) Haiti	25,648,979				9,472	0.0017	59.77	64.15	100.0%	277.6	10.8

* Performance = (Portfolio(0.3)+CIPE(0.7))^2

Source: World Development Indicators (Sept 2014). Available online at http://data.worldbank.org/data-catalog/world-development-indicators.

ANNEX II

ELIGIBILITY STATUS FOR BLENDED LOANS TO C AND D COUNTRIES 1/

		GDP per capita Average 2012-13 Constant 2009 US$	Status
	Threshold (US$)	2,579	
Group C			
	The Bahamas	22,034	Not eligible
	Trinidad and Tobago	19,189	Not eligible
	Uruguay	14,823	Not eligible
	Barbados	14,449	Not eligible
	Panama	9,767	Not eligible
	Costa Rica	9,538	Not eligible
	Suriname	8,572	Not eligible
	Jamaica	4,945	Not eligible
Group D			
	D1		
	Ecuador	5,484	Not eligible
	Dominican Republic	5,482	Not eligible
	Belize	4,344	Not eligible
	Paraguay	3,734	Not eligible
	El Salvador	3,622	Not eligible
	Guatemala	3,231	Not eligible
	D2		
	Guyana	3,454	Eligible
	Bolivia	2,464	Eligible
	Honduras	2,200	Eligible
	Nicaragua	1,688	Eligible
	Haiti	754	Eligible

Source: VPC calculations based on IMF World Economic Outlook database, April 2014.

1 Eligibility of C and D1 countries to blended loans is determined by means of a per capita income threshold (document AB-1704). Bolivia, Guyana, Honduras and Nicaragua are eligible to blended loans to ensure long-term debt sustainability, following their participation in the Highly-Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) debt relief processes (AG-09/06).

ANNEX III

TABLE III.1: BLENDED STRUCTURE AND LEVEL OF CONCESSIONALITY

Blended Structure		Concessionality
FSO Portion	OC Portion	
100%	0%	81.5%
70%	30%	61.3%
50%	50%	47.9%
40%	60%	41.2%
35%	65%	37.9%
30%	70%	34.5%
25%	75%	31.1%
20%	80%	27.8%
15%	85%	24.4%
10%	90%	21.1%
0%	100%	14.4%

Notes:

1) Source: FIN. Concessionality calculated according to new IMF methodology, using a single uniform discount rate set at 5 percent.

2) FSO portion is a 40-year bullet repayment loan, with a 0.25% fixed lending rate.

3) OC portion is 30-year maturity and 5.5-year grace period loan, with 0.85% spread and 2.89% estimated fixed cost-base.

TABLE III.2: SENSITIVITY ANALYSIS FOR THE CONCESSIONALITY UNDER DIFFERENT COMBINATIONS OF LENDING BLENDS AND OC INTEREST RATES

Blended Structure		Concessionality under different fixed lending rates for the OC portion (fixed cost-base + OC spread)						
FSO Portion	**OC Portion**	**3.14%**	**3.34%**	**3.54%**	**3.74%**	**3.94%**	**4.14%**	**4.34%**
100%	0%	81.46%	81.46%	81.46%	81.46%	81.46%	81.46%	81.46%
70%	30%	63.32%	62.66%	62.00%	61.33%	60.67%	60.02%	59.36%
50%	50%	51.23%	50.12%	49.02%	47.92%	46.82%	45.72%	44.62%
45%	55%	48.20%	46.99%	45.78%	44.56%	43.35%	42.15%	40.94%
40%	60%	45.18%	43.85%	42.53%	41.21%	39.89%	38.57%	37.25%
35%	65%	42.15%	40.72%	39.29%	37.85%	36.42%	35.00%	33.57%
30%	70%	39.13%	37.58%	36.04%	34.50%	32.96%	31.42%	29.88%
25%	75%	36.11%	34.45%	32.80%	31.14%	29.49%	27.85%	26.20%
20%	80%	33.08%	31.32%	29.56%	27.79%	26.03%	24.28%	22.52%
15%	85%	30.06%	28.18%	26.31%	24.43%	22.56%	20.70%	18.83%
10%	90%	27.04%	25.05%	23.07%	21.08%	19.10%	17.13%	15.15%
0%	100%	20.99%	18.78%	16.58%	14.37%	12.17%	9.98%	7.78%

Notes:

1) Source: FIN and VPC. Concessionality calculated according to IMF methodology, using a single uniform discount rate set at 5 percent.

2) The grey area shows the different combinations of blended structures and lending rates at which the concessionality falls below 35%.

3) At the time of preparation of this document, the fixed lending rate was 3.74% (center column). For the period Sept-2011 to Jun-2014, the standard deviation of the fixed lending rates was 41 p.p. Therefore, as every column differs from the previous column by 20 p.p., the impact of a one standard deviation shock upwards (3.74 plus 0.41) on the level of concessionality can be seen two columns to the right (column 4.14%), for each blend combination.

ANNEX IV

DEBT SUSTAINABILITY ANALYSIS BY COUNTRY[11]

Per GN-2442, the IDB uses the IMF and World Bank (WB) **Debt Sustainability Framework (DSF)** for low income countries to monitor debt sustainability in the four D2 countries. In order to assess the risk of debt distress, the DSF relies on the use of indicative thresholds to benchmark external debt-burden indicators. The thresholds are established on the basis of policy and institutional performance measured by the WB Country Policy and Institutional Assessments (CPIAs). Per the average CPIA score for 2009-2012, Bolivia, Guyana, Honduras and Nicaragua are all classified as "medium policy performers", for which the policy-dependent indicative thresholds applied were as follows: (i) PV of Debt-to-GDP ratio 40 percent; (ii) PV of Debt-to-Exports ratio 150 percent; (iii) PV of Debt-to-Revenue ratio 250 percent; (iv) Debt Service-to-Exports ratio 20 percent; and (v) Debt Service-to-Revenue ratio 30 percent.[12]

Under the DSA template, a baseline projection is constructed, using official historical data and projections to the extent possible, and then the baseline is subjected to stress tests to assess the vulnerability to shocks.

The six standard shocks in the DSF are:

1. Real GDP growth at historical average minus one standard deviation in 2015-2016
2. Export value growth at historical average minus one standard deviation in 2015-2016
3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016
4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016
5. Combination of 1-4, using one-half standard deviation shocks
6. One-time 30 percent nominal depreciation relative to the baseline in 2015.

The two standard alternative scenarios in the DSF are:

1. Key variables at their historical averages in 2014-2034
2. New public sector loans on less favorable terms in 2014-2034

Depending on how the country's current and projected **external public debt indicators** compare with the thresholds under the baseline, alternative scenarios, and stress tests, a country is classified as:[13]

Low risk. All debt indicators are well below relevant country-specific debt-burden thresholds. Stress testing and country-specific alternative scenarios do not result in indicators significantly breaching thresholds.

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[11] The information related to country-specific debt sustainability analyses contained in this Annex will not be disclosed. This is in accordance with the "Deliberative Information" exception referred to in paragraph 4.1 (g) of the Bank's Access to Information Policy (GN-1831-28).

[12] In the case of Honduras, the DSA uses the DSF thresholds adjusted for the importance of remittances to the economy.

[13] World Bank and IMF (2010). "Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries", http://www.imf.org/external/np/pp/eng/2010/012210.pdf

Moderate risk. While the baseline scenario does not indicate a breach of thresholds, alternative scenarios or stress tests result in a significant rise in debt-service indicators over the projection period (nearing thresholds) or a breach of debt or debt-service thresholds.

High risk. The baseline scenario indicates a protracted breach of debt or debt-service thresholds but the country does currently not face any payment difficulties. This is exacerbated by the alternative scenarios or stress tests.

In debt distress. Current debt and debt-service ratios are in significant or sustained breach of thresholds. Actual or impending debt restructuring negotiations, or the existence of arrears would generally suggest that a country is in debt distress.

ANNEX V: 2014 CIPE

Policy Cluster	Variables	Indicator (Source)
A. Economic management 15%	1. Monetary and Exchange Rate Policies	
	2. Fiscal Policy	
	3. Debt Policy and Management	
B. Structural policies 20%	4. Trade	The logistic performance index (World Bank)
	5. Financial Sector	Financial Market Development Index [14] (World Economic Forum)
	6. Business Regulatory Environment	Starting a Business [50%] (World Bank)
		Regulatory Quality index [50%] (Worldwide Governance Indicators)[15]
	7. Policies and institutions for environmental sustainability	Environmental sustainability index (World Economic Forum)
C. Social inclusion/equity policies 35%	8. Gender equality, indigenous peoples and people of African descent	The Gender Inequality Index (UNDP)
	9. Equity of Public Resource Use	
	10. Building human resources	Health and primary education index [75%] (World Economic Forum)
		Higher education and training index [25%] (World Economic Forum)
	11. Social Protection and Labor	
D. Public sector management and institutions 30%	12. Property rights and rule-based governance	Rule of law indicator (Worldwide Governance Indicators)
	13. Quality of budgetary and financial management	
	14. Efficiency of revenue mobilization	
	15. Quality of public administration	Government effectiveness index (Worldwide Governance Indicators)
	16. Transparency, accountability and corruption in the public sector	Control of corruption index (Worldwide Governance Indicators)

- **Basic Procedures and 2014 Questionnaire (Link)**

[14] Previously called "The Financial Market Sophistication Index".

[15] The Worldwide Governance Indicators are produced by Kaufmann, Kraay and Mastruzzi

Country Institutional and Policy Evaluation 2014[16]

Policy Cluster and Weight	Variable	BOLIVIA Score	GUYANA Score	HONDURAS Score	NICARAGUA Score
A. Economic management (15%)	1. Monetary and Exchanges Rate Policies	5.00	3.50	3.50	4.00
	2. Fiscal Policy	4.50	3.00	3.00	4.00
	3. Debt Policy and Management	5.50	3.50	3.50	4.00
	Policy Cluster A Score	**5.00**	**3.33**	**3.33**	**4.00**
B. Structural policies (20%)	4. Trade	3.71	3.33	3.94	3.58
	5. Financial Sector	4.25	3.48	3.66	3.54
	6. Business Regulatory Environment	2.77	3.33	3.29	3.28
	7. Policies and institutions for environmental sustainability	3.32	3.45	3.50	3.70
	Policy Cluster B Score	**3.51**	**3.40**	**3.60**	**3.53**
C. Social inclusion/equity policies (35%)	8. Gender equality, indigenous peoples and people of African descent	3.78	3.45	3.58	3.55
	9. Equity of Public Resource Use	3.67	3.50	3.83	3.67
	10. Building human resources	3.36	3.86	3.76	3.77
	11. Social Protection and Labor	3.70	3.40	3.60	3.00
	Policy Cluster C Score	**3.63**	**3.55**	**3.69**	**3.50**
D. Public sector management and institutions (30%)	12. Property rights and rule-based governance	3.03	3.05	2.74	2.86
	13. Quality of budgetary, procurement and financial management	3.25	3.00	3.13	3.50
	14. Efficiency of revenue mobilization	4.25	3.50	3.25	4.00
	15. Quality of public administration	2.52	2.71	2.67	2.50
	16. Transparency, accountability and corruption in the public sector	2.87	2.39	2.61	2.38
	Policy Cluster D Score	**3.18**	**2.93**	**2.88**	**3.05**
	Total Score	**3.68**	**3.30**	**3.38**	**3.44**

[16] CIPE scores and underlying write-ups were prepared by CAN, CCB, CID, and CSC, in coordination with sector specialists, and SPD and RES provided comparative reviews and comments.

Annex VI: Portfolio Performance Indicator for 2015-2016

Portfolio Performance at December 31, 2013

Country	Undisbursed	Problem	On Alert	Total	On alert or Problem as % of ULB	1-6 Scale
BOLIVIA	890.5	0.0	138.8	138.8	15.6%	5.22
GUYANA	109.7	11.3	17.0	28.3	25.8%	4.71
HONDURAS	495.7	173.2	56.3	229.5	46.3%	3.69
NICARAGUA	451.1	0.0	36.2	36.2	8.0%	5.60
Total	1947.0	184.5	248.4	432.8	22.2%	

- **Cut-off date**: December 31st 2013, for consistency with the reporting cut-off date of the Progress Monitoring Report (PMR) cycle.

- The FSO portfolio performance indicator was derived from the percentage of undisbursed loan balances (ULB) represented by projects classified as “on alert” and “problem”.

- The classification of projects as “satisfactory”, “on alert” or “problem” follows the Bank’s corporate measure for project performance - the PMR. Since the past allocation exercise, the PMR has endured substantial methodological changes, which were incorporated in their totality, except that for the time-elapsed indicators, projects were classified by comparing them against Bank-wide benchmarks, along with country-specific benchmarks (which is the way they are currently classified in the new PMR) in order to measure also for relative performance among countries.

- Using a three-year average (2011-2013) of all the Bank SG loans, project beyond the 80th percentile were classified as “on alert” and projects beyond the 90th percentile (i.e. the slowest 10% of all Bank projects) were classified as “problem”:

Indicator	Alert percentile 80	Problem percentile 90
Time elapsed from approval to legal effectiveness (in months)		
In countries requiring ratification	>= 19	> 26
In countries not requiring ratification	>= 11	> 18
Time elapsed from legal effectiveness to eligibility (in months)	>= 11	> 18
Extensions of last disbursement expiration date (in months)*	> 17	> 28

* For this indicator, projects with more than 28 months but satisfactory PMR classify as "on alert"