IDA13

LINKING IDA SUPPORT TO COUNTRY PERFORMANCE

Recent Experience and Emerging Issues

International Development Association
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Acronyms and Abbreviations

AfDB	African Development Bank
AsDB	Asian Development Bank
ARPP	Annual Review of Project Performance
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CPIA	Country Policy and Institutional Assessment
CPR	IDA Country Performance Rating
DFID	Department for International Development
DO	Development Objectives
ESW	Economic and Sector Work
FRM	Financial Resource Mobilization Department
GNP	Gross National Product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IP	Implementation Progress
LSR	Lending Strategy Review
NGO	Non-Governmental Organization
OED	Operations Evaluation Department
PAD	Project Appraisal Document
PCPA	Per Capita Per Annum
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
SAR	Staff Appraisal Report
SDR	Special Drawing Right
WDI	World Development Institute

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Annexes

LINKING IDA SUPPORT TO COUNTRY PERFORMANCE

1. The development community increasingly has come to see the quality of a country's policies and institutions as critical for its chances to achieve economic growth and poverty reduction. Moreover, the effectiveness of resources provided to countries is also seen to be closely tied to the policy environment in which they are utilized. The IDA12 Replenishment Agreement stressed that scarce resources must be allocated where they are most likely to promote sustainable, broad-based, labor-intensive growth--where countries are implementing sound policies. It called for a broad-based framework for poverty reduction, in which IDA support would be focused on four key areas: (i) investing in people; (ii) promoting broad-based growth; (iii) supporting good governance; and (iv) protecting the environment. The Agreement underscored the importance of linking lending decisions to policy performance in those areas and further strengthening IDA's resource allocation process in this regard. Recognizing that the process of performance measurement was expected to evolve over time, the IDA12 Report called for an annual report on IDA's performance based lending. This is the second such report. It sets out experience thus far, and the key issues that remain outstanding.

I. <u>Overview of IDA's Performance-Based Lending Framework</u>

2. Much attention and debate has been focussed on how best to assess developing countries' policies and institutions, as a means to direct international support to where it may produce the greatest benefit[1]. In this context, the Bank's country policy assessments conducted annually since 1977, have played an important role in achieving this aim. The criteria and methodology of these assessments have become more systematic and comprehensive over time, to incorporate lessons from experience as well as research findings. While the original assessment largely emphasized macroeconomic factors, the assessment now also includes a range of other factors relevant to poverty reduction, including social inclusion and equity, and governance. This system of country assessment is a basic building block for the IDA framework.

3. Each year, the Bank conducts a performance assessment for all its borrowing countries--both IBRD and IDA. The exercise, known as the Country Policy and Institutional Assessment (CPIA) evaluates actual actions taken by each country on a range of criteria which are grouped in four clusters: economic management; structural policies; policies for social inclusion and equity; and public sector management and institutions. Steps are taken to ensure that scores are consistent within each, and across all, regions. This is accomplished, firstly, by detailed questions and definition of typical ratings for specific country situations, secondly, through the specification of 'benchmark' countries whose ratings are agreed institutionally at the outset of the exercise, and then by a process of institutional review of all country ratings before they are finalized.

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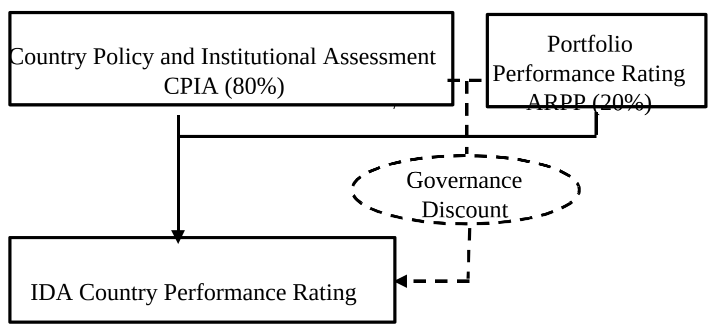
[1] *Assessing Aid – What works, What doesn't, and Why,* World Bank, 1998.

4. The CPIA underpins IDA's Performance Rating but is not its only determinant. Two additional process steps are included. First, to capture the important dimension of quality of development project and program management, the Bank's Annual Report of Portfolio Performance (ARPP) is used to determine a score for each country's implementation performance. On the basis of these measures, the IDA Performance Rating is constructed as the weighted average of the CPIA (80% weight) and the ARPP measure (20% weight). Second, an additional weighting (the "governance discount" further explained below) is introduced in recognition of the major impact of governance on the quality of countries' performance (Chart 1).

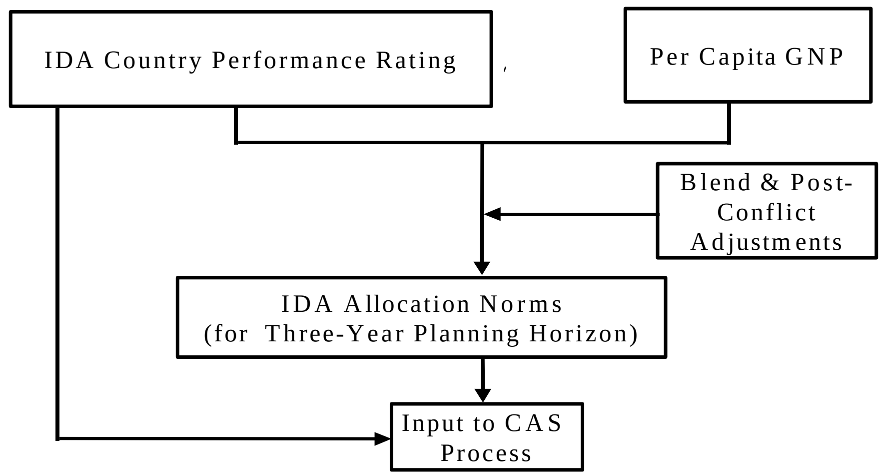
Chart 1 - IDA Country Performance Rating



5. IDA's resource allocation--the Lending Strategy Review (LSR)--is carried out on the basis of the IDA Performance Ratings and takes account of per capita GNP to a lesser extent. The purpose of the LSR is to establish, on the basis of performance, the actual allocation of lending resources available for each IDA country for the following three fiscal years (see Chart 2). The allocation thus arrived at sets the lending envelope that each country could expect to receive--if its performance stays the same, and assuming a pipeline of quality projects--but is not an entitlement.

6. The amounts are determined through a formula that allocates resources in proportion to an exponent (quadratic) of the performance rating--thus ensuring that good performers get a higher share of IDA's available resources. There are some exceptions to this general rule. "Blend" countries with access, or potential access, to IBRD receive less than their norm allocation--given their broader financing options. Post-conflict countries can where appropriate be provided with additional resources to aid their recovery and in recognition of a window of exceptional need. The lending scenarios in the CAS are based on the three-year LSR allocation norm but adjusted to reflect special country circumstances as set out in the CAS.

Chart 2 - IDA Allocation Norms



II. Implementing the Framework in 2000

Country Policy and Institutional Assessment (CPIA)

7. The World Bank's Country Policy and Institutional Assessment consists of a set of twenty criteria that capture a broad range of policy dimensions of an effective poverty reduction and growth strategy (Box 1). While this number has no special significance, it represents a balance of adequately detailed criteria, without making the assessment process too arduous. The ratings for each of the twenty criteria reflect a variety of indicators, observations and judgements. They draw on country knowledge gained from the overall country dialogue, the Country Assistance Strategy (CAS) process, economic and sector work (ESW), project preparation and supervision, and project and CAS monitoring and evaluation. ESW is especially important in providing relevant country knowledge for the CPIA process. Analysis from partner agencies is also important. The ratings focus on the quality of each country's *current*[2] policies and institutions--which are the main determinant of present aid effectiveness prospects.

[2] This does not mean that progress in policy reforms is not important. In fact, policy momentum will influence IDA engagement in any one country, including through non-lending services. However, the CPIA is meant to provide a snapshot that is unbiased by expectations and is consistent across countries.

<u>Box 1</u>: Country Policy and Institutional Assessment (CPIA) Criteria

A Economic Management
- 1 Management of Inflation and Current Account
- 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 Equity *
- 12 Equity of Public Resource Use
- 13 Building Human Resources
- 14 Social Protection and Labor *
- 15 Poverty Monitoring and Analysis

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 Efficiency of Public Expenditures
- 20 Transparency, Accountability and Corruption in the Public Sector

* Criteria which were revised during the 2000 exercise.

8. Cluster "A" includes criteria concerning the quality of the economic policies, while cluster "B" includes criteria concerning policies that affect a broad range of structural factors, from financial sector depth to the competitive environment for the private sector. Policies captured by the indicators in clusters "A" and "B" are clearly central to successful economic growth and diversification, and therefore fundamental--though not themselves sufficient--to secure sustained poverty reduction.

9. The indicators in the equity cluster "C" focus on social equity and broad based growth. They aim to capture the extent to which the country's policies and institutions ensure that the benefits of growth are widespread and result in broad accumulation of social capital, for example by directing public programs to poor segments of the population, and reducing their vulnerability to various kinds of shocks. The cluster also includes criteria on the equality of economic opportunity for both genders and all socio-economic groups and the focus on human resource development.

10. The quality of governance is now recognized as a key variable for both sustained growth and effective poverty alleviation. Cluster "D" aims to capture five major aspects of good governance: efficiency, accountability, transparency, the rule of law, and participation. In addition, criterion #4, which focuses on the sustainability of the development program, also has a participatory dimension that relates to good governance. Thus six out of the twenty criteria deal explicitly with various dimensions of governance. It has to be recognized, though, that governance remains a cross-cutting issue, which concerns the manner in which economic management is conducted: it is a dimension present, to a greater or lesser extent, in all performance categories.

11. **The Annual Rating Process.** To guide the annual CPIA exercise a questionnaire[3] is provided to staff, with a definition of each of the twenty criteria plus what would characterize, respectively, good and unsatisfactory ratings. Guidance is also provided on relevant indicators to help ensure consistency on the ratings across countries. As a practical matter, the methodology for the more standard economic and structural criteria in clusters A" and "B" is well established. The methodology for rating countries on criteria in the equity cluster "C" and the governance cluster "D", on the other hand, is still evolving. This includes drawing on Poverty Assessments and Public Expenditure Reviews with increasing use of more objective indicators and reference points. Overall, the thrust of the Bank's effort in improving the CPIA process is to develop quantitative and objective reference indicators whenever possible.

12. The CPIA exercise is initiated by each region rating two countries to serve as benchmarks for the other countries in the region. The set of benchmark ratings is agreed among the regional chief economists and the networks to help ensure cross-regional consistency. Next, the country teams submit proposed scores for each question on a scale from 1 to 6 (see <u>Box 2</u>), which are cleared by the country director. Regional chief economists review them to ensure consistency within the region and submit them for peer review by the networks and central units which provide comments and recommendations on rating changes. In this way a high degree of comparability of ratings between, as well as within, regions is achieved. A summary document keeps a record of all such comments and rating change recommendations, and the final outcome of these ratings.

<u>Box 2</u>: CPIA Rating Scale
1 (low) through **6** (high)

1	Unsatisfactory for three or more years
2	Unsatisfactory
3	Moderately Unsatisfactory
4	Moderately Satisfactory
5	Good
6	Good for three or more years

[3] For the CPIA 2000 Questionnaire please refer to Weblink: Http://www.worldbank.org/ida/cpiaq2000.pdf). The changes that were made for the 2000 exercise are discussed in para. 14.

13. A CPIA working group was formed in early 2000, with representatives from across the Bank to develop recommendations on future directions for the Bank's CPIA exercise. The group recommended that:

(a) the CPIA retain its focus on policies and take steps to align it more closely with the CDF and the scope of the Poverty Reduction Strategy Papers (PRSPs);

(b) network and other central staff be included in the regional deliberations, and the reference to outside data sources be increased to help anchor staff judgements in the rating process; and

(c) disclosure of the ratings be implemented in several steps, the first being a systematic discussion of the ratings between the country teams and their national counterparts.

The working group also noted the potential budgetary implications of expanding the CPIA exercise.

14. The CPIA criteria were modified in 2000 with regard to environmental sustainability, gender, and the more explicit inclusion of labor market regulation, including core labor standards, as set out below (the full text of the three revised criteria are provided in <u>Annex 2</u>):

- Criterion #10 – Policies and Institutions for Environmental Sustainability--the criterion was placed more explicitly in the context of the overarching goal of poverty reduction. Moreover, the characterization of the good ("5") and unsatisfactory ("2") rating was revised, including separate descriptions of what would be considered a good policy for natural resource use and pollution control.
- Criterion #11 – Equality of Economic Opportunity--this criterion had been broadly focused on equity of opportunity for gender or socio-economic group. In order to avoid potential confusion with respect to this criterion's scope, it was focused in 2000 strictly on equity of gender opportunity.
- Criterion #14 – Social Protection and Labor--covers now more explicitly labor market regulation, including the issue of core labor standards.

15. For the 2000 exercise all regions had two benchmark countries, except South Asia which had one. The benchmark countries were: Brazil, Colombia, Cote d'Ivoire, Malawi, India, Philippines, Vietnam, Hungary, Kyrgyz Republic, Jordan, and Morocco. Kyrgyz Republic was new on this list, replacing Russia (its situation was considered too unique to make it a useful comparator). Jordan was also new on the list, replacing Egypt. Five of the benchmark countries are IDA borrowers.

16. **CPIA 2000 Rating for IDA Countries**. <u>Box 3</u> presents the quintile results for the overall 2000 CPIA ratings for the active IDA borrowing countries. For the quintile-based information for the four CPIA clusters--Economic Management, Structural Policies, Policies for Social Inclusion and Equity, and Public Sector Management and Institutions--and the ARPP see <u>Annex 3</u>.

Box 3: CPIA 2000 Ratings for IDA Countries*

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

* Quintiles exclude inactive countries: Afghanistan, Congo DR, Liberia, Myanmar, Somalia and Sudan.

IDA's Country Performance Assessment

17. The IDA Country Performance Rating (CPR) is based on: (i) the overall CPIA rating (80% weight); (ii) the portfolio performance in the country as measured by the ARPP (20% weight); and (iii) a governance discount in cases where governance indicators are particularly weak.

18. The Bank's Annual Review of Project Performance (ARPP) uses the concept of "projects at risk", which combines potential problem projects with actual ones. For this exercise, IDA assesses whether at least three of eleven ARPP criteria show an unsatisfactory rating, in which case the project is considered at risk[4]. The percentage of projects at risk in the country's IDA portfolio is converted to a 1-6 scale like the one of the CPIA (for some more details on this approach, see Annex 1).

19. **Adjusting for Poor Governance**. The CPR is further adjusted in order to flag severe governance problems and to explicitly incorporate their implications into IDA's allocation mechanism. The rationale for this is that in cases of very weak governance conditions, the CPIA, and even the ARPP's overall portfolio performance measures, may not capture the disproportionate impact poor governance is likely to have on the effective use of resources--for example wastage through widespread corruption, grossly inequitable distribution of benefits because of exclusion of particular groups, and so on. In those cases a *governance discount* is applied to the overall rating.

[4] The ARPP actually includes twelve criteria, one of which is the CPIA. In order to avoid double counting, the latter is excluded, so that only eleven of the ARPP criteria are considered for this exercise.

20. The decision rule on whether the governance discount needs to be applied is based on consideration of seven criteria: the six governance-related CPIA criteria mentioned above (#4 and #16-20, see para. 10); plus the procurement practices criterion included in the ARPP rating[5] (see Annex 1). Countries with unsatisfactory ratings (i.e., of 2.0 or below) for three or more out of the seven governance indicators are judged to be facing severe governance problems, in which case the IDA Country Performance Ratings are reduced by one-third. The resulting final IDA Country Performance Rating (see Chart 1) is used as the primary determinant of each country's per capita IDA resource allocation which is discussed below.

21. **The IDA Country Performance Assessment Exercise in 2000**. The CPIA 2000 results for the seven governance indicators showed that the following active IDA borrowing countries were rated as having very weak governance conditions: Angola, Azerbaijan, Chad, Congo Rep., Guinea Bissau, Haiti, Sierra Leone, Tajikistan, Togo, and Zimbabwe. Zimbabwe is new on this list, while the Comoros came off this list. Thus the total number of active IDA countries that incurred a governance discount remained at ten (it had been fifteen in 1998, the first year of its application). Inactive countries that also were rated as having very weak governance conditions were Congo Dem. Rep, Liberia, and Somalia (Afghanistan and Myanmar were not rated).

22. The quintile results for the IDA Country Performance Ratings are presented in Box 4. The population-weighted average 2000 ratings for the five quintiles are also provided. It shows the three middle quintiles with ratings in the 3 (moderately unsatisfactory) to 4 (moderately satisfactory) range. The bunching of the ratings in this narrow range is seen to mostly reflect the reality that a majority of people in the IDA world live in countries with policies and institutions which are in the transition zone between unsatisfactory and satisfactory. Nonetheless, the question of whether too high standards for a country to rate at the 5 level contribute to this bunching is worth exploring (and is on the agenda for further work--see Section III).

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[5] This criterion is considered moderately unsatisfactory if 20-30% of the projects are judged to have deficient procurement practices, and unsatisfactory if this percentage exceeds 30%.

<u>Box 4</u>: 2000 IDA Country Performance Ratings*

Top Quintile Average: 4.06	Armenia, Bhutan, Cape Verde, Grenada, Honduras, Maldives, Mauritania, Nicaragua, Rwanda, Samoa, Senegal, St. Lucia, St. Vincent, Tanzania, Uganda.
Upper Quintile Average: 3.77	Albania, Benin, Bolivia, Bosnia & Herzegovina, The Gambia, Georgia, Ghana, Guyana, India, Indonesia, Macedonia FYR, Madagascar, Mozambique, Vietnam, Zambia.
Middle Quintile Average: 3.57	Bangladesh, Burkina Faso, Cameroon, Chad, Cote d'Ivoire, Guinea, Kenya, Kyrgyz Republic, Lesotho, Malawi, Mali, Moldova, Niger, Sri Lanka.
Lower Quintile Average: 3.26	Burundi, Cambodia, Eritrea, Ethiopia, Kiribati, Mongolia, Nepal, Nigeria, Pakistan, Sao Tome and Principe, Solomon Islands, Tonga, Vanuatu, Yemen Arab Republic.
Lowest Quintile Average: 1.91	Angola, Azerbaijan, Central African Republic, Comoros, Congo Rep., Djibouti, Dominica, Guinea-Bissau, Haiti, Lao PDR, Sierra Leone, Tajikistan, Togo, Zimbabwe.

* Quintiles exclude inactive countries: Afghanistan, Congo DR, Liberia, Myanmar, Somalia and Sudan.

Allocating IDA Resources According to Performance

23. IDA's allocation process is the performance-based rationing mechanism for its scarce concessional resources. This annual exercise--the Lending Strategy Review (LSR)--is conducted each fall, immediately following the CPIA exercise. It sets, for each IDA country, the lending envelope for the following three fiscal years (see <u>Chart 2</u>). The LSR 2000, which was completed in early December 2000, sets envelopes for the period FY02-04, which begins July 1, 2001.

24. **Allocation Formula**. IDA allocates its funds on a per capita basis, with the IDA Country Performance Rating as the primary determinant. The allocation formula assigns a quadratic exponent to this performance rating, which ensures that better performing countries get a correspondingly larger share of the resources. In addition, to further differentiate allocations on the basis of good performance, this exponent is somewhat smaller (1.75 vs 2) for countries with a rating below 3. As a secondary factor, the allocation formula takes into account the country's per capita income: poorer countries enjoy a small upward bias in their allocation. Moreover, the allocation provides all countries a basic allocation of SDR 3 million (or about US$4 million), resulting in an upward bias in the per capita allocations to small states. For more detailed information on the formula and its quantitative implications, see <u>Annex 5</u>.

25. The IDA allocation exercise results in allocation norms that fully use the available resources. This is based on the view that in IDA countries the potential opportunities for effective use of resources for poverty reduction exceed the available amount of concessional financing. Thus IDA's allocation process functions as a rationing mechanism in accordance with the country's relative performance. The resulting norm is the starting point for determining the CAS lending scenarios as described further below.

26. IDA countries are allocated funds through this process, with a few important exceptions. First, there are the *blend countries* that may have access to IBRD funds. Recognizing the alternative source of funding, the actual IDA allocation is generally below the norm that would result from using the regular allocation formula. Second, there are *post-conflict countries*. For countries that qualify[6] for a certain period for special post-conflict considerations the allocation can be substantially *above* the regular allocation norm. These special allocations are usually made for 12 months at a time.

27. **Performance-Based Country Allocations and the CAS Process**. The overall objective is to bring IDA lending into close alignment with country performance and effectiveness of resource utilization. The CAS provides country-specific judgements and strategic direction in this respect, while the IDA Country Performance Rating gives us the benchmarks for comparability across countries. The performance rating and the corresponding lending allocations provide a starting point, based on performance assessed through a cross-country comparison, for the lending levels for *new CASs* typically done once every three years. The preparation of the CAS, involves further intensive analysis and discussion in the specific country context leading to lending scenarios and triggers which are more detailed and tailored to the specific country circumstances. Work is on the way to make sure that the CPIA results consistently inform the triggers for the various lending scenarios (see paras. 49-50).

28. For *CASs under implementation*, the process is essentially the same, with the LSR lending levels usually falling within the lending scenarios set out in the CAS. The key factors that are taken into account through the country assessment process do not usually change that quickly. Were they do, and the strategy and lending scenarios hence require significant revisions, the changes are spelled out in a new CAS or CAS Progress Report. The record shows that actual lending levels for most IDA borrowers broadly follow the performance-based allocations.

29. Chart 3[7] shows the performance relationship with *actual* per capita lending for FY98-00. A number of countries in special circumstances received per capita allocations well above the curve: (i) a handful of transition economies, some of which were coming out of conflict; (ii) several small island states (where the basic allocation of US$4 million pushes up the per capita allocation); and (iii) the special relief provided to the countries that suffered from Hurricane Mitch. These cases are represented on the chart by triangular shaped dots.

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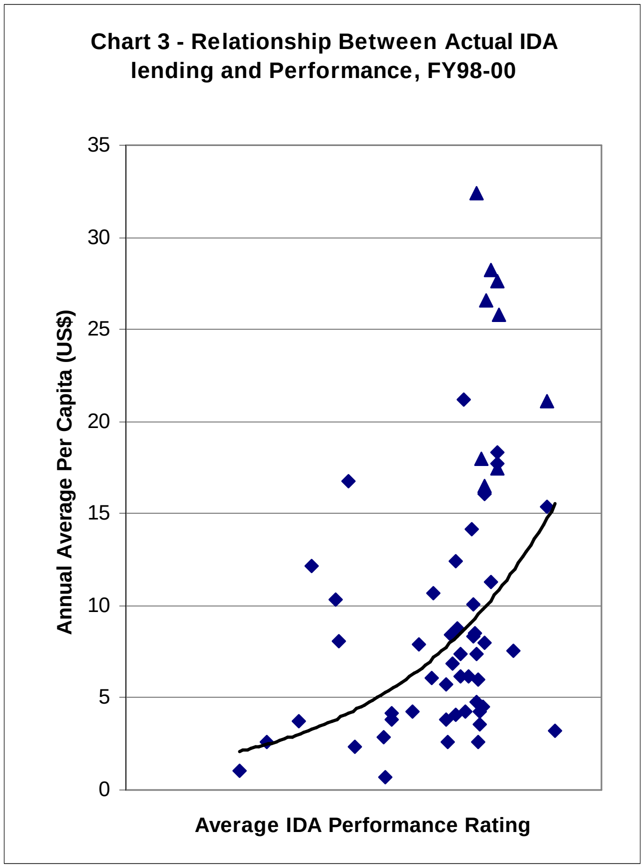
[6] Work on criteria that determine a country's eligibility for special post-conflict considerations is ongoing, see para. 46.

[7] Excluded from this chart are: (i) eligible post-conflict countries (2); (ii) blend countries for which the IDA allocation was capped (5); and (iii) inactive countries (16).



30. **Lending Strategy Review 2000**. The LSR 2000 exercise was completed during the autumn of 2000, and allocated some SDR 16 billion (US$21 billion) for the FY02-04 period assuming, for the purpose of the exercise, a similar funding level in IDA13 as in IDA12 (SDR 15.2 billion) plus some extra funding from the under-run in FY00.

31. The LSR allocations for the Africa region reflect Management's strategy to increase IDA's effectiveness in Africa. This involves: (i) particular focus on a number of well performing countries (Burkina Faso, Cameroon, Ghana, Madagascar, Mali, Mozambique, Senegal, Tanzania, Uganda, and Zambia); (ii) re-engagement, where possible, with major countries; and (iii) increased attention to region-wide problems, including communicable diseases.

32. The LSR also reflects the sense of the Deputies' discussion in Lisbon in June 2000, where it was agreed that IDA would allocate over the subsequent three years at least U$1 billion to projects combating communicable diseases including HIV/AIDS. As a first step, the Board approved in September for the Africa region a US$500 million Multi-Country HIV/AIDS project. Lending under this project will normally be expected to fall within the performance-based allocation of each individual country, recognizing that tackling the AIDS crisis would be a primary development objective in these countries. At the margin, however, the allocation could be increased in the case of good performers when a strong and comprehensive program to

combat communicable disease is brought forward and warrants support. In the case of poor performing countries, exceptional funding for HIV/AIDS projects would need to be justified on the basis of the following: a severe health crisis; the existence of capable institutions to implement the program; and having a robust supervision and monitoring arrangement in place. In these instances, moreover, additional due diligence would be needed, along the lines noted by Deputies in Lisbon, to ensure that the IDA resources being devoted for such purposes would be well used, in spite of the difficult country situation. The assessment of the institutional performance and program management capacity would be based on the country's ratings for the seven governance criteria (see para. 20) and for its portfolio implementation, as based on the ARPP (see para. 18).

33. Macedonia was excluded from the LSR 2000 exercise, as it will graduate to IBRD borrower status at the end of FY01[8]. The Bolivia allocation was made under the current CAS assumption that it would graduate at the end of FY02. In the case of Nicaragua and Honduras special considerations related to the impact of Hurricane Mitch were applied (which fulfill IDA's pledge to provide additional resources to these countries after the disaster). As for post-conflict allocations, five countries qualified at this time for special twelve-month allocations: Bosnia-Herzegovina[9], Congo Rep., Eritrea, Guinea Bissau, and Sierra Leone. The allocations for four blend countries with potential access to IBRD funds (India, Indonesia, Nigeria, and Pakistan) were set well below the formula based IDA-only norms. A number of other blend countries were treated as if they were IDA-only countries since they currently have no access to IBRD funds. Finally, no allocations were provided for six inactive countries: Afghanistan, Dem. Rep. of Congo, Liberia, Myanmar, Sudan, and Somalia.

34. Box 5 summarizes the results of the LSR 2000 for 62 of the 77 eligible IDA countries, excluding the special allocation situations of 15 IDA countries: 5 post-conflict countries; 4 blend countries; and 6 inactive countries. The population-weighted average per capita per annum (PCPA) allocation shows a substantial range: from US$2.8 for the lowest quintile, to US$11.3--or four times as much--for the top quintile. This is a significantly higher spread than before IDA12 with its increased stress on performance-based lending. The upper quintile also shows a relatively high PCPA allocation of US$10.1. The PCPA allocation for the middle quintile is significantly reduced due to relatively low lending levels foreseen in Bangladesh and articulated in the CAS (without Bangladesh, the figure of US$5.9 would be increased to US$8.9).

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[8] On the other hand, Armenia, Georgia, Kyrgyz Rep, and Moldova became IDA-only countries as of FY01, but this switch had no impact on their LSR treatment, since in recent years they had been treated as if they were IDA-only.

[9] FY02 is the last year during which Bosnia-Herzegovina is eligible for special post-conflict considerations.

<u>Box 5</u>: FY02-04 Lending Strategy Review

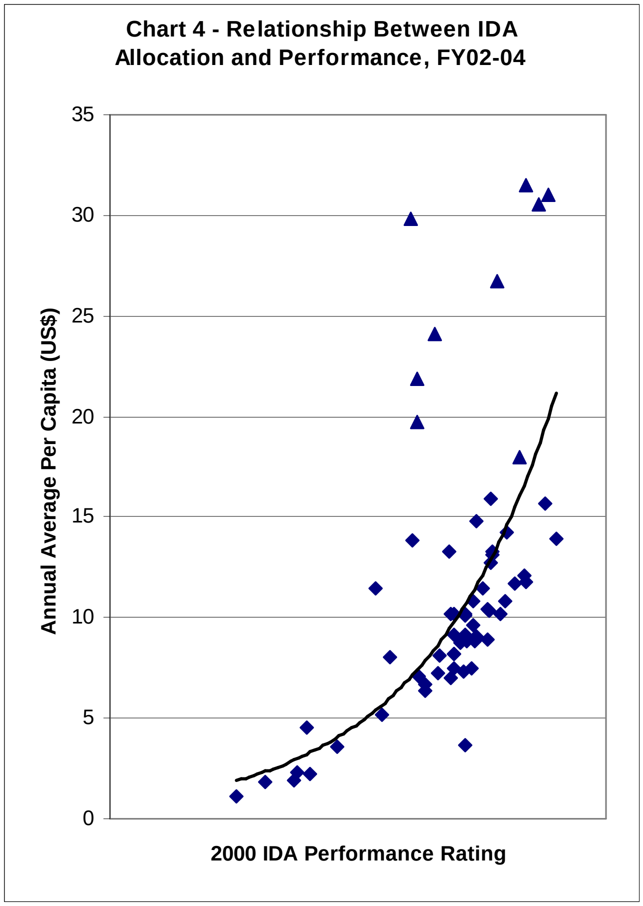
by IDA Performance Quintile [a/]

Performance Quintile	**Number of Countries**	**Population Weighted Average Rating**	**Population Weighted Average Allocation PCPA (US$)**
Top	13	4.06	11.3
Upper	12	3.77	10.1
Middle	13	3.57	5.9
Lower	12	3.26	7.2
Lowest	12	1.91	2.8
Total	**62**	**3.46**	**7.6**

a/ Excludes:
(i) Inactive countries: Afghanistan, Congo DR, Liberia, Myanmar, Sudan, Somalia.
(ii) Post-conflict countries: Bosnia-H., Congo Rep., Eritrea, Guinea-Bissau, and Sierra Leone.
(iii) Blend countries for which allocations are fixed well below the IDA-only norm: India, Indonesia, Nigeria and Pakistan.
SDR 1 = US$ 1.30788.

35. Chart 4 shows the broad exponential relationship between country performance and the IDA PCPA Allocation. The triangular shaped dots above the curve represent countries with populations of less than 0.5 million people which receive especially high per capita allocations as a result of the universal minimum allocation of US$4 million. This is consistent with recommendations of the Small States Task Force which were endorsed by the Development Committee in the spring of 2000[10].

[10] *Small States: Meeting Challenges in the Global Economy*, April 2000.



III. Emerging Issues and Agenda for Future Work

36. As experience with IDA's performance-based resource allocation system grows, a number of issues are emerging which clearly merit further consideration and in some cases work is already underway on improvements. The start of discussions on IDA's 13th Replenishment is an appropriate moment to review this agenda.

Improving the Measurement of Performance by the CPIA

37. The record on resource transfers indicates that IDA's record in aligning its lending with performance compares favorably with that of other development assistance programs. Nonetheless, issues remain on which further reflection and work are needed.

38. First, performance criteria used in the CPIA and in IDA allocation need to reflect the emergence of the PRSP process as an important determinant of development strategy and development support. The PRSP sets out future intentions, while the CPIA measures current performance: nevertheless, it is clearly important that the CPIA captures emerging priority

issues in the PRSP process--for example, the appropriateness of the balance between development and non-productive expenditures.

39. Second, it is clearly timely to look again at the dispersion of country ratings. The large majority of IDA countries are scored in a fairly narrow range, with substantial convergence around the two middle ratings. This re-examination needs to confirm that the higher scores can be attained by a well performing country and that the higher levels of the performance spectrum are consistent across criteria. In this context, the 'neutrality' of ratings--to ensure that countries in different stages of development are rated on an equal basis, and that the criteria (and ratings) focus on policy actions rather than either intentions or outcomes--will also be re-evaluated.

40. Third, key aspects of the CPIA approach--comprehensiveness, practical manageability, objectivity--necessarily have some tensions among them, and these need to be subject to serious periodic scrutiny and review.

41. An internal CPIA review is currently in process, to be completed before the 2001 CPIA exercise, to deal with these issues. It will also draw on (i) the OED IDA Review, which will become available in spring 2001 and has reviewed the performance allocation system as part of its broader examination of IDA's record, and (ii) the feedback from the country rating discussions. The IDA13 consultation with representatives of borrowing countries will also invite input on the CPIA approach and how it is working in practice. During the course of 2001, staff are also planning to hold a workshop with external partners, including academics and civil society, on the experience with the CPIA process to encourage debate and solicit concrete ideas for simplification and improvement.

IDA-Specific Assessment Issues

42. **The Governance Discount.** IDA Deputies requested during the IDA12 replenishment discussions that a way be found to appropriately reflect the overarching importance of good governance for a country's effective implementation of its development strategy in the pursuit of poverty reduction. The IDA12 Agreement endorsed a novel approach, which as described above, involved applying a governance discount to the overall rating in case of substantial governance weakness. This approach has indeed given a much higher profile to governance issues and has effectively moved this issue to the center of IDA's dialogue with affected countries.

43. At the same time, it has been the subject of some debate. The flag-based methodology is discrete in character and has thus given rise to arguments that the process might be too harsh and result in discontinuous and inequitable outcomes. A slightly higher rating allows a country to escape the discount, while conversely a slightly lower rating can result in a large reduction in IDA's lending allocation. Some development partners have explored slightly different approaches pay due attention to governance without incurring the sharp allocation discontinuity. For example, the Asian Development Bank, in the process of tailoring the IDA model to its needs, decided to simply give the governance factor a weight of 30% (the same weight as the governance indicator in the Bank's CPIA) in its country performance rating and not use flags that produce a substantial governance discount.

44. Allocation outcomes are indeed dramatically different with a governance discount and without it, even if in the latter case the weight of governance indicators were to be substantially increased in the CPIA. For example, increasing the weighting to 50% for the six governance indicators in the CPIA would reduce the average allocation by only 10%, while the discount methodology reduces the allocation by 50%. The governance discount mechanism has clearly functioned as a means to highlight a crucial development dimension and to ensure that resource flows are adjusted accordingly, without reducing unduly the relevance of other indicators of policy measures for development effectiveness. At the same time, however, the large influence that governance indicators exert on the allocation makes the approach an important and legitimate subject of review and evaluation. Work to further refine governance indicators is currently well underway in collaboration with several bilateral development partners and it will be important to ensure that the results are widely debated.

45. **Refining the Criterion on Procurement Practices**. An important component of assessing good governance is the transparency of public sector procurement since mismanagement or corruption in procurement is clearly a key signal of wider problems, as well as being critical in itself to the responsible management of public resources. For that reason, an indicator on procurement policies is included as one of the indicators that could signal poor governance--and hence a governance discount--in IDA's performance ratings. The indicator used hitherto is not altogether satisfactory for this purpose, however, since it focusses on speed (or conversely, delays) in the procurement process. Work is currently underway to improve this, shifting the focus from the timeliness of procurement to the quality of the government's procurement policies and practices, as well as the administrative efficiency of the procurement management system.

Allocating IDA Resources for Post-Conflict Countries

46. The IDA12 Agreement recognized that post-conflict countries could often require exceptional responses from the international community. Such circumstances might merit allocations in excess of the performance-based norm, which would otherwise be quite low, reflecting the adverse impact of conflict on performance. It observed that the regular CPIA may not be the relevant yardstick in such special situations, and that post-conflict needs for emergency recovery and reconstruction would tend to be quite different from regular IDA support.

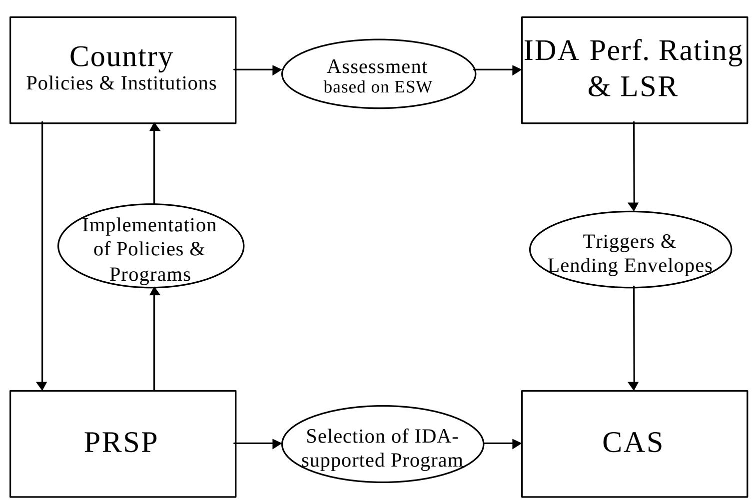
47. To put this general guidance onto a specific and systematic footing, work is well advanced in the Bank to develop: (i) criteria to guide a country's eligibility for such special treatment; (ii) appropriate measures of progress during the period of special post-conflict treatment, which would normally be limited to 2-3 years; and (iii) guidance as to appropriate allocation levels during this period. In parallel, the Bank is working with the Fund on a joint approach to providing assistance to post-conflict countries, especially those potentially falling within the HIPC framework. This work, which will be reported in a joint paper to the Development Committee for the Spring 2001 Meetings, should reinforce this IDA effort by building a stronger coordinated response by the Bretton Woods Institutions to post-conflict financial support.

Strengthening the Link Between PRSP, CAS Scenarios, Performance and ESW

48. During 2000, the Poverty Reduction Strategy Papers (PRSP) have started to come on stream. Prepared by the borrower government in collaboration with its development partners, the PRSP describes the country's *future* macroeconomic, structural and social policies and programs to promote growth and reduce poverty, as well as the associated external financing needs and major sources of financing. As the PRSP becomes a full-fledged strategic document, the CAS becomes in essence IDA's business plan in support of the country's poverty reduction strategy.

49. The selection of the IDA-supported program from that of the PRSP will increasingly be influenced by the IDA's performance assessment in *three* ways. First the assessment of the implementation of the PRS policies will be reflected in the performance ratings, and thereby in the base case IDA allocation envelope. Second, as a diagnostic tool, the CPIA can indicate areas where attention needs to be focussed and thus influence the selection of the elements of the IDA-supported program in terms of lending and non-lending activities; thus the CPIA influences the ESW work program, which in turn informs the future CPIA's results. Finally, triggers for the lending scenarios in the CAS are being increasingly focused on aspects of the CPIA that are shown to be weak. In the case of a CAS under implementation, the country rating will inform the judgement whether triggers have been met so that the country has moved into the high or low case. The most recent CAS retrospective noted that, while there has been progress, this link ought to be tightened further. Chart 5 summarizes the links between the Borrowing Country and its PRSP on the one hand, and IDA's Country Performance Rating/LSR and CAS on the other hand.

Chart 5 - PRSP, IDA Country Performance Rating and CAS



50. On the basis of this approach, further work in this area will focus on several fronts. The CAS lending scenarios will continue to be guided through the LSR by the performance-based

allocation norms. In cases where CAS lending scenarios deviate from the performance based norms, the CAS needs to provide a clear and consistent rationale. Efforts will be made to ensure that CASs will consistently focus on critical CPIA areas that show significant weakness and systematically inform the triggers for lending scenarios. In general basic measures to address CPIA weaknesses would be necessary to remain in the base case, and progress on such criteria would be required to trigger a move to the high case scenario.

Transparency and Disclosure

51. In recent years--at times accelerated by events such as the Asian financial crisis--governments and international institutions have generally moved towards a presumption of much greater transparency in the conduct of public policy. In IDA's case, this has included much wider discussion of policy issues, further engagement with civil society on CASs and other key country work, and public disclosure of CASs and other documents. The performance rating process has presented some sensitive issues, as IDA has moved towards further disclosure in this area as well.

52. In the first place, it is clearly desirable that borrower governments are aware of the outcome of IDA's performance-based assessment for their country, and that performance problems and remedial actions are fully and frankly discussed between the Bank and country authorities. In line with the recommendation of last year's internal CPIA working group, guidelines have been issued to IDA Country Directors to ensure that they share and discuss the 2000 CPIA and IDA Performance Ratings with their clients[11]. Those discussions are currently taking place. The result should be a more systematic discussion of the CPIA results with all IDA client countries, enriching the country dialogue and improving the focus and effectiveness of the IDA-funded program. Country Directors have been requested to provide feedback to inform this process in the future.

53. Secondly, there is the larger issue of wider public disclosure of CPIA ratings and of IDA's performance assessment. This has been an issue of some contention among the Bank's shareholders. On the one hand concerns have been raised that increased disclosure of country ratings could lead to repercussions with other external parties (including in the markets, in the case of IBRD borrowers in particular) and in the long run might reduce the level of openness in the country dialogue. Others argue that the transparency of full disclosure allows a true partnership of all interested parties, holds the Bank fully accountable for the quality of assessment and should be adopted as Bank policy. IDA has in fact taken important steps in the direction of fuller disclosure, by disclosing country results by quintile, for both the CPIA and IDA country performance ratings.

Conclusion

54. The initial experience with the strengthened performance-based allocation framework introduced in IDA12 has been positive and further valuable information will no doubt also emerge from OED's review of IDA, currently underway. Allocations have been robust and along performance lines, and governance concerns have been flagged and brought to the

[11] For the guidance provided to the Country Directors for this CPIA dialogue see Annex 4.

forefront of the country dialogue where needed. IDA's framework has encouraged the development of comparable systems in the AfDB and the AsDB, and performance-based lending is also starting to take hold in other, smaller regional development banks. Nonetheless, considerable work remains to be done on the issues discussed above, to ensure that IDA remains both a strong resource for poor countries and an instrument which is highly responsive to their development efforts.

Project Portfolio Performance Rating Methodology

1. The basic measure of portfolio performance is the number of projects at risk of not achieving their development objectives. Projects at risk consist of actual and potential problem projects. Actual problem projects are those for which Implementation Progress (IP) is unsatisfactory or Development Objectives (DO) are not likely to be achieved. Such ratings are generally updated every six months in the context of supervision reports.

2. The DO rating, which is closest in concept to the measure of final evaluated project outcome in Implementation Completion Reports, is the likelihood of attaining the objectives set in the Staff Appraisal Report/Project Appraisal Document (SAR/PAD) (as formally revised during implementation). The IP rating is based on an overall judgement of implementation performance in relation to the benchmarks in the SAR/PAD. The DO rating takes into account not only implementation progress, but also other factors, such as inappropriate design, unforeseeable adverse economic and financial developments, price fluctuations of project outputs and changes in government policy.

3. The identification of actual problem projects has been troublesome. Inherent optimism of staff and managers, a perception that supervision reporting is a bureaucratic requirement rather than one of substantive importance, and honest differences of opinion about what progress can reasonably be expected in a given context, have tended to bias IP and DO ratings towards an optimistic view. To address this deficiency, the Annual Report on Portfolio Performance (ARPP) introduced the concept of “projects at risk” which includes both actual and potential problem projects (Box 1.1).

Box 1.1 – Projects at Risk and Actual Problem Projects

	FY98	FY99	FY00
Actual Problem Projects	19.4%	13.3%	12.1%
Potential Problem Projects	7.3%	6.1%	2.9%
Total: Projects at Risk	26.7%	19.4%	15.0%

4. Potential problem projects are those which are rated satisfactory on IP/DO but have other risk factors historically associated with unsatisfactory outcomes. Specifically, these projects are identified by criteria which take into account not only various aspects of actual implementation experience, but also other relevant factors such as past portfolio performance in the country and sector. Specifically, potential problem projects are identified as those for which three or more of the following eleven criteria[12] raise concerns:

[12] The 12 ARPP criteria excluding the CPIA criterion.

- compliance with legal covenants;
- environmental/resettlement rating;
- counterpart funds;
- monitoring and evaluation;
- financial performance;
- procurement progress;
- management performance;
- critical risk;
- effectiveness delay;
- disbursement delays; and
- history of project failure in the country as indicated by OED ratings for recently completed projects.

5. The projects at risk ratings are more realistic and provide a better picture of the current stage of the portfolio than IP/DO ratings because they supplement, and impose discipline on, task managers' judgements. While it can still be improved, the projects at risk measure has been found to be robust and reliable in providing an early warning of potential failures and their causes.

6. Box 1.2 shows how the ARPP ratings have been made comparable with CPIA ratings, by rescaling the ARPP "percentage of projects at risk" into a 1-6 rating similar to that used for the CPIA rating. The scale is anchored by two judgements: (i) that countries with more than 35% of the projects in their portfolio "at risk" show clear signs of unsatisfactory use of external assistance; and (ii) that countries with portfolios where the "at risk" percentage is below 25% are indicative of country situations where external aid is likely to be used well.

Box 1.2 – Projects at Risk 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 2 or more years	1.0

CPIA Questionnaire 2000

Revised Criteria 10, 11, 14

Criterion 10: Policies and Institutions for Environmental Sustainability

1. This criterion assesses the extent to which economic and environmental policies contribute to the incomes and health status of the poor, by fostering the protection and sustainable use of natural resources and the management of pollution.

2	Subsidies and/or ownership and tenure structures promote non-sustainable resource use or degradation. Policies and public programs for the management of natural resources and pollution emissions are ineffective. Environmental services such as water and sanitation are of limited scope and financially unsustainable. The regulatory framework and its implementation are inadequate to handle major environmental challenges.
5	For *pollution* a policy framework and implementing regulations are in place. Monitoring and enforcement of regulations is credible and information on environmental quality is published. Taxes, fees and tradable permits encourage efficient management of pollution emissions. Water and sanitation services have wide coverage and are financially sustainable. The private sector and civil society participate in setting environmental priorities and finding solutions. For *natural resources* there are clear property rights and transparent mechanisms for the allocation of concessions and quotas. Resource royalties are captured in the mineral and forest sectors, while regulations and performance bonds create incentives for land reclamation and good silvicultural practice. Quotas limit access to fishery resources. Protected areas are effectively managed and funded, at least in part, through user fees.

Guideposts:

- Existence of an environmental policy framework (WDI Table 3.14) and Environmental Impact Assessment legislation; and

- Specific issues: deforestation (WDI Table 3.4); protected areas (WDI Table 3.4); water use (WDI Table 3.5); access to safe water (WDI Table 3.5); access to sanitation (WDI Table 3.10); air pollution in major cities (WDI Table 3.13); ratification of global treaties (WDI Table 3.14); and genuine savings rate (WDI Table 3.15).

Criterion 11: Gender

2. This item assesses the extent to which the country has created laws, policies, practices, and institutions that promote the equal access of males and females to social, economic, and political resources and opportunities. (While the assumption is that discrimination is normally in favor of males, discrimination against males, if it exists, should be regarded negatively in coming to a judgement on this item.) Is this a country that has acted to ensure that females and males have equal access in such areas as human capital development, status under the law, political participation, access to productive resources, economic opportunities (including freedom from discrimination), public resource use, participation in the policy dialogue, and personal safety (including freedom from gender-based violence)?

2	Existing laws and policies, implicitly or explicitly, deny equal access for women and girls (compared to men and boys) in six or more of the following areas: education; health services; the right to live or work in certain locations; to work in particular occupations or during particular hours; land ownership; inheritance of property; entry into contracts; ownership of bank accounts; credit; other forms of human or physical capital; voice in community; and national decision-making. The government has no strategy or plan to address existing gender gaps and few policies or programs to eliminate gender gaps in economic opportunity, access to education, social protection, or in giving political voice to women and girls.
5	The legal system--as applied--and social and political institutions provide equal access to assets, credit, and markets for women and men. The government has adequate policies and institutions to implement these laws fairly and enforce them effectively. Policies and institutions provide for equal access to education, training, credit, markets, the labor force, voice in the community and in national decision-making, and social protection. Policies are in place and institutions exist and function in order to provide for a high degree of personal safety for all, notably for women and girls.

Criterion 14: Social Protection and Labor

3. Government policies in the area of social protection and labor market regulation reduce the risk of becoming poor and assist those who are poor to mitigate and cope with further risk to their well-being. Programs and policies that help the poor reduce, mitigate, and cope with risk include the following: regulation which minimizes segmentation and inequity in the labor market; protection of basic labor standards; affordable insurance schemes; incentives for financial savings for old age or disability; regulatory framework for microsavings and microfinance; social safety nets; community-driven development projects; and active labor market programs such as public works or job training.

2	Insurance against risks such as crop failure, disability, loss of life, loss of employment, or natural disasters is not available to the poor. Regulation (or lack thereof) of private sector insurance companies discourages access to insurance in poor communities. Community-based options are inadequate or have broken down. Reliance on formal or informal systems will depend on country-specific factors.
	Private and public safety nets fail to reach chronically poor or vulnerable.
	Excessive or inappropriate government labor market regulation discourages employment or fails to minimally protect workers.
	Labor codes and/or government policies and programs fail to protect children from harmful labor.[13]
	Labor codes and/or government policies and programs fail to prevent overt discrimination in the labor market.
	Active labor market programs (e.g., employment services, job training, public works projects, wage subsidies, micro-enterprise development) are inadequate, inefficient, and/or are poorly targeted.
	Government policies and programs, including regulation of private banks, fail to encourage or allow mechanisms for savings among the poor.
	Centralized government programs and policies fail to support community-driven initiatives.

[13] Harmful child labor is defined by the World Bank (*see* P. Fallon & Z. Tzannatos, *Child Labor - Issues and Directions for the World Bank*, World Bank, Human Development Network Social Protection, (1998)) and in accordance with the 1999 ILO Convention No. 182 on the Elimination of the Worst Forms of Child Labor, as that which inhibits the child's growth and development, and has negative implications for social and human development in countries.

5	Government regulation of insurance promotes access to the poor. Informal or formal schemes of insurance against various risks (e.g., crop failure, disability, loss of life, loss of employment, or natural disasters) are widely available, including to the poor. Government policies and programs are in place which, in combination with private systems, protect chronically poor and vulnerable. Government programs are adequately funded and demonstrably effective. Labor market regulation, including the application of core labor standards, promotes broad access to employment and reflects a balance between social protection and job creation objectives in accordance with the economic circumstances and values of the country. Government policy and programs work toward the elimination of harmful child labor, including appropriate incentives for children to remain in school. Government policy encourages civil society and local government involvement in projects to reduce child labor. Labor codes and/or government policies and programs promote reduction of discrimination in the labor market. Active labor market programs effectively assist the unemployed in finding new jobs or training for jobs in growth sectors. Job creation programs (e.g., public works, wage subsidies, or support for micro-enterprises) appropriately target vulnerable groups and are cost-effective. Government regulatory framework encourages financial savings. Public and private mechanisms for savings are available to many poor communities. Policies and programs are in place to support the poor's own development initiatives (e.g., allocation of resources to local governments for building infrastructure or other community-improvement projects, as proposed by the communities themselves).

CPIA 2000 Clusters and Portfolio Quintile-Based Results

2000 Country Policy and Institutional Assessments* Cluster A - Economic Management

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

* Excludes inactive countries: Afghanistan, Congo DR, Liberia, Myanmar, Somalia, Sudan.

2000 Country Policy and Institutional Assessments* Cluster B - Structural Policies

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

* Excludes inactive countries: Afghanistan, Congo DR, Liberia, Myanmar, Somalia, Sudan.

2000 Country Policy and Institutional Assessments*
Cluster C - Policies for Social Inclusion/Equity

Top Quintile	Armenia, Bangladesh, Bhutan, Cape Verde, Grenada, Indonesia, Kyrgyz Republic, Macedonia FYR, Maldives, Sri Lanka, St. Lucia, St. Vincent, Tanzania, Uganda, Vietnam.
Upper Quintile	Azerbaijan, Bolivia, Dominica, Ethiopia, Ghana, Guyana, Honduras, Malawi, Mauritania, Moldova, Mongolia, Samoa, Senegal, Zambia.
Middle Quintile	Albania, Bosnia & Herzegovina, Burkina Faso, Eritrea, The Gambia, Georgia, India, Kenya, Lesotho, Madagascar, Mozambique, Nicaragua, Rwanda, Tonga.
Lower Quintile	Benin, Burundi, Cambodia, Cote d'Ivoire, Guinea, Mali, Nepal, Nigeria, Pakistan, Solomon Islands, Tajikistan, Vanuatu, Zimbabwe.
Lowest Quintile	Angola, Cameroon, Central Africa Republic, Chad, Comoros, Congo Republic, Djibouti, Guinea-Bissau, Haiti, Kiribati, Lao PDR, Niger, Sao Tome & Principe, Sierra Leone, Togo, Yemen Arab Republic.

* Excludes inactive countries: Afghanistan, Congo DR, Liberia, Myanmar, Somalia, Sudan.

2000 Country Policy and Institutional Assessments*
Cluster D - Public Sector Management and Institutions

Top Quintile	Benin, Bhutan, Cape Verde, Eritrea, Ethiopia, Ghana, Grenada, India, Lesotho, Rwanda, Samoa, Senegal. St. Lucia, St. Vincent.
Upper Quintile	Armenia, Bosnia & Herzegovina, Burkina Faso, Cote d'Ivoire, Dominica, The Gambia, Macedonia FYR, Malawi, Maldives, Mauritania, Mozambique, Tanzania, Uganda, Zambia.
Middle Quintile	Albania, Bangladesh, Bolivia, Guyana, Honduras, Indonesia, Kenya, Kiribati, Madagascar, Mongolia, Pakistan, Sao Tome & Principe, Sri Lanka, Vanuatu, Vietnam.
Lower Quintile	Cambodia, Cameroon, Chad, Guinea, Kyrgyz Republic, Mali, Moldova, Nepal, Nicaragua, Niger, Solomon Islands, Tonga, Yemen Arab Republic, Zimbabwe.
Lowest Quintile	Angola, Azerbaijan, Burundi, Central Africa Republic, Comoros, Congo Republic, Djibouti, Georgia, Guinea-Bissau, Haiti, Lao PDR, Nigeria, Sierra Leone, Tajikistan, Togo.

* Excludes inactive countries: Afghanistan, Congo DR, Liberia, Myanmar, Somalia, Sudan.

2000 Annual Review of Portfolio Performance*

Top Quintile	Bhutan, Bosnia-Herzegovina, Burundi, Cape Verde, Grenada, Haiti, Honduras, Indonesia, Maldives, Nicaragua, Rwanda, Samoa, Solomon Islands, St. Lucia.
Upper Quintile	Armenia, Chad, The Gambia, Georgia, Guyana, Mali, Mauritania, Mozambique, Niger, Nigeria, Sao Tome and Principe, Senegal, Tanzania, Vietnam.
Middle Quintile	Albania, Azerbaijan, Benin, Bolivia, Burkina Faso, Cameroon, Cote d'Ivoire, Ghana, Guinea, Madagascar, Tajikistan, Uganda, Zambia.
Lower Quintile	Bangladesh, Cambodia, Comoros, Guinea-Bissau, India, Kenya, Kyrgyz Republic, Macedonia, FYR, Moldova, Nepal, Pakistan, Sri Lanka, Yemen Arab Republic.
Lowest Quintile	Angola, Central African Republic, Djibouti, Dominica, Eritrea, Ethiopia, Lao PDR, Lesotho, Malawi, Mongolia, Sierra Leone, Togo, Zimbabwe.
Not Rated	Congo,Rep., Kiribati, St. Vincent, Tonga, Vanuatu.

* Excludes inactive countries: Afghanistan, Congo DR, Liberia, Myanmar, Somalia, Sudan.

Guidance Note for CPIA Dialogue

Performance Assessment Dialogue with IDA Borrowers

Guidance to Country Directors

1. During the IDA12 period, which began in FY00, the annual Country Policy and Institutional Assessment (CPIA) results and their implications for the IDA allocations have started to enter the country dialogue in several countries. Following recent discussions with IDA Deputies and the Board, Management is committed to having systematic discussions on the IDA country assessment with all IDA borrowing countries, in line with IDA's pursuit of partnership and transparency. This note provides guidance to the 2000 IDA country assessment and allocation dialogue. Country Directors are being asked for this dialogue to take place in December, if at all possible, in preparation for discussions with the IDA Deputies early in 2001.

2. ***Assessment Discussion.*** The CPIA and the Annual Review of Portfolio Performance (ARPP) information--the two elements of the rating system--to be discussed with the IDA borrower are the **actual results for that country only**. Since these data are not disclosed to third parties, discussions should be limited to your counterparts in government. The individual scores for other countries should not be disclosed or discussed. In order to provide context for the performance assessment, Directors may want to share the average score for the group of all IDA countries.

3. As an aid to this process, each Country Director is receiving a country-specific IDA Country Performance Rating page for his or her country or countries. The page includes: (i) the 2000 ratings for the twenty CPIA criteria, the cluster averages (economic management, structural policies, policies for social inclusion, and public sector management and institutions) and the overall CPIA average; (ii) the ARPP result; and (iii) the overall IDA country rating (which in some cases includes a governance discount). For each of these figures the page shows the corresponding average 2000 ratings for all IDA countries. Finally, as a memo item, the page shows the agreed IDA allocation for FY02-04, which will be the planning envelope for IDA funding during that period as set out in the CAS.

4. Additional relevant information that Directors may wish to share is attached to this note (these items are also accessible on IDA's external website):

- *Country Assessments and IDA Allocations*, a background note that describes IDA's assessment and allocation system, and includes the quintile-based results for the 2000 assessment exercise with respect to the overall CPIA and the overall IDA Country Rating. See Attachment 1:
  (*Weblink:* Http://www.worldbank.org/ida/Perfallon.pdf).

- The CPIA 2000 Questionnaire. See Attachment 2:
  (*Weblink:* Http://www.worldbank.org/ida/cpiaq2000.pdf).

6. ***Discussion of Implications for IDA Allocations, Triggers and Work Program.*** In addition to the discussions surrounding the IDA country performance rating, it is advisable that Directors discuss in general the implications of the new assessment for the IDA lending envelope for FY02-04. This will be the opportunity to discuss the possible implications of the CPIA 2000 assessment for the orientation of the country work program, including where the country stands with respect to its CAS triggers, or, in case a new CAS is being drafted, the possible new set of triggers. As you know, the IDA12 agreement stipulates an explicit link between country performance assessments and lending scenarios and CAS triggers.

7. ***Feedback and Assistance.*** We would appreciate Country Directors' feedback to OPS (Rui Coutinho) and FRM (Sanjivi Rajasingham) after the completion of the Performance Assessment dialogue, which would help us strengthen the process next year.

Annex 5

IDA Allocation Formula

1. The unit of account used as the dependent variable in IDA's allocation formula is per capita lending. The IDA Country Performance rating (CPR) is the key independent variable, with GNP per capita playing a secondary role. To reflect the importance for aid effectiveness of a critical mass of sound policies, the allocation formula has two tranches--with a steeper slope for countries with at least satisfactory performance. Countries with a CPR of 3.0 or below -- i.e., in the unsatisfactory range -- have a lower exponential coefficient of 1.75, while countries with a CPR above 3.0 have an exponential coefficient of 2. 0:

- countries with CPR > 3.0: Allocation /cap = f [CPR exp(2.0), GNP/cap exp(-0.125)]; and

- countries with CPR $\leq$ 3.0: Allocation /cap = f [CPR exp(1.75), GNP/cap exp(-0.125)].

2. Population times the per capita figure gives the country allocation. It follows that for the country allocation the performance rating--with its (close to) quadratic exponential--is the dominant factor: a country rating 5 will receive, cet. par., over seven times the allocation for a country rating 2. Next comes the country’s population, with an exponential of 1: a double population gives, cet. par., a double allocation. And finally there is the GNP per capita with its exponential of –0.125. The latter provides a modest upward bias for poorer countries: a country with a GNP per capita of US$100 cet. par., will receive an allocation about 33% higher than a country with a GNP per capita of US$1,000.