LINKING IDA SUPPORT TO COUNTRY PERFORMANCE

Third Annual Report on IDA's Country Assessment and Allocation Process

International Development Association
April 2002

Acronyms and Abbreviations

ARPP	Annual Review on Portfolio Performance
CAS	Country Assistance Strategy
CPIA	Country Policy and Institutional Assessment
DRC	Democratic Republic of the Congo
ESW	Economic and Sector Work
GNI	Gross National Income
IDA	International Development Association
PBA	Performance-Based Allocation system
PCPA	Per Capita Per Annum
PR	IDA Country Performance Rating
PRSP	Poverty Reduction Strategy Paper
SDR	Special Drawing Right
TSS	Transitional Support Strategy

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Annexes

1. The Role of Resource Allocation in Increasing Aid Effectiveness

1. IDA has seen a marked improvement in the quality of its portfolio since the mid-90's[1]. Despite the growing complexity and more demanding nature of the development agenda, IDA's portfolio showed a sharp reduction in the projects at risk of not achieving their objectives. In the five years from FY96 to FY01, these fell from 28% to 13%[2]. This improvement can be attributed to a number of factors, including:

- *enhanced modalities of IDA's lending operations* by sharpening country focus, centered on CASs developed with broad participation; tightening social and environmental project standards; improving fiduciary performance through country assessments of financial management and project procurement and fiduciary safeguards; and increasing efforts to link country efforts to key global challenges; and, especially
- *a better targeting of resources on countries with good policies.* IDA's funding has become increasingly well-targeted by using its Performance-based Allocation (PBA) system. Recent research on aid effectiveness shows that a typical dollar of IDA flows leads to an increase in gross investment of nearly two dollars, including in good policy environments about 60 cents of foreign direct investment. As a result, the overall return—in terms of the income growth spurred by IDA—may be as high as 40 percent[3].

2. IDA's PBA system allocates its funds guided by its assessment of the quality of client countries' policies and institutions. This system has in fact become a standard setter for many multilateral and bilateral development agencies, even as the PBA system continues to incorporate new findings concerning its methodology and application. The partner agencies consult regularly with IDA on the latest methodological enhancements in its assessment system, as well as on the way this assessment is used in determining the country allocation.

3. IDA now reports annually on its PBA system's evolution and results. This is the third such report[4]. Section II presents the enhancements made in 2001 in the PBA system and the experience with implementing that system. Section III discusses the important role that IDA's PBA system will have to play as the development community focuses on aid effectiveness and measured outputs and outcomes in recipient countries.

2. Enhancing and Implementing IDA's Performance-Based Lending Framework

4. At the time of each triennial replenishment negotiation, IDA Deputies take stock of how well the system has performed and what enhancements ought be put in place. Thus the evolution of IDA's PBA system tends to advance in particular during the replenishment years. This was

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[1] As measured by the Bank's independent Operations Evaluation Department

[2] *Annual Report on Portfolio Performance* FY01, World Bank Quality Assurance Group, Dec.2001

[3] *The Role and Effectiveness of Development Assistance—Lessons from World Bank Experience,* World Bank, March 2002, p.xix

[4] *IDA Country Performance Rating Process – Annual Report 1999*—IDA/Sec 2000-58, February 10, 2000 was the first report; and *Linking IDA Support to Country Performance—Recent Experience and Emerging Issues*—IDA/SecM2001-0067, January 30, 2001 was the second report.

the case in 1998, at the time of the IDA12 negotiations, when a set of enhancements were implemented including, in particular, steps to stress good governance. The changes in the system emanating from the IDA13 replenishment negotiations are reviewed in this section. Section 2.1 provides the highlights of how the PBA system evolved during 2001. Sections 2.2-2.7 present more detail on the 2001 enhancements and implementation results of the system[5].

2.1 Highlights of the PBA System in 2001

5. Highlights of the PBA system's changes and results in 2001 are the following:

(i) the assessment process

- strengthened the Country Policy and Institutional Assessment (CPIA) process by providing specific definitions for all the rating levels of its 20 criteria (with indicators where possible)[6], and requiring a written explanation for the criteria ratings;
- corrected for an upward bias in the portfolio rating; and
- provided incentives for good governance across the full spectrum of performance by replacing the governance discount by the governance factor. This eliminated a discontinuity in the assessment process and resulted in greater dispersion in the performance ratings[7].

(ii) the allocation process:

- eliminated the discontinuity in the allocation formula by applying the same exponent to the performance score across the whole performance range;
- provided more explicit guidance on the increase of the high case over the base case envelope, reflecting improved performance as high-case triggers are met;
- developed a systematic methodology to guide IDA's funding response in post-conflict countries. The eligibility of Afghanistan, DRC, and Burundi for post-conflict allocations represented practical applications during 2001.
- increased the dispersion of country allocations. In 2001 the average allocation to countries in the top quintile was 4.7 times that of countries in the bottom quintile (this compares to a factor of 4.0 in 2000).

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[5] For an overview of IDA's current PBA system, including the enhancements agreed in the context of the IDA13 negotiations, see http://www.worldbank.org/ida/IDAPerfalJan02.pdf

[6] See Annex 1

[7] In 2001 the average IDA Performance Rating of countries in the top quintile was 2.7 times that of countries in the bottom quintile (this compares to a factor of 2.1 in 2000).

2.2 Country Policy and Institutional Assessment

6. *CPIA Questionnaire*[8]. During the spring of 2001, the CPIA criteria (see Annex 1) and their definitions were subjected to a thorough review. This resulted in a number of enhancements[9] including:

- the criteria were sharpened, especially with respect to public expenditures, financial management and procurement practices (criteria # 8,12 and 17);
- the question of crowding out development expenditures with nonproductive expenditures was incorporated in public expenditure reviews (criterion # 12);
- the alignment between the CPIA and the PRSP process was strengthened (criteria # 4,12, and 17); and
- definitions were provided for each rating level (increasing the objectivity of the exercise), while also making sure that those for high ratings were realistic.

7. *CPIA 2001 Ratings*. Box 1 presents by quintiles the *overall 2001 CPIA ratings* for the rated IDA countries. The population-weighted average CPIA score was 3.40, practically unchanged from the average score in 2000 of 3.42, while the ratio of the average ratings of the top and bottom quintiles increased from 1.51 in 2000 to 1.71 in 2001. See Annex 2 for the quintile-based information for each of the four CPIA clusters: Economic Management; Structural Policies; Policies for Social Inclusion/Equity; and Public Sector Management and Institutions.

Box 1 - 2001 Country Policy and Institutional Assessment (CPIA)	
First Quintile	Albania, Armenia, Bhutan, Cape Verde, Grenada, India, Maldives, Mauritania, Samoa, Senegal, Sri Lanka, St. Lucia, St. Vincent and the Grenadines, Tanzania, Uganda
Second Quintile	Benin, Bosnia and Herzegovina, Burkina Faso, Dominica, Ghana, Honduras, Lesotho, Madagascar, Malawi, Mozambique, Nepal, Rwanda, Pakistan, Vietnam, Zambia
Third Quintile	Azerbaijan, Bangladesh, Bolivia, Eritrea, Ethiopia, Georgia, Guyana, Indonesia, Kenya, Kirgyz Republic, Moldova, Mongolia, Nicaragua, The Gambia, Former Republic of Yugoslavia
Fourth Quintile	Cambodia, Cameroon, Chad, Comoros, Republic of Congo, Cote d'Ivoire, Djibouti, Guinea, Kiribati, Mali, Niger, Nigeria, Tonga, Vanuatu, Republic of Yemen
Fifth Quintile	Angola, Burundi, Central African Republic, Democratic Republic of Congo, Guinea-Bissau, Haiti, Lao PDR, Sao Tome and Principe, Sierra Leone, Solomon Islands, Sudan, Tajikistan, Togo, Uzbekistan, Zimbabwe
Countries not rated in CPIA 2001 exercise: Afghanistan, Liberia, Myanmar, Somalia	

[8] For the complete 2001 CPIA questionnaire, see http://www.worldbank.org/ida/cpiaq2001.pdf

[9] For a detailed summary see the IDA13 background paper *Status Report of the World Bank Working Group on CPIA 2001*, World Bank, May 17, 2001.

2.3 Annual Report on Portfolio Performance

8. To assess the environment for effective funding, IDA takes into account not only the CPIA but also its actual project experience as captured by the Annual Report on Portfolio Performance (ARPP), giving a weight of 80% to the country's CPIA rating and 20% to its ARPP score. In the past, the ARPP scores tended to be high compared to the CPIA scores, giving the ARPP an effective weight in excess of 20%. Steps were taken in 2001 to correct for this upward bias in the ARPP scores:

- Young portfolios tend to score high because problems take time to surface. This effect is now mitigated by applying a typical deterioration factor to young portfolios; and
- The scale to convert the ARPP ratings into the 1-6 scale tended to give countries higher scores on their portfolios than on the CPIA. This conversion scale has been recalibrated to bring the ARPP scores more in line with those of the CPIA.

These changes will tend to reduce the upticks in the ratings after failing projects have been cancelled. For more details on these enhancements, see Annex 3. For the quintile-based results of the 2001 ARPP ratings, see Annex 2 .

2.4 From Governance Discount to Governance Factor

9. At the beginning of IDA12 (FY00), the governance discount was introduced to emphasize the importance of good governance in the PBA system[10]. Since then, some drawbacks have surfaced, including upward pressures on the ratings at the cut-off point and a perceived punitive bias. To address these concerns, the governance discount was replaced by a *"governance factor."* The latter is derived from the country's average governance rating, which is based on the same seven governance criteria on which the governance discount mechanism was based: criteria #4 and 16-20 of the CPIA[11], and the ARPP's procurement criterion. Steps are under way to replace the procurement criterion which focuses on the speed of procurement with one that tracks the *quality* of the procurement process.

10. The governance factor is calculated by dividing the average governance rating by 3.5, and applying an exponent of 1.5 to this ratio:

$$\text{governance factor} = (\text{governance rating} / 3.5)^{1.5}$$

The country's overall rating is multiplied by this factor, resulting in an increase or decrease of the rating, depending on the degree to which the country's governance rating is satisfactory (above 3.5) or unsatisfactory (below 3.5). In this way, a country that scores above the mid-point on the governance-related criteria will receive a premium, and a country that scores below the mid-point on governance will receive a discount. The design of the governance factor ensures a special focus on governance for IDA countries at *all* levels of governance performance. Experience with this new governance mechanism will be examined at the mid-term review of IDA13.

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[10] If a country scored poorly on at least 3 out of these 7 criteria, a discount of 1/3 was applied to the overall IDA rating.

[11] See Annex 1

11. The average scores on governance show a wide range of results. On the weak end of the spectrum, thirteen out of seventy-five active IDA countries[12] scored at least 25% below 3.5 (the midpoint of the 1-6 range): Angola, Cameroon, Central African Republic, Democratic Republic of the Congo, Guinea Bissau, Haiti, Republic of the Congo, Solomon Islands, Sudan, Tajikistan, Togo, Uzbekistan, and Zimbabwe.

2.5 IDA Country Performance Assessment

12. Combining the CPIA and ARPP scores and applying the governance factor gives the overall IDA Country Performance Rating. The quintile results for these ratings are presented in Box 2.

Box 2 - 2001 IDA Country Performance Ratings	
First Quintile	Benin, Bhutan, Cape Verde, Grenada, Honduras, India, Maldives, Mauritania, Rwanda, Samoa, Sri Lanka, St. Lucia, St. Vincent and the Grenadines, Tanzania, Uganda
Second Quintile	Albania, Armenia, Bosnia and Herzegovina, Burkina Faso, Dominica, Ghana, Madagascar, Malawi, Moldova, Mongolia, Mozambique, Nepal, Pakistan, Senegal, Vanuatu
Third Quintile	Eritrea, Ethiopia, Georgia, Guinea, Guyana, Indonesia,, Kenya, Kirgyz Rep, Lesotho, Mali, Nicaragua, Niger, Vietnam, Former Republic of Yugoslavia, Zambia
Fourth Quintile	Azerbaijan, Bangladesh, Bolivia, Cambodia, Chad, Comoros, Cote d'Ivoire, Kiribati, Lao PDR, Nigeria, Sao Tome and Principe, Sierra Leone, The Gambia, Tonga, Republic of Yemen
Fifth Quintile	Angola, Burundi, Central African Republic, Cameroon, Democratic Republic of Congo, Republic of Congo, Djibouti, Guinea-Bissau, Haiti, Solomon Islands, Sudan, Tajikistan, Togo, Uzbekistan, Zimbabwe
Countries not rated in CPIA 2001 exercise: Afghanistan, Liberia, Myanmar, Somalia	

13. The population-weighted average ratings for the five quintiles are provided in Box 3. A comparison between 2001 and 2000 shows the effect of correcting for the upward bias of the ARPP score and of introducing the governance factor (which reduces the ratings of not only the very weak governance countries—as under the governance discount—but also of the moderately weak ones). While the average CPIA score remained in essence unchanged (see para 10), the overall IDA Country Performance Rating fell by about half a point, from 3.46 to 2.94. As expected, the 2001 average quintile ratings show a greater dispersion, with the ratio of the score for the first and fifth quintile increasing by 26% from 2.13 to 2.69.

[12] Afghanistan, Liberia, Myanmar, and Somalia were inactive and not rated in 2001.

Box 3 - IDA Performance Ratings 2000-2001 by Performance Quintile		
Performance Quintile	Population Weighted Average Rating	
	2000 a/	2001 b/
First	4.06	4.12
Second	3.77	3.47
Third	3.57	3.04
Fourth	3.26	2.65
Fifth	1.91	1.53
Overall	**3.46**	**2.94**
Ratio 1st/5th Quintile	**2.13**	**2.69**

a/ Includes 62 countries
b/ Includes 60 countries (for the list of 20 excluded countries,see Box 4)

14. Guidelines have been issued to IDA Country Directors to ensure that they share and discuss the CPIA and IDA Performance Ratings with their clients, with a view towards enriching the country dialogue and improving the focus and effectiveness of the IDA-funded program.

2.6 Allocating IDA Resources According to Performance

15. *Actual Lending and Performance in FY99-01.* Box 4 shows the *actual* per capita lending for FY99-01 per performance quintile for 60 active IDA borrowers. The typical lending to countries in the first quintile is shown to be over three times that to those in the fifth quintile.

Box 4 - FY99-01 Actual IDA Lending by IDA Performance Quintile a/			
Performance Quintile	Number of Countries	Population Weighted	
		Average Rating	Average Allocation PCPA (US$)b/
First	12	4.00	10.6
Second	12	3.61	6.2
Third	12	3.34	6.1
Fourth	12	3.16	4.4
Fifth	12	2.07	3.4
Overall	**60**	**3.33**	**6.0**
Ratio 1st/5th Quintile			**3.1**

a/ Excludes: (i) Inactive countries: Afghanistan, Congo DR, Liberia, Myanmar, Somalia, and Sudan;
(ii) Eligible post-conflict countries: Congo Rep., Eritrea, Guinea-Bissau, Sierra Leone, and Bosnia-Herzegovina;
(iii) Blend countries with allocations fixed below the norm: China, Nigeria, Indonesia, India and Pakistan;
(iv) Countries with no actual lending: Haiti, Kiribati, Tonga, St Vincent.

b/ SDR 1 = $1.26502

16. *The IDA Allocation Formula in 2001.* In order to increase the difference in allocation between high and low performers in IDA12, the performance exponent in the allocation formula was set at 1.75 below the 3.0 performance level and 2.0 above that level. However, this created a significant discontinuity. To eliminate this discontinuity, in 2001, the exponent on the performance rating was set at 2.0 throughout the range[13].

17. *Post-Conflict Allocations.* Assisting post-conflict countries as they begin the process of recovery from violent and protracted conflict poses a special challenge for IDA. The effectiveness of IDA's response in these cases depends on ensuring the right timing, volume and composition of assistance. In 2001 a new methodology was developed to guide IDA's support to these countries as they emerge from conflict. It focuses on adapted performance measures to set the special allocations for which countries may be eligible for a limited period of time, recognizing the need for judgment to take account of the complexities and heterogeneity of post-conflict situations[14].

18. *Linking Lending Envelopes and Triggers to Country Performance.* A major objective of the CAS is to further align IDA lending with country performance to ensure even greater effectiveness in the use of IDA resources.

- In the case of *new CASs* (typically prepared once every three years), the base-case lending scenario will reflect the performance-based lending allocation. The preparation of the CAS involves intensive analysis and discussion which leads to lending scenarios and triggers which are tailored to the specific country circumstances. CPIA results will be used to inform the triggers for the base- and high-case lending scenarios. The high-case lending envelope will be set to reflect the allocation that would result if high-case triggers are met. Based on experience with ratings changes, the high case for a country with a performance rating of 3.0 could be expected to be a maximum of 35% above the base case, although in most instances this would require extremely ambitious performance triggers[15]. In addition to reaching policy performance targets, high-case scenarios should be defined on the basis of a credible lending plan and absorptive capacity.

- In the case of *CASs under implementation,* the IDA allocation levels tend to mirror the lending scenarios set out in the CAS as long as the CAS triggers are appropriately aligned with the weaknesses observed in the CPIA. In that case, country performance improvements will remain within the bounds of the base- and high-case scenarios. If such large changes have occurred that the triggers no longer align with the country's key weaknesses, then a new CAS or CAS Progress Report will be prepared with revised lending scenarios and triggers.

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[13] The allocation formula is now simplified to: Allocation/Cap. = f ($PR^{2.0}$, $GNI/Cap.^{-0.125}$)

[14] For a detailed description of this approach see http://www.worldbank.org/ida/Post-Conflict%20Allocations.pdf

[15] For weaker performers with constrained allocations, a significant improvement in performance could provide the opportunity for a substantially increased allocation, which would be reflected in a high case scenario. For stronger performers, the same performance improvement would translate into less of an increase in the high case.

2.7 IDA Allocation FY03-05

19. The IDA allocation exercise for FY03-05 was initiated in December 2001 and concluded in March 2002. Its launch was delayed by three months in order to coincide with the expected conclusion of the IDA13 replenishment negotiations, so that it might be undertaken with the committed IDA13 envelope. When in December it became clear that the negotiations would extend into 2002, it was decided to initiate the allocation exercise using the IDA13 new lending figure of SDR17.6 billion (plus SDR 500 million for HIPC-related lending, for a total replenishment of SDR 18.1 billion). In the end, the FY03-05 IDA allocations totaled SDR 18.6 billion, or 5.5% above the target replenishment amount of SDR 17.6 billion. The figure is higher than the usual 3% of over-programming mainly due to: (i) the extra allocations for Afghanistan and Pakistan[16], and (ii) the reactivation of lending activities in DRC and Cote d'Ivoire. The Africa region strategy continues to be centered on a dozen well performing countries, and its allocation amounts to SDR 9.25 billion, or 50.0% of the total allocation.

20. *Capped Blend Countries*. The allocations of four large blend countries were fixed at a level below what would be the norm if they were IDA-only borrowers:

- *Nigeria's* allocation was set at SDR 836 million, consistent with the approved CAS base case.
- *India's* allocation was capped at SDR 2.0 billion, as in previous years.
- *Pakistan*'s base case CAS allocation was increased from SDR 0.7 billion to SDR1.0 billion in view of the post-September 11 impact as well as the country's strengthening performance.
- *Indonesia's* allocation was set at its base case level of SDR 315 million.

For three other blend countries the allocations were fixed in line with amounts agreed in current CAS/TSS country strategies:

- *Yugoslavia's* allocation was set at SDR 280 million in line with the approved TSS.
- *Uzbekistan's* allocation was set at SDR 59 million in line with the approved CAS.
- *Bolivia's* allocation was set at SDR 91 million in line with its agreed plan for graduation from IDA by the end of IDA13 (FY05).

21. *Post Conflict Countries*. Special allocations continue to be given to four eligible post-conflict countries: Congo Republic, Eritrea, Guinea Bissau, and Sierra Leone. They are scheduled to return to regular allocations by FY04 (Guinea Bissau), FY05 (Congo Republic and Sierra Leone), and FY06 (Eritrea). Afghanistan, Burundi and DRC have become newly eligible for post-conflict allocations. East Timor is expected to become eligible for a post-conflict allocation once it becomes a member of the World Bank.

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[16] In the context of the aftermath of September 11th, the IDA Deputies have agreed to take another look at the IDA13 funding requirement at the time of the IDA13 mid-term review, planned for late 2003.

22. Box 5 summarizes the results of the 2001 IDA Allocations for FY03-05 for 60 of the 79 eligible IDA countries (it excludes the 19 IDA countries which do not receive regular allocations: eight eligible post-conflict countries; seven blend countries; and four inactive countries). The population-weighted average per capita per annum (PCPA) allocation shows a substantial range: from US$2.6 for the fifth quintile to US$12.3—or 4.7 times as much—for the first quintile. This ratio of the allocations to the top and bottom performance quintiles was 4.0 in the FY02-04 exercise.

Box 5 - FY03-05 Lending Strategy Review by IDA Performance Quintile [a/]

Performance Quintile	Number of Countries	Population Weighted	
		Average Rating	Average Allocation PCPA (US$)b/
First	12	4.12	12.3
Second	12	3.47	9.2
Third	12	3.04	7.3
Fourth	12	2.65	4.7
Fifth	12	1.53	2.6
Overall	**60**	**2.94**	**6.9**
Ratio 1st/5th Quintile			**4.7**

a/ Excludes:
(i) Inactive countries: Liberia, Myanmar, Sudan and Somalia;
(ii) Post-conflict countries: Afghanistan, Burundi, Congo DR, Congo Rep., Eritrea, Guinea-Bissau, Sierra Leone, and Bosnia-Herzegovina;
(iii) Blend countries with fixed allocations: Nigeria, Indonesia, India, Pakistan, Uzbekistan, Yugoslavia, and Bolivia

b/ SDR 1 = $1.26502

2.8 Ongoing Evolution of IDA's PBA System

23. As enhancements are put in place, a number of issues remain outstanding and new challenges emerge. Two issues have been identified by IDA Deputies as meriting an assessment at the time of the IDA13 mid-term review: (i) the operational impact of the weight of poverty in the country—measured by GNI/cap—in the allocation equation (in the current equation its weight is 1/16th that of performance); and (ii) the impact of allocation caps and targets on IDA's ability to raise the maximum number of people out of poverty. A particular challenge is how to steer the evolution and use of the PBA system so that it most effectively supports the drive towards measurable outcomes. This is discussed further in Section III.

3. Work in Progress: Assuring Stronger Linkage between Performance-based Lending and Results on the Ground

24. In recent years, IDA's PBA system has made major strides forward. Its country policy and portfolio assessment processes have been sharpened. Particular emphasis has been placed on the quality of governance in assessing performance. Tighter linkages are being achieved between performance and resource allocations, and the assessments and resulting allocations are increasingly being integrated in the country dialogue.

25. Work is currently underway to further link policy performance and resource allocation with results on the ground.[17] Management has launched an initiative to put in place a comprehensive system to measure, monitor and manage for development results. The system will tie into initiatives currently underway and will be aligned with measurement systems being established by IDA's borrowers under their PRSPs. Efforts are also underway to ensure that this approach has wide acceptance and is coordinated with other actions being taken in the donor community. A technical meeting with IDA donors took place earlier this month (April 18, 2002) to discuss performance measurement and tracking for IDA. In June 2002, a roundtable is planned in which the World Bank and its Regional Development Bank partners will work on a joint approach to operationalize results-based management. These consultations with partners are intended to lead to an outcomes-based approach that is broad based and coordinated.

26. As the work on results-based management progresses, there will undoubtedly be operational implications for the PBA system itself. In particular, as the Bank gains further insight into how results are shaped by inputs and policies, these factors should increasingly be incorporated into the CPIA assessment process itself. Over time, with this dynamic feedback between results and policy inputs, the CPIA process will become further enriched. This feedback should further strengthen the capacity of IDA's performance allocation system to predict an environment that uses development resources effectively.

[17] It should be noted that with its 20% weight for the portfolio results, the PBA system already incorporates in some measure actual results on the ground (the outcomes of the IDA-funded projects in the country).

ANNEX 1

COUNTRY POLICY AND INSTITUTIONAL ASSESSMENT CRITERIA 2001

A. Economic Management
   1. Management of Inflation and Macroeconomic Imbalances
   2. Fiscal Policy
   3. Management of External Debt
   4. Management and Sustainability of the Development Program

B. Structural Policies
   5. Trade Policy and Foreign Exchange Regime
   6 Financial Stability and Depth
   7 Banking Sector Efficiency and Resource Mobilization
   8. Competitive Environment for the Private Sector
   9. Factor and Product Markets
   10. Policies and Institutions for Environmental Sustainability

C. Policies for Social Inclusion/Equity
   11. Gender
   12. Equity of Public Resource Use
   13. Building Human Resources
   14. Social Protection and Labor
   15. Monitoring and Analysis of Poverty Outcomes and Impacts

D. Public Sector Management and Institutions
   16. Property Rights and Rule-based Governance
   17. Quality of Budgetary and Financial Management
   18. Efficiency of Revenue Mobilization
   19. Quality of Public Administration
   20. Transparency, Accountability and Corruption in the Public Sector

ANNEX 2

CPIA 2001 CLUSTERS AND PORTFOLIO: QUINTILE-BASED RESULTS

2001 Country Policy and Institutional Assessments*
Cluster A - Economic Management

First Quintile	Albania, Azerbaijan, Bhutan, Grenada, India, Maldives, Mauritania, Nepal, Samoa, Senegal, St. Lucia, St. Vincent and the Grenadines, Tanzania, Uganda, Vietnam.
Second Quintile	Armenia, Benin, Bolivia, Bosnia & Herzegovina, Burkina Faso, Chad, Guyana, Honduras, Kiribati, Lesotho, Mozambique, Pakistan, Rwanda, Sri Lanka, Republic of Yemen.
Third Quintile	Bangladesh, Cambodia, Cameroon, Cape Verde, The Gambia, Georgia, Guinea, Indonesia, Kenya, Madagascar, Malawi, Mali, Moldova, Niger, Zambia.
Fourth Quintile	Republic of Congo, Eritrea, Ethiopia, Ghana, Guinea-Bissau, Kyrgyz Republic, Lao PDR, Mongolia, Nicaragua, Nigeria, Sao Tome and Principe, Tajikistan, Tonga, Vanuatu, Former Republic of Yugoslavia.
Fifth Quintile	Angola, Burundi, Central African Republic, Comoros, Democratic Republic of Congo, Cote d'Ivoire, Djibouti, Dominica, Haiti, Sierra Leone, Solomon Islands, Sudan, Togo, Uzbekistan, Zimbabwe.

* Quintiles exclude not rated countries: Afghanistan, Liberia, Myanmar, and Somalia.

2001 Country Policy and Institutional Assessments*
Cluster B - Structural Policies

First Quintile	Albania, Armenia, Cape Verde, Cote d'Ivoire, Dominica, Grenada, Honduras, Maldives, Mauritania, Samoa, Senegal, Sri Lanka, St. Lucia, St. Vincent and the Grenadines, Uganda.
Second Quintile	Benin, Bhutan, Bolivia, Bosnia & Herzegovina, Cameroon, The Gambia, Georgia, Ghana, India, Madagascar, Moldova, Nicaragua, Pakistan, Tanzania, Zambia.
Third Quintile	Azerbaijan, Bangladesh, Burkina Faso, Djibouti, Eritrea, Guinea, Guyana, Indonesia, Kenya, Lesotho, Malawi, Mali, Nepal, Rwanda, Vanuatu
Fourth Quintile	Cambodia, Central African Republic, Chad, Ethiopia, Kyrgyz Republic, Mongolia, Mozambique, Niger, Nigeria, Republic of Congo, Togo, Tonga, Vietnam, Republic of Yemen, Former Republic of Yugoslavia.
Fifth Quintile	Angola, Burundi, Comoros, Democratic Republic of Congo, Guinea-Bissau, Haiti, Kiribati, Lao PDR, Sao Tome and Principe, Sierra Leone, Solomon Islands, Sudan, Tajikistan, Uzbekistan, Zimbabwe.

* Quintiles exclude not rated countries: Afghanistan, Liberia, Myanmar, and Somalia.

2001 Country Policy and Institutional Assessments*
Cluster C - Policies for Social Inclusion/Equity

First Quintile	Armenia, Bangladesh, Bhutan, Cape Verde, Georgia, Ghana, Grenada, Kyrgyz Republic, Maldives, Mauritania, Sri Lanka, St. Lucia, St. Vincent and the Grenadines, Uganda, Vietnam.
Second Quintile	Albania, Bosnia & Herzegovina, Burkina Faso, Dominica, Eritrea, Ethiopia, Honduras, India, Indonesia, Malawi, Moldova, Nicaragua, Senegal, Tanzania, Zambia.
Third Quintile	Azerbaijan, Bolivia, The Gambia, Guinea, Guyana, Kenya, Madagascar, Mali, Mongolia, Mozambique, Nepal, Rwanda, Samoa, Tonga, Former Republlic of Yugoslavia.
Fourth Quintile	Benin, Cambodia, Chad, Cote d'Ivoire, Kiribati, Lao PDR, Lesotho, Niger, Nigeria, Pakistan, Tajikistan, Uzbekistan, Vanuatu, Republic of Yemen, Zimbabwe.
Fifth Quintile	Angola, Burundi, Cameroon, Central African Republic, Comoros, Democratic Republic of Congo, Djibouti, Guinea-Bissau, Haiti, Republic of Congo, Sao Tome and Principe, Solomon Islands, Sudan, Togo.

* Quintiles exclude not rated countries: Afghanistan, Liberia, Myanmar, and Somalia.

2001 Country Policy and Institutional Assessments*
Cluster D - Public Sector Management and Institutions

First Quintile	Benin, Bhutan, Burkina Faso, Cape Verde, Dominica, Eritrea, Grenada, India, Maldives, Rwanda, Samoa, Sri Lanka, St. Lucia, St. Vincent and the Grenadines, Tanzania.
Second Quintile	Albania, Ethiopia, Ghana, Honduras, Lesotho, Malawi, Mauritania, Mozambique, Nepal, Pakistan, Senegal, Uganda, Vanuatu, Former Republic of Yugoslavia, Zambia.
Third Quintile	Armenia, Bangladesh, Bolivia, Bosnia & Herzegovina, Cote d'Ivoire, Guyana, Indonesia, Kenya, Kiribati, Madagascar, Mali, Mongolia, Sao Tome & Principe, Tonga, Vietnam
Fourth Quintile	Azerbaijan, Cambodia, Comoros, Republic of Congo, Djibouti, The Gambia, Georgia, Guinea, Kyrgyz Republic, Lao PDR, Moldova, Nicaragua, Niger, Nigeria, Republic of Yemen, Zimbabwe.
Fifth Quintile	Angola, Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Guinea-Bissau, Haiti, Sierra Leone, Solomon Islands, Sudan, Tajikistan, Togo, Uzbekistan.

* Quintiles exclude not rated countries: Afghanistan, Liberia, Myanmar, and Somalia.

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First Quintile	Angola, Armenia, Benin, Bhutan, Bosnia & Herzegovina, Burundi, Cape Verde, Central African Republic, Comoros, The Gambia, Georgia, Ghana, Guinea.
Second Quintile	Guinea-Bissau, Haiti, Honduras, Kyrgyz Republic, Lao PDR, Madagascar, Maldives, Mali, Moldova, Mongolia, Nicaragua, Niger, Nigeria.
Third Quintile	Albania, Azerbaijan, Cambodia, India, Mauritania, Rwanda, Samoa, Sao Tome & Principe, Sierra Leone, Solomon Islands, Tanzania, Uganda, Vanuatu.
Fourth Quintile	Bangladesh, Burkina Faso, Chad, Eritrea, Ethiopia, Kenya, Mozambique, Nepal, Pakistan, Republic of Yemen, Senegal, Tajikistan, Zambia.
Fifth Quintile	Bolivia, Cameroon, Cote d'Ivoire, Djibouti, Dominica, Grenada, Guyana, Indonesia, Lesotho, Malawi, Sri Lanka, St. Lucia, Togo, Vietnam, Zimbabwe.
Not Rated	Afghanistan, Democratic Republic of Congo, Kiribati, Liberia, Myanmar, Republic of Congo, Somalia, St Vincent and the Grenadines, Sudan, . Tonga, Uzbekistan, Former Republic of Yugoslavia.

ANNEX 3

Rating Portfolio Implementation

1. The IDA country rating gives a 20% weighting to the ARPP and 80% to the CPIA. As mentioned above (Para 9), two amendments have been put in place to correct for the upward bias in the ARPP portion of the rating. First, the upward bias inherent to young portfolios has been mitigated by applying a deterioration factor. Based on historical IDA portfolio experience, the percentage of projects at risk in young portfolios tends to be lower than the average for all IDA borrowers[18]. Second, the conversion of the projects-at-risk scores into the 1-6 scale has been revised to make it more consistent with the approach used for the CPIA ratings. Box 1 shows the conversion scale that was used during IDA12.

Box 1 – Projects at Risk

IDA12 Conversion Table

% Projects at Risk	Rating
0% for 3 or more years	6.0
0%	5.5
0-10%	5.0
10-15%	4.5
15-25%	4.0
25-35%	3.5
35-40%	3.0
40-45%	2.5
45-70%	2.0
70-100%	1.5
100% for 3 or more years	1.0

2. The ARPP rating procedure differed from that used for the CPIA in two respects: (i) there was a possibility to score 5.5 or 1.5, which is precluded for the CPIA criteria; and (ii) there was an overall tendency for countries to score higher on the ARPP than on the CPIA. The resulting upward bias in ARPP ratings caused an effective weighting of the ARPP in excess of 20%. Box 2 presents the new conversion table which was used in the most recent IDA allocation exercise.

[18] The project-at-risk rating decreases by five percent for each year that a country's portfolio is younger than the average age of the entire IDA portfolio.

Box 2 – Projects at Risk New Conversion Table	
% Projects at Risk	**Rating**
0% for 3 or more years	6.0
0%	5.0
1 - 5%	4.5
6 - 15%	4.0
16 - 25%	3.5
26 - 40%	3.0
41 - 65%	2.5
66 - 100%	2.0
100% for 3 or more years	1.0

This scale sets a somewhat tougher standard and is anchored by two judgments: (i) that countries with more than 25% of the projects in their portfolio "at risk" show signs of unsatisfactory use of IDA resources; and (ii) that countries with portfolios where the "at risk" percentage is 15% or less are indicative of country situations where IDA resources are likely to be used well. The revised conversion scale tends to moderate the scores of the ARPP, bringing them more in line with those of the CPIA.