

OED IDA REVIEW

REVIEW OF THE PERFORMANCE-BASED ALLOCATION SYSTEM, IDA10-12



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This is one of the series of background papers prepared for the OED IDA Review. In the IDA12 Replenishment Report IDA Deputies requested OED to undertake an independent review of the IDA program during the IDA10-11 period and an interim review of IDA12. The Review concentrates on IDA's development contribution in six *thematic development priorities*: (i) poverty reduction; (ii) social development; (iii) private sector development; (iv) governance; (v) environmentally sustainable development; and (vi) gender. It also addresses four priority *process reform objectives*: (i) performance based allocations; (ii) enhanced CAS design and implementation; (iii) improved aid coordination; and (iv) participation.

The findings, interpretations, and conclusions expressed in this paper are entirely those of the author. They do not necessarily represent the views of the Operations Evaluation Department or any other unit of the World Bank, its Executive Directors, the IDA Deputies or the countries they represent.

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EXECUTIVE SUMMARY

1. This report on the IDA performance-based allocation system forms part of the response to a request from the IDA deputies contained in the IDA12 replenishment report: “that OED undertake a review of the IDA program during the IDA10-11 period and an interim review of IDA12, including performance in implementing the recommendations of the Deputies set out in each of these Replenishment reports”. It is the first independent review of the performance-based allocation system.
2. Since 1977, the performance-based allocation system has been used to annually allocate all IDA funds available over the forthcoming three-year period, taking into account country performance (see box). As currently defined, performance is a matter of a borrower’s implementation of sound policies and institutional arrangements conducive to sustainable economic growth and poverty reduction within a framework of good governance, as well as effective implementation of its portfolio of ongoing IDA operations.
3. Over the IDA10-12 period, the performance-based allocation system has evolved to reflect new knowledge and specific IDA replenishment recommendations directed to tightening and revising its design and implementation. In particular, these recommendations have called for giving greater weight to governance, environmental factors, non development expenditures, and IDA portfolio performance and for applying performance criteria in a transparent and consistent manner across countries. They have emphasized the importance of establishing a clear link between countries’ performance and Country Assistance Strategy (CAS) lending scenarios. The IDA12 replenishment agreement also calls for an opening of the performance-based allocation system to more public scrutiny.
4. Changes in the performance-based allocation formula over the IDA10-12 period have ensured that there is now more reward for a highly rated performance than in the beginning of the period. For example, for every \$1 per capita lent to IDA borrowers overall during fiscal 1993-95, about \$1.20 was allocated to the top quintile performers and about \$0.85 per capita to the lowest quintile. By fiscal 1998-2000, the spread had widened, with \$2.10 per capita going to the better performers and only \$0.60 per capita to the poorer performers. However, because CPIA ratings have become increasingly concentrated around the median rating, there is little differentiation in lending per capita for the intervening performance quintiles: \$0.84 for the upper middle quintile, \$0.84 for the middle quintile and \$0.63 for the lower middle quintile. Moreover, as most of the top quintile performers are relatively small, the bulk of IDA lending, in absolute terms, goes to middle rated performers.

Compliance in the Design and Implementation of the System

5. Consistent with replenishment recommendations, considerable changes for the better have been made in both the design and implementation of the performance-based allocation system over the IDA10-12 period:

The Performance-Based Allocation System

The performance-based allocation system annually allocates all IDA funds available over the following three-year period. Principal determinants are population size, country performance, and per capita income.

Step One: Country Performance Assessments

There are two annual ratings by staff of each borrower's performance: the Country Policy and Institutional Assessment (CPIA) rating and the IDA portfolio performance rating, currently combined in an 80:20 ratio. CPIA ratings derive from an unweighted average of 20 indicators that relate to four sets of concerns: economic management, structural policies, policies for social inclusion, and public sector management and institutional arrangements. Policies are the key, rather than actual outcomes. The combined performance rating is reduced by one-third for borrowers found to have severe governance problems—referred to as the “governance discount.”

Step Two: The Allocation Process

Performance ratings are factored into a formula to arrive at a three-year indicative, or normative allocation of IDA resources to each country. The formula ensures that the level of resource allocation rises faster than the rating of performance so that there is a considerable "reward" for countries at the upper end of the performance scale. Population size and GNP per capita are also factored in. In light of the normative allocations and other factors considered relevant, IDA management determines the approved allocations. There are maximum and minimum lending conventions; and some special case borrowers, including effective IDA-blend and eligible post-conflict countries, have allocations not driven by the formula.

Step Three: Relating the IDA Allocation to Country Assistance Strategies

The approved allocation generally forms the base case lending scenario for each Country Assistance Strategy (CAS) presented to the Board for review. However, CASs do not provide information on the country performance ratings nor the normative and approved allocations underlying the base case lending scenario, and there is no linkage between the performance-based allocation system and the alternate CAS lending scenarios—the high and low cases.

- Policy performance criteria have been amended to reflect increased knowledge about growth and poverty alleviation and specific IDA replenishment agreement instructions.
- Staff have made serious efforts, within stringent budget constraints, to improve consistency in the assessment and review processes across countries (such as defining performance levels for each criterion; rating each criterion separately, rather than rating only at a more aggregate level; instituting a cross-regional benchmarking exercise; and expanding the review system).
- Borrowers' performance with their portfolio of existing IDA credits has been taken into account.
- IDA management has shown flexibility in approving some allocations that differ from the normative allocations that result from the performance-based allocation system. In 2000, for example, higher than normative allocations were made to borrowers emerging from conflict situations, to many transitional economies of eastern Europe and central Asia (though less than in previous years) and to a few better performing Sub-Saharan African countries (in order to raise the share of that Region).

Areas for Further Improvement

6. Notwithstanding the many improvements in the workings of the performance-based allocation system, there are some shortcomings in design and implementation that relate to two key issues emphasized in the replenishment reports and fundamental to the system's relevance and credibility:

- The extent to which the performance rating system has been managed in a transparent and consistent manner, to achieve reasonable equity of treatment across all countries.
- The strength of the links between CPIA performance criteria and further poverty reduction.

7. The principal areas recommended in this report for further improvement are summarized below.

8. ***Establishing a Written Record.*** When rating a country, staff are not obliged to provide written rationales for their ratings for each CPIA criterion, except where a rating is questioned in the review process. This has several important implications. The most obvious are the difficulty of demonstrating consistency of application, despite the efforts of IDA management to improve consistency, and the impossibility of claiming that the system is transparent, as the replenishment reports recommend. It is difficult to ascertain whether CPIA criteria are being interpreted similarly across countries and regions and being rated consistently. It is also difficult to analyze some of the aggregate CPIA results (to determine, for example, whether the recent trend to bunching of most CPIA ratings around the median reflects reality or the increasing complexity of CPIA design). Moreover, IDA would be exposed to a credibility risk if the system were to be fully disclosed, as recommended below, without the backup of a written record. For all these reasons, and because of the importance of a system that annually allocates about \$20 billion of public funds for the next three years, it is recommended that written records be established. Implementation of the system currently costs about \$700,000 a year; establishing a full written record may add 50-100% to that amount.

9. ***Improving the Design of the Rating Systems.*** The criteria used in the CPIA rating system—which accounts for 80 percent of the overall performance rating—have evolved considerably over the IDA10-12 period in response to increased knowledge about growth and poverty reduction as well as specific recommendations from the IDA deputies. However, what is being attempted is inherently very difficult, and it should not be surprising that the report contains recommendations for further evolution. Principal among them are to:

- Remove criteria not shown by research to be relevant and important for growth and fund research to identify policies relevant to poverty reduction (beyond that achievable by growth alone)
- Assign appropriate weights to individual criteria.
- Ensure that each criterion consists of just one element that can be appropriately rated and reviewed.

- Develop consistent definitions for each rating level for each criterion, with similar interval values between equivalent ratings for each criterion.
- Ensure that each criterion rates policy performance rather than level of development, rewarding equally all borrowers that are doing everything feasible in their given situations.
- Ensure that each criterion can be objectively assessed and that IDA has the capability to assess it.
- In the light of ongoing consultations and research, redefine the governance indicators.

10. IDA management intends to undertake a major review of CPIA design in 2001, taking into account these recommendations. Close involvement of IDA's partners might usefully be built into that review.

11. The other rating system—covering IDA portfolio performance—has also evolved positively over the review period, but some problems remain. Principal recommendations are to:

- Separate the responsibilities of the borrower and of IDA for portfolio performance (currently being worked on by IDA management).
- Remove the counterintuitive (but substantial) positive effect on ratings when poorly performing projects are cancelled.
- Adjust the rating scale to make it compatible with that of the CPIA rating scale, with which it is being combined.

12. *Rethinking the “Governance Discount.”* The current governance discount, introduced in 1998, is not having its intended effect—except to send the message that IDA takes governance matters seriously. By the second year of operation, only borrowers with the very lowest overall CPIA ratings were affected. Yet the governance discount did not capture some countries with notably poor governance, some of which escaped penalty entirely, while other countries had their lending programs curtailed. The governance discount appears to be penalizing only the poorest performers overall, rather than the worst performers on governance. The system needs further careful study to achieve both equitable outcomes and a more substantial cut in lending to governance nonreformers even though their other performance ratings may be average. The report makes some specific suggestions. In particular, further work is needed on establishing better governance indicators. Such work is already under way within the Bank, with open discussion with researchers outside the Bank and with IDA's partners.

13. *Relating the Performance-Based Allocation System to the CAS.* Although the approved IDA allocations that emerge from the performance-based allocation process are reflected in most CAS base case lending scenarios (see box), two improvements are needed. As recommended in the IDA12 replenishment report but not yet implemented, each CAS should discuss the rationale for the base case, especially when the approved allocation is different from the normative allocation (and in the exceptional cases when the “approved” allocation is made directly, without application of the allocation formula). Also an appropriate linkage needs to be made between borrower actions recommended in

the CAS for moving to higher levels of lending and the CPIA criteria for measuring performance.

14. *Some Additional Considerations.* Several additional issues might usefully be considered. These include *alternative allocation mechanisms*, such as assigning a portion of IDA availability on a program basis (for example, for furthering girls' education or for regional projects) rather than assigning all of it according to country policy performance; allocating prefixed lending amounts per capita, depending on performance, rather than using the allocation system to distribute everything that is available, which could give better signals to borrowers, as well as to donors on the justification for future replenishment amounts; and establishing minimum levels for certain key CPIA criteria as a threshold condition for the allocation process to proceed. Another issue raised is how the performance-based allocation process might need to be adapted in light of the *poverty reduction strategy* approach now being introduced for all IDA borrowers.

15. A final issue concerns *disclosure*. The *methodology* of the performance-based allocation system has been disclosed since 1999, through the Bank's external Web site and in discussions with some development partners. This disclosure has not yet led to the two-way dialogue that the IDA12 replenishment agreement had in mind when it recommended that IDA take the advice of those partners. Individual country performance rating *results* are not disclosed, except that countries are now publicly listed by performance quintiles. A recent Board decision authorized disclosure to each borrower of its own performance rating, an essential first step and an aid to dialogue, and asked for analysis of further disclosure. This decision is not sufficient to ensure cross-country equity in the application of the rating system and for enabling the Bank to tap into the wisdom of outside parties in the continuing appraisal and evolution of the system. Nor is it fully in line with the trends towards transparency that the Bank wishes to encourage in others. Obstacles to moving to full disclosure would have to be addressed—including the concern of IBRD borrowers that disclosure of their ratings could negatively affect their market ratings, and the timing in terms of making needed improvements in advance of disclosure. It ought to be possible to deal with those obstacles in the context of the review of the system planned by management in the coming year. Disclosure in advance of introducing a written record could be detrimental, however, which may delay full disclosure until 2002.

1. INTRODUCTION

16. From the beginning, policy performance has had an important influence on the allocation of International Development Association (IDA) funds.¹ Today, the performance-based allocation system is the principal mechanism for achieving greater country selectivity in the allocation of IDA funds. The system annually allocates, on a three year rolling basis, some \$20 billion of public funds among some 80 potential IDA borrowers.

17. The core of the performance-based allocation system is the annual country policy and institutional assessment (CPIA).² The CPIA ratings are converted into IDA normative allocations using a formula that also takes account of GNP per capita, a discount for weak governance (since 1998), the population of small countries (1998 and 1999 only), and implementation performance on IDA-financed projects.³ These normative allocations guide management decisions on actual IDA allocations, which are arrived at through an annual lending strategy review.⁴ Barring major developments since the last lending strategy review, these allocations constitute the base case lending scenarios in the country assistance strategies reviewed by the Board for all borrowers.⁵

18. Despite its importance, few Bank staff other than country economists and managers directly involved in the annual CPIA exercise know much about it and fewer still are familiar with the allocation formula.⁶ The system is even less well known outside the Bank. The first public presentation of the system's architecture came at a UK-cosponsored roundtable in March 1999 attended by 35 representatives of donors, borrowers, and nongovernmental organizations. More recently, the Bank's Web site has provided information on the system's architecture and has categorized IDA borrowers by quintile of overall performance ratings.⁷ Details on individual country ratings are now being made available to the borrowers concerned,⁸ but remain unavailable to the Board or to the public, the latter limiting evaluation of the system by independent researchers.

¹ Throughout this paper, and in line with IDA practice, per capita lending is the numeraire for analyzing the relationship between performance and lending.

² The country performance rating system was redesigned in 1998 to give institutional elements greater emphasis. To reflect this, and to reemphasize that it is policy that is being assessed, not economic development outcomes, the name was changed from 'country performance rating (CPR)' to 'country policy and institutional assessment (CPIA)'. To avoid a proliferation of acronyms, CPIA is used to denote the assessment exercise throughout this report. CPIA has other uses, which are touched on only tangentially in this report. It has been conducted for IBRD-only borrowers as well as IDA-eligible borrowers. It is used as a research tool. It is beginning to be used as an aid in the allocation of the IBRD/IDA administrative budget.

³ Project implementation performance was initially introduced in 1993 as an integral part of the CPIA rating. Since 1998, it is has been treated separately, as part of the allocation formula.

⁴ Before 1997, this was known as the lending allocation review. To simplify discussion, the term lending strategy review will be used for either process throughout this report.

⁵ Larger borrowers are normally reviewed every two years with an intervening progress report, smaller borrowers about every three years.

⁶ The performance-based allocation system has never been discussed at a formal Board meeting, but there was an informal seminar in March, 2000. There is no line item in the Bank's administrative budget for performance-based allocation activities, which have been roughly estimated by staff as costing about \$700,000 annually.

⁷ A combination of CPIA ratings, IDA portfolio performance ratings, and governance discounts.

⁸ IDA Board decision of August, 2000.

19. During IDA10 negotiations IDA deputies asked for background information on the performance-based allocation system and requested some important changes. The system was discussed briefly during IDA11 negotiations and in more detail during IDA12 negotiations, leading to further major changes. This report answers an IDA donor request to review how IDA management has responded to recommendations contained in the final reports on these three replenishments. As it is the first independent evaluation of the performance-based allocation system, it is more comprehensive than strictly required by the IDA donor request. The report is organized around the steps in the system. It first looks at the design, application, and results of the country policy and institutional assessment (CPIA), and then at the allocation process, from conversion of the CPIA ratings into normative allocations for each country to final allocations. It explores how these final allocations are linked to the lending programs presented to the Board in individual country assistance strategies and to actual lending. The final section takes up such additional considerations as alternative methods of allocation.

2. COUNTRY POLICY AND INSTITUTIONAL ASSESSMENT

20. A formal linkage between annual staff assessments of the performance of IDA-eligible borrowers and IDA lending allocations was initiated in 1977. Performance assessment currently encompasses a borrower's implementation of sound policies and institutional arrangements conducive to sustainable economic growth and poverty reduction within a framework of good governance.

21. The country policy and institutional assessment (CPIA) intentionally measures policies and institutional arrangements rather than actual outcomes (growth, poverty reduction)—in other words, the key elements *within a country's control* that determine growth and poverty reduction. This reflects IDA's intention to support most strongly countries that are doing the most to meet IDA's principal objective of sustainable poverty reduction. In the CPIA rating system, therefore, IDA tries to prevent factors beyond a country's control from affecting the rating. For example:

- Actual annual growth should not be used as a performance measure directly, since growth might reflect such factors beyond a country's control as movements in commodity prices more than, say, the adoption of appropriate trade policies. The reasonable presumption is made that good policies will lead, on average over time, to maximizing growth and poverty reduction, even though there may be considerable swings in actual growth from year to year because of exogenous factors.
- A country's level of development should not affect the assigned rating. In the very poorest countries, for example, it might not be practical to have a formal poverty safety net, so these countries may need to continue to rely mainly on informal traditional protection mechanisms. But at a higher level of development, the absence of a formal safety net might well be a sign of inadequate policy.
- To avoid giving more support to a country simply because it is better endowed, it is policies related to the use of natural resources that should matter, rather than their existence.

22. It is only in this narrow sense, however, that the CPIA relies on effort rather than outcome. In rating policies themselves, it is outcome (is the appropriate policy in place or not?) rather than effort or promise to reform policies that must be the focus. Government announcement of an intended policy change would not be enough to boost ratings—the change has to be made and put into effect. There have been too many cases of potentially good policies that are on the books but that have not been put into practice or whose practical effect has been obstructed for this to be otherwise.

23. This part of the review first tracks the changes in CPIA design and implementation during the IDA10 and IDA11 periods through the IDA12 negotiations and the first half of IDA12 implementation (through December 2000). It concludes with an assessment of what the CPIA system appears to be achieving and recommendations for further improvement.

24. The review finds that the design and implementation of the CPIA system has changed markedly for the better over the review period. These changes have come largely in response to a greater understanding of the determinants of growth and sustainable

poverty reduction, lessons from implementing the system itself, and recommendations from IDA donors, usually expressed in the final reports on IDA replenishments.

25. With a few exceptions, this review also finds that IDA management has made sincere efforts to comply with the CPIA-related recommendations of the IDA donors. Yet the results have fallen short in some cases. For example, several important changes were implemented to improve equity in the treatment of countries, yet some CPIA elements still work against cross-country equity, and the system is not yet transparent. Doubts also remain about how well the CPIA ratings (which are influenced both by its design and its implementation) really measure the policy framework and its conduciveness to sustained growth and poverty reduction. There is evidence that ratings may be unduly influenced by contemporaneous growth. In considering these matters, however, it is well to remember that what is being attempted by the CPIA system is inherently difficult, with no definitive answers. While the changes recommended below should assist the system's further evolution, it will need to be kept under continuous review as knowledge about development itself also evolves.

A. CPIA Design and Implementation through the IDA10 Period, 1991–1994.

26. During the IDA10 period, IDA deputies endorsed or asked for several changes in the CPIA: assessment of borrower performance on existing IDA credits, expansion of the definition of *governance*, and more precise guidance on natural resource management. They also noted “the need to apply performance criteria in a transparent and consistent manner across regions and countries.” The way the CPIA exercise was conducted in this era makes it difficult to establish how effectively the requested changes were incorporated, but evidence suggests that IDA management failed to meet the deputies' recommendation on transparency and cross-country equity.

CPIA Design before IDA10 Negotiations

27. The background paper on CPIA provided to IDA donors and the Board in January 1992 described the design used in the 1991 CPIA exercise, but only in outline form:

The components of the performance rating procedure are the country's short-term economic management, long-term economic management, and poverty alleviation policies. Countries are rated in each of these three components on a scale of 1-5. Short-term management includes consideration of monetary, fiscal, exchange rate, and pricing policies. For the long term, consideration is given to structural policies—including external and domestic trade regimes, private sector development, tax and financial sector policies, governance, and natural resource management. Poverty alleviation includes policies promoting the delivery of social services, and the reduction of biases against the agricultural terms of trade and the demand for labor. (“IDA Allocations Revisited,” IDA10 Discussion Paper 2, Annex, page 20)

28. This description was accurate, but did not do the system full justice; and it failed to state explicitly that each of the three components carried equal weight. In particular, long-term management and poverty alleviation covered many more topics than those presented in the IDA10 background paper. For example, long-term management also included the quality and allocation of public expenditures, agricultural policies and

programs, human resource development (including women in development), public sector management, and infrastructure. Governance was defined as: “accountability, openness and predictability of government actions.” Poverty alleviation covered considerably more ground, consistent with the principles of *World Development Report 1990: Poverty*.

29. Parts of the 1991 instructions are worth quoting because they are still relevant today:

- “The objective is to get an assessment of how well countries are implementing good policies. Accordingly, we are de-emphasizing recent performance in such indicators as real growth in output, exports, etc. Nevertheless, output indicators should be used judgmentally to assess whether policies are actually being implemented.”
- “In assessing country performance, we are not interested in ascertaining whether a government is ‘to blame’ for a poor policy framework. There may sometimes be good reasons why a government is unable to address certain policy issues effectively, notwithstanding its best efforts. However, it is the actual policy framework that is to be assessed and not the intent or the effort of the government.”
- “Since the focus is on policies actually in place, no account is to be taken of anticipated future policy reforms until they have been made effective. The platforms of incoming governments or recently published development plans are not deemed relevant to country performance until acted upon.”

30. These last two points, on effort and intent, have caused considerable difficulty, as there is a natural tendency to give credit for both. The 1991 CPIA instructions made clear that the appropriate place for taking these elements into account was at the later lending strategy review stage, when management is deciding whether actual IDA allocations should differ from the normative allocations that result from the strict application of CPIA ratings in the allocation formula (see part 3).

31. The 1991 design included most areas of policy then considered to be probable determinants of sustainable growth and poverty reduction. But it was deficient as an operational tool in several respects:

- The instructions to staff consisted simply of a series of checklists of areas to be considered—much as quoted above—without any guidance on how to apply the 1–5 rating scale to particular levels of policy.
- No weights were assigned to individual elements within each of the three basic parts (short-term economic management, long-term economic management, and poverty reduction). In the absence of instructions a reasonable assumption might be that each element carried equal weight. By that measure, for example, governance would be presumed to have had a 3 percent weight. But there is no indication that this kind of equal weighting was intended by the system designers—or followed by those using it. This problem was exacerbated by the lack of transparency: ratings were required only at the aggregate level, rather than for each element.
- There was no requirement to provide written justification of the ratings.

32. Achieving reasonably equitable ratings across countries was thus extremely difficult. To ameliorate this problem, staff in charge of the system held meetings with regional staff to work toward a common understanding of the methodology. After regional staff submitted their ratings on each of the three components, meetings were held between central staff and each region and then between central staff and all the regions together to spot any anomalies.

Design Changes during IDA10 Negotiations

33. The 1992 CPIA exercise took place in the middle of the IDA10 negotiations. Some changes had been made in the checklists for performance assessment:

- External account management and debt management were added to short-term economic management.
- The definition of governance, within long-term economic management, was expanded to include community participation in programs and projects (“the deputies were pleased to note that IDA management has instructed staff to pay explicit attention to . . . consultation with NGOs and groups affected by projects, in defining performance,” “IDA10 Replenishment Report,” paragraph 37). The definition was further expanded to include diversion of resources from development to nondevelopment (military) purposes (“steps [were] taken to incorporate into IDA allocations an assessment of the degree to which levels and trends of nondevelopment expenditures are hampering the development effort,” “IDA10 Replenishment Report,” paragraph 37).
- The natural resource management element of long-term economic management was made much more detailed, including progress in preparing and implementing environmental action plans, actions to develop key environmental institutions, implementation by government of environmental assessments for all sensitive investment projects, consistency of the economic policy framework with environmental responsibility, and natural resources management (the deputies recognized “the usefulness of the more precise guidance being given on performance with regard to environmental policies and supporting actions such as preparation and implementation of environmental action plans,” “IDA10 Replenishment Report,” paragraph 37).

34. The 1992 CPIA instructions were the first to provide country and regional economists with Bankwide economic and social indicators, an effort to “systematize that part of the cross-country comparisons which depends primarily on observed performance trends.” It is difficult to judge whether the new instructions had any impact, because there were no written explanations of the ratings and the operational problems related to the rating scale and weights remained. It seems doubtful, however, given the slow management reaction at the time to the substance of governance, participation, nondevelopment expenditures, and natural resource management. Moreover, adding participation and nondevelopment expenditures to the definition of governance effectively lowered the weight given to the original definition—“accountability, openness, and predictability of government actions”—from 3 percent to 1 percent, while giving the two new items an effective rating of only about 1 percent each. This likely had

little practical significance, however, because no attention appears to have been given to weights anyway.

Design Following IDA10 Negotiations

35. In 1993, IDA portfolio performance was added to performance assessment and assigned a 20 percent weight, following the IDA10 Replenishment final report's recommendation that "country portfolio reviews are to be conducted annually and will be directly linked to country strategy papers and lending allocations." (This element was later moved out of CPIA and into the allocation formula and so is discussed substantively in part 3.) The 1993 and 1994 CPIA exercises included no further design changes, while the operational problems related to the rating scale and weights and the lack of detailed written justifications of ratings remained unaddressed. IDA management thus did not meet the IDA10 Replenishment final report's recommendation "to apply performance criteria in a transparent and consistent manner across regions and countries".

B. CPIA Design and Implementation through the IDA11 Period, 1995–1997.

36. No background papers on the CPIA were prepared for the IDA11 replenishment negotiations of September 1994 through March 1996, and the IDA11 Replenishment final report referred mainly to CPIA's continuing importance. The IDA negotiators were apparently not informed of the major overhaul of CPIA design for the 1995 exercise, which introduced definitions of rating levels and detailed weights. Still, problems of transparency and cross-country equity remained because written explanations of the performance ratings were not required. Governance seems to have slipped in importance (somewhat corrected in the 1997 CPIA exercise), and the weight of IDA portfolio performance was reduced from 20 percent to 10 percent (and then to 7 percent in 1996 and 1997), even though it had been added initially on the specific recommendation of the IDA deputies.

The 1995 Redesign of the CPIA

37. A principal change in 1995 was the addition of descriptions of the kinds of policies that would warrant various ratings, from 2, low to 4, high, with 1 reserved for persistently low performers and 5 for persistently high performers. In-between scores were also permitted, such as 3+ (=3.33) and 4- (=3.67). Examples of policy descriptions and ratings are provided in boxes 1 and 2. While the examples likely improved the validity of cross-country and cross-regional comparisons, they also exposed some practical problems—some of which persist. For example, how should countries at different levels of development be assessed, considering that what might be acceptable policy at certain levels of development might not be at others? Of the examples in boxes 1 and 2, that on privatization strategy seems to be fairly neutral to the level of development, whereas that on safety nets does not: formal safety nets might reflect a good use of resources in some countries but not in others, especially the poorer countries with functioning informal systems.

Box 1. Criterion 12—Privatization Strategy, 1995 CPIA Instructions

Low. The government does not have a publicly articulated and/or comprehensive privatization strategy, and any privatization actions that have taken place over the past 3 years have been ad hoc.

Medium. The government has publicly articulated a comprehensive and transparent privatization policy but implementation has been slow or partial over the past 3 years.

High. The government has publicly articulated a comprehensive and transparent privatization policy and has acted on it over the past 3 years to measurably change the balance of public-private involvement in commercial activity.

Box 2. Criterion 16—Safety Nets, 1995 CPIA Instructions

Low. No formal safety nets exist, with government actions in these areas being ad hoc and largely reliant on external donor inflows. Inadequate coverage of vulnerable groups.

Medium. While some formal safety nets exist, they have been introduced only recently, are underfunded, or are implemented only partially. Progress in the right direction on agreed program.

High. The government has in place formal disaster management, social security, in-kind/cash transfer, and/or employment programs for the transitory or chronically poor groups which are funded out of general revenues. It provides adequate protection of vulnerable groups, including workers laid off from the public sector due to downsizing or privatization.

38. Another important change concerned weights. Specific weights (5–10 percent each) were allocated to the 17 criteria on structural reforms. Although the rationale for the specific weights is not recorded, their identification—and thus the need to rate the criteria separately—must have improved cross-country and cross-regional comparability. Changes in weights at the aggregate level were modest, however:

- Short-term economic management (now called macroeconomic stability) retained nearly the same weight (25 percent, down slightly from 26.7 percent).
- Long-term economic management and poverty reduction were combined (now called structural reforms) and given a larger weight (65 percent, up from a combined 53.4 percent).
- The weight for IDA portfolio performance was reduced from 20 percent to 10 percent. Viewed by managers as problematic in content and not well suited to the overall CPIA emphasis on policy issues, portfolio performance was reduced in influence since it could not be eliminated (it had been included in response to IDA deputies' recommendations).

39. Governance was no longer specifically listed. Instead, the covering instructions to the 1995 CPIA exercise stated that “performance assessments put a great deal of weight on *governance, commitment, and credibility* [emphasis in original]. There are no separate categories for assessing these issues in the aggregate, but these enter the assessments of performance in all categories. Judgments on these matters require an examination of the track record, rather than exclusive reliance on the most recent statements of the government.” With no records of how individual assessments were made, there is no way

of knowing how much weight was actually given to governance. Conversations with several staff involved in the exercise suggest that the answer is, very little.

40. Specific mention of several other elements also disappeared. Nondevelopment expenditures were alluded to only indirectly, in the definition of *low* for the criterion on volume and composition of public expenditures (“allocations support clearly unproductive activities or ‘white elephants’”). Community participation in programs and projects also disappeared except in the definition of *low* for the criterion on social sector strategies (“project selection does not involve community participation”). Overall, the 1995 revisions represented a step backwards with respect to IDA10 recommendations on these issues—which had been incorporated in the 1992 CPIA exercise—and IDA portfolio performance.

41. Criteria on the environment remained as detailed as they had become during IDA10 negotiations and retained a similar weight.

Design Changes in 1996 and 1997

42. The 1996 CPIA instructions varied only slightly from those of 1995. A new criterion was added on civil administration, with an effective weight of 3 percent, reflecting increased Bank concern with institutional capacity and corruption (box 3). Room was made for this new criterion by further lowering the weight for IDA portfolio performance, from 10 percent to 7 percent. Concern with capacity also emerged in a number of other criteria, starting the trend away from pure policy assessments toward policy and institutional assessments. However, mixing policy and capacity in the same question makes it even more difficult to ensure reasonable equity in ratings, especially without written records of how assessments are made.

Box 3. Criterion 15—Civil Administration, 1996 CPIA Instructions

Low. Civil service reforms are needed to improve incentives, attract and retain quality staff, reduce corruption, improve training, and remove barriers to the smooth functioning of the bureaucracy. Credible reforms are not yet initiated. Particular importance should be given to capacity in macroeconomic management, and in coordinating structural reforms with stabilization.

Medium. Reasonable reform programs are under way.

High. A capable civil service in place. Little red-tapism, excess staffing, or corruption.

43. With the 1997 CPIA instructions came a move to bring back governance explicitly, through the introduction of a new criterion on the legal and regulatory framework. A note preceding the criteria on public finance and civil administration stated that “attention should also be given to the implications for corruption of public sector administration” in assessing all elements—tax reforms, volume and composition of expenditures, public expenditure management, and civil administration. At the same time, however, the explicit reference to corruption in the civil administration criterion—where it was more noticeable—was removed.

44. The IDA11 final report says little about the CPIA, other than to strongly restate the importance of performance as an allocation criterion:

- “Allocations, therefore, should continue to be influenced primarily by each country’s performance in respect of [the overarching goals of poverty reduction, economic growth and environmental sustainability] *and in project implementation*” (emphasis added). Yet the reduction in the weight of the project implementation component from 20 percent to 7 percent was not communicated to the IDA deputies.
- “The most important determinant of good performance is whether the borrower’s macroeconomic and structural policies significantly contribute to the central objective of reducing poverty *within a framework of good governance*” (emphasis added). As shown above, there seems to have been some back-tracking on this issue in the 1995 CPIA instructions, ameliorated in 1996 and 1997.

45. Although important changes were made during the IDA11 period to relieve the operational shortcomings in transparency and cross-country equity (defined rating levels with specific weights attached), the major underlying problem remained: no requirement to justify ratings in written form. This concerned the CPIA manager, who spent much time with regional staff on improving cross-country equity. The manager was also concerned that CPIA ratings were becoming bunched around the median, something he mentioned in the 1997 CPIA instructions (see section D).

C. CPIA Design and Implementation during the IDA12 Period to Date, 1998–2000

46. The 1997 CPIA instructions were described to the IDA deputies in a background paper in January 1998. Reflecting discussions during IDA12 replenishment negotiations, governance received greater prominence in the 1998 CPIA exercise. Also, the IDA portfolio performance component was moved out of the CPIA and into the allocation formula phase.

47. IDA deputies welcomed this redesign but requested some additional changes for 1999 (implemented) and work to make further refinements (partially under way), along with additional disclosure on methodology (largely done) and results (Board agreement in August 2000 to an essential first step—to share results with individual borrowers—along with instructions to study wider disclosure). Important steps were taken to improve cross-country equity (cross-regional benchmarking, attention to cross-country indicators, and greater involvement of sector specialists in the ratings). But new problems were introduced, partly through management insistence on restricting the number of CPIA criteria to 20, all with equal weight, which increased their complexity as additional aspects of development were included. Still unresolved was the principal underlying operational problem of cross-country equity: lack of written justification of assessments—exacerbated by the fact that the new design only defined half of the ratings levels for most of the criteria (as opposed to 100% in the previous design). The recommendation that the Bank seek outside advice on the system has not yet been implemented.

The 1998 Redesign

48. After the 1997 CPIA exercise, responsibility for the CPIA shifted from the central economics staff (in concert with regional staff) to the new Bankwide Poverty Reduction and Economic Management (PREM) Network. The CPIA was reconfigured to provide an

agreed set of Bankwide criteria for promoting growth and poverty reduction, reflecting the Dollar and Burnside (1997) study “Aid, Policies and Growth” and discussions during IDA12 negotiations. The reconfigured CPIA consisted of 20 criteria, each assigned equal weight—an expression not of a formal assessment that each element exerted an equal impact on growth and poverty reduction but rather of its absence.⁹ In another change, the IDA portfolio performance rating was moved from CPIA into the allocation phase (see part 3). The IDA deputies welcomed the redesign as a “major step in the evolution of the World Bank’s performance rating methodology.” They saw the greater emphasis on governance, as expressed in six governance-related criteria, as particularly significant.

49. The 1998 redesign changed the ratings scale from 1–5 to 1–6, to “discourage the use of non-committal middle scores.” Yet this laudable objective was vitiated by instructions allowing the use of intermediate scores (2.5, 3.5, and 4.5); and indeed wide use is made of them. The 1998 redesign continued to provide guidance on rating performance, but it defined only the 2 and 5 ratings for most of the 20 elements, a step backward from defining all of them and therefore exacerbating cross-country equity concerns.

50. The 1998 redesign also introduced Bankwide benchmarking, principally as a means to improve cross-regional and cross-country comparability. Several countries are chosen for detailed consideration on a Bankwide basis (5 in 1998 and 11 in 1999 and 2000). Ratings are determined through a forum with representatives from all regions and appropriate central staff. These ratings then constitute benchmarks that each region can use in the assessment of non-benchmark countries. According to the regional assessors interviewed for this review, the benchmarking exercise is also useful as a shakedown trial for changes in criteria or criteria definitions before they are launched Bankwide.

51. This benchmarking exercise could be further improved by providing written rationales for the assigned benchmark ratings; by setting an example by not using the middle half-grade of 3.5—used 66 times (30 percent of the available 220 data points) in the 2000 benchmarking exercise; and by selecting countries that are not so closely bunched near the middle of the scale (3.5). The difference between the highest and lowest overall ratings assigned to the 11 benchmark countries in 2000 was 1.4. (Of the 11 benchmark countries for 2000, five were IDA-eligible,¹⁰ with overall ratings within a narrow 0.4 range.)

Changes in the 1999 CPIA Exercise

52. Further changes were made to the CPIA design before the 1999 exercise and reported to the Board as an annex to the first “Annual Report on the IDA Country Performance Rating Process” (IDA/SecM2000-58 of February 10, 2000). Four 1998 criteria were merged into two for 1999; two new criteria were added; one criterion was changed; and the elements of three others were substantially revised.

53. During IDA12 negotiations management described, and IDA deputies endorsed, a new criterion on the equality of economic opportunity to cover “policies to foster gender

⁹ “Country Performance and IDA Allocations,” an IDA12 background paper, listed the 20 criteria, but not the detailed questions.

¹⁰ The CPIA is also used for assessing IBRD countries

equality and social inclusion” and designed “to capture explicitly access to resources and opportunities by the poor, particularly women and minorities.” In the event, management decided to separate “access” into its two constituent parts: “barriers to access” and “actual access.” Thus the final criterion on Equality of Economic Opportunity concentrated on policy, legal and institutional barriers to access; this was substantially amended further in 2000, with some negative effects (see below). And an existing criterion (Pro-Poor Targeting) was amended to cover actual access (becoming Equity of Resource Use).

54. The other new criterion covered the building of human resources. The IDA deputies were informed that its purpose would be “to focus particularly on the access by poor segments of the population to basic education and health services.” As it appeared in the 1999 CPIA, the actual criterion was defined to “assess the policies and institutions that affect access to and quality of education, training, literacy, health, AIDS prevention, nutrition, and related aspects of a country’s human resource development.” There was no specific reference to “access by poor segments of the population”, but probably that would be generally understood by raters. Despite its importance, there was no explicit mention of girls’ education.

55. The elements of three criteria —quality of budgetary and financial management, efficiency of public expenditures, and transparency, accountability, and corruption in the public sector—were substantially improved. They were made more specific and reflective of thinking on public sector effectiveness (according to the 1999 CPIA instructions).

56. To accommodate the two new criteria while holding the total number to 20 (each with a 5 percent weight), four criteria were collapsed into two, effectively reducing their combined weight in each case from 10 percent to 5 percent. Combining trade policy and foreign exchange regime likely did less damage than other combinations might have, since the two are highly correlated and their initial 5 percent rates—as for all the other criteria—were in any case not based on any explicit assessment of their impact on growth and poverty alleviation. But this example demonstrates a general design problem with the CPIA system’s undifferentiated weighting system. Macroeconomic management capacity and sustainability of structural reforms were also combined, resulting in a criterion with three different elements—technical competence, sustained political commitment and public support, and participatory processes—with “a high score warranted if all three are satisfactory; a low score by weak performance on any one.” Combining such disparate elements makes assessing them and maintaining cross-country equity difficult, especially in the absence of written justification.

57. Two new aspects of the 1999 CPIA design were intended to improve its objectivity. Attention was drawn to the PREM/DEC database of indicators for each country and their use in assessing whether a country’s ratings differ significantly from relevant cross-country reference values. And one or more guideposts were added to each criterion to assist in performance rating. The guideposts are often indicators from the PREM/DEC database and other reference items such as Transparency International’s corruption index. Again, it is not clear how well these aids are used since there is no written record of country ratings and there is sometimes a built-in conflict between the use of these outcome indicators and the CPIA emphasis on policies rather than outcomes. The 1999

CPIA instructions attempted to address this conflict by advising that “factual indicators of economic outcomes should be used to inform judgments about the effectiveness of the relevant policies and institutions and to foster comparisons among countries” rather than to drive the assessment.

Changes in the 2000 CPIA Exercise

58. Substantive modifications were made to three criteria for the 2000 CPIA exercise. That covering Policies and Institutions for Environmental Sustainability was improved to deal explicitly with the issue of natural resource management. In the process, it has become more complex. The two other changes also had considerable merit *per se*, but also posed additional problems.

59. The criterion on Equality of Economic Opportunity, already modified in 1999 (see above), was redefined to deal exclusively with gender issues. However, the requirement to keep the overall number of CPIA criteria at 20 has meant that there is now no criterion dealing with discrimination by socioeconomic group (such as race, caste, ethnic group), which is also important (and in some countries perhaps even more relevant for effective poverty reduction than gender discrimination).

60. Finally, the criterion on Safety Nets was converted into one dealing with much broader issues of social protection and labor. Safety nets *per se* are now only a single element amongst a very wide range of other matters, all within a single criterion: availability of insurance against risks such as crop failure, disability, loss of life, loss of employment, or natural disasters; labor codes and government policies and programs to protect children from harmful labor; labor codes and government policies and programs to prevent overt discrimination in the labor market; existence of active labor market programs (such as employment services, job training, public works projects, wage subsidies, micro-enterprise development); government policies and programs to encourage or allow mechanisms for savings among the poor (including regulation of private banks); and centralized government programs and policies to support community-driven initiatives. All these are important topics, although some seem to overlap with elements of other criteria. But the complexity of this criterion is mind-boggling. And the importance of safety nets in the overall rating system is effectively reduced to very little.

61. The review presumed that, given the wholesale change in this criterion, there would be extensive changes in the assessed ratings. However, this was not so. The vast majority of the 2000 CPIA ratings for the Social Protection and Labor criterion are identical to the 1999 ratings for the Safety Net criterion. And, where there are differences, they are no greater—or spread more widely—than is usual from one year to another within a criterion which is identical in both years. The tentative conclusion drawn by the review is that there was no time (in the majority of cases) for country assessors to collect and analyze the data needed to take proper account of the new definition.

The CPIA Process

62. In addition to the benchmarking exercises and the use of outcome indicators and guideposts, other steps were taken to increase cross-country equity. A description of the process in the Africa Region gives a general notion of how the CPIA exercise works.

63. Each country team, led by the country lead economist from one of the five central macroeconomic sector units, produces an initial set of ratings, bearing in mind the results for the two Africa benchmark countries. While the lead economists have a close relationship with the country directors, their line managers are the macroeconomic sector managers who report to the chief economist, thus giving them some degree of independence (this is not the case in all regions). Ratings have to be signed off on by the country directors and relevant microeconomic sector managers before they go to the chief economist.

64. A senior staff member in the chief economist's office then reviews the individual country ratings, in consultation with the region's thematic sector managers. While the thematic sector managers must rely largely on the views of the country team members who produced the initial rating, this step is nonetheless useful and has at times exposed some large discrepancies. The senior staff member consults with the chief economist on any overall country ratings thought to be out of line (12 of 47 in 1999) and then tries to resolve the apparent discrepancies with the country directors. The chief economist needed to be brought in directly in only 2 cases in 1999. Once the chief economist is satisfied, the ratings are passed to the central CPIA manager.

65. Although written records of the reasons behind the ratings are not required, most of the country teams in the Africa Region are said to keep such records, and the office of the chief economist will sometimes ask for a written rationale for a particular rating as part of the dispute resolution process. However, the lack of official written records makes it difficult for external reviewers to evaluate the outcomes.

66. Processes are similar in the other regions, except that the smaller number of borrowers means that all the country ratings can be thrashed out in regionwide meetings. In some but not all regions, the lead economists report directly to the country director. All the country directors are involved in the initial ratings, not just in signing off on them, as in the Africa Region.

67. The central CPIA manager consults with Bankwide sector staff (a recent innovation) on any further questions, generally having to do with comparisons of borrowers across regions rather than within regions. Once again, the absence of written records underlying the ratings presents problems. It makes comparisons at the Bankwide level uneven, since they depend on the specific country knowledge of the Bankwide sector staff involved. And it makes isolating specific results difficult since many of the 20 criteria cover more than one issue (as in the examples mentioned above of macroeconomic management capacity and sustainability of structural reforms, and of social protection and labor).

68. The final step is a virtual process by which Bankwide sector staff and the finance staff provide their comments and observations on regional submissions and the regions respond. The central CPIA manager provides the forum, records the exchanges, arbitrates a consensus and prepares a comprehensive Bankwide analysis of the results (some regions also produce their own), which helps in preparing for the following year's exercise.

Proposed Further Changes in the CPIA Framework

69. The IDA12 replenishment report outlined areas for further development of the CPIA design:

- “Work on appropriate equity and governance indicators and reference points will continue to be refined” (Annex A, paragraph 8). An example is the gender indicators (Genderstats) now available on the Bank’s intranet. Evidence of other work on equity indicators was not found for this review, although considerable work on governance indicators is under way inside and outside the Bank and should eventually be reflected in modified CPIA criteria.
- “The need to take fully into account the role of participatory processes in ‘sustainability’ assessments’ (Annex A, paragraph 9). Evidence of such work was not found for this review.
- “The need to incorporate access to resources and opportunities to the poor, particularly women and minorities” (Annex A, paragraph 9). This was largely done in the 1999 redesign, as discussed above, through one criterion dealing with policy, legal and institutional barriers and through another concerning the equity of actual public resource use, although the latter did not explicitly mention women. The gender issue was appropriately taken care of in the 2000 redesign, though at the expense of dealing with minorities.
- “Consideration of the extent and impact of non-development expenditures” (Annex A, paragraph 9). Evidence of such work was not found for this review.
- “Increased use of independent indicator sources to strengthen the CPIA assessment mechanism” (Annex A, paragraph 9). The introduction of guideposts in the 1999 redesign brought in some independent indicators. And other independent indicators are being looked at closely under ongoing work on governance.

70. In making these recommendations, the IDA12 Replenishment final report noted that the work should “take into account lessons emerging from operational experience and advice from inside and outside the World Bank, including from IDA borrowers” (Annex A, paragraph 9, with similar wording in paragraph 34 of the main text). While the annual review of the CPIA questionnaire provides an opportunity for the regions to influence its design by bringing in lessons from operational experience and advice from inside the World Bank, very little has been done to bring in advice from outside the Bank. Posting details about the CPIA questionnaire on the Bank’s external Web site and sharing them with multilateral and bilateral donors has been an important first step in that direction, but the communication is still largely one way: the Bank lacks a mechanism for receiving outside advice. A number of recommendations emerged from the 1999 roundtable (see part 1), but these do not appear to have led to any changes. A vigorous debate of these issues among all development partners is needed

71. Another recommendation was that the Bank share the results of its exercise more openly. While the Board decided in August 2000 to inform each borrower of its performance rating, it decided only to study further the pros and cons of additional disclosure. Thus the Bank appears not yet to have fulfilled the IDA12 Replenishment final report recommendations on disclosure (see part 5 for further discussion).

D. Four Measurement Issues in the Country Policy and Institutional Assessment

72. So far this review has examined changes in the design of the CPIA exercise over the IDA10–12 period in light of the recommendations of IDA deputies. This and the following section take up some of the general issues that emerged from that examination. This immediate section discusses four measurement issues:

- *What is the CPIA measuring?* It is intended to measure the quality of policies designed “to promote economic growth and poverty alleviation” in the future, stripped of exogenous factors. That is a most difficult task. Moreover, it is also difficult to disentangle the past. However, from the little internal research that has been done, coupled with anecdotal evidence from Bank staff, it appears on average that CPIA ratings may be considerably affected by contemporaneous growth, with only modest predictive power with respect to future growth or poverty reduction. Suggestions are made for ameliorating this.
- *How have CPIA results developed over time?* Despite fundamental changes in CPIA design and despite a general understanding that developing country policies have improved on average during this period, average and median CPIA results have remained remarkably steady since 1977. Even more important, however, CPIA results have been concentrating increasingly around the median since 1985. This may reflect the reality that country policies are converging, but it may also be an unintended consequence of design changes.
- *What does the distribution of ratings look like across regions and criteria?* The regional data seem contrary to expectations in some cases and suggest different standards in different regions. Some criteria seem to be easier to score well on than others. Since all criteria are assigned equal weight, irrespective of their influence on poverty reduction, this effectively gives a higher rating to these criteria and suggests problems of cross-country equity.
- *What do the ratings on the six governance-related criteria introduced in 1998 show?* The governance-related ratings are highly correlated with those of the other 14 criteria, and thus add little to the overall assessment. This probably reflects both reality – good governance and good policies go hand in hand – and inadequate knowledge, with a tendency of staff to rate both areas similarly. Better governance indicators are needed, and management is working on developing them.

What Is the CPIA Measuring?

73. The CPIA is intended to assess country performance with respect to policies conducive to long-term poverty reduction. It is expressly not designed to mirror annual contemporaneous growth or poverty reduction (paragraphs 21 and 29). One way to see whether the CPIA is achieving its purpose is to examine the predictive value, on average, of CPIA ratings for long-term poverty reduction. (On average because exogenous factors will influence results for individual countries.) External researchers have been unable to examine this issue because CPIA output data are not released outside the World Bank. There has been some internal research (described below), but the results have not been published in refereed journals (and thus made available for informed criticism), which normally require that the underlying data be made available. But first a note of caution! This review has already indicated that what the CPIA is trying to do is extremely

difficult. A review of the methodology of the research reported on below also showed how difficult it is to disentangle the role of CPIA versus other factors in explaining the past. And it also has to be borne in mind that CPIA design itself has been modified in major ways over the past 20 years covered by the cited research. Indeed, the current CPIA design (from 1998) does not figure in that research at all.

74. A December 1998 draft of an OED study of World Bank assistance to several West African countries noted that major shifts in CPIA ratings tended to follow, rather than predict, major changes in growth patterns. These findings—not included in the final version of the study—apparently stimulated additional research by central economics staff. That research sought to determine for all IDA countries whether there was a significant, positive association between CPIA ratings in 1977 and subsequent growth in 1977–96. In May 1999, this study reported no significant association, though significance improved slightly when China was excluded (China had very poor policies in 1977 but reformed shortly thereafter). The explanatory power rose when the average CPIA rating for 1977–96 was used instead of the initial 1977 rating, though it was still not high. The study noted “serious concerns about how this subjective rating may have been responding to contemporaneous growth. The association could be spurious because country analysts assumed any country with rapid growth had good policies.” The study also examined a shorter, more recent period, looking at the 1990 CPIA rating and subsequent growth in 1990–97. Although the association was stronger, it was still “not quite significant.” Again, the explanatory power was much stronger using contemporaneous CPIA ratings (average CPIA ratings for 1990–98), although again there was “serious concern about feedback from growth to these subjective ratings.”

75. A third research study compared average CPIA ratings for 1990–99 with growth and poverty reduction over the same period. The results, presented at an informal Board seminar in March 2000 (see part 1), showed a strong correlation between growth of per capita GDP (and growth of income of the poor) and economic policy in the 1990s. The slide presentation did not make clear that both ratings and growth figures were averages for the 1990s, perhaps leaving a mistaken impression of the predictive power of CPIA ratings. The results would be quite consistent with the concern, cited above, that CPIA results might largely reflect contemporaneous growth.

76. A reexamination of the 1977-1996 data has been undertaken very recently, concentrating on the five 4-year periods involved. This shows that the CPIA result at the beginning of a four year period is statistically significant as a determinant of growth over that period. A further look at that data would now be useful to see if the CPIA rating itself was more or less significant a determinant than if actual growth at the beginning of the 4-year periods had been used instead.

77. Taken together, but bearing in mind the caution noted above, the above research results seem reasonably coherent and plausible: that CPIA ratings may track contemporaneous growth reasonably well, and may have some predictive power concerning growth over the next few years, but that their predictive power dies away when longer periods are examined.

78. These research results also add credence to anecdotal evidence from Bank staff that contemporaneous growth is a (but not the) driving force behind overall country ratings,

despite the detailed CPIA criteria. There is a natural tendency to assume that borrowers showing good contemporaneous growth must have good policies.

79. How can this presumed linkage best be dealt with? One answer is to ensure that country raters actually rate according to the standards set down in the CPIA criteria in as objective a manner as practical—and that dictates that these raters routinely provide written rationales for the ratings against each detailed criteria. Another answer is to further develop the CPIA criteria themselves, as addressed in section E below.

How Have CPIA Results Developed over Time?

80. Average and median CPIA ratings have remained remarkably steady over time (figure 1).¹¹ From 1985 to 1992 the median was precisely 0.500; it dipped slightly in 1993 before returning to 0.500 in 1994. This steadiness is surprising since quite a few observers believe that the policies of many IDA borrowers have improved significantly since the formal system started in 1977, with improvements particularly evident after 1980 and in the 1990s. It could be that some borrowers have improved substantially, while others have declined. But in that case the standard deviation of the CPIA ratings should have risen, whereas it has declined steadily since 1985 (see figure 1), with a slight upturn in 2000. This decline may simply reflect that policies of different borrowers are converging around similar elements, but there is also evidence that the very structure of the CPIA is pushing ratings toward the median—the large number of criteria, most of which are quite complex, and the high thresholds for the upper rating levels. The CPIA manager was aware of this trend and began taking steps to counter it in 1997.

81. Average and median CPIA ratings have shown greater variability since 1995. This change probably reflects the introduction of definitions of low and high ratings for each criterion. Results rose slightly in 1995 and again in 1996. Concerned that this reflected ratings ‘creep’ rather than real improvement in average policies, the CPIA manager discussed the rise with staff. Average and median results declined in 1997 and even more markedly in 1998. The new CPIA manager in 1998 attributed the decline to the revamped 1998 design, which included some new, difficult factors; improved instructions, which may have reduced the subjectiveness of some ratings; and improved review methods, including the benchmarking exercise (see section C). Average and median ratings have subsequently remained below 1997 levels. Standard deviations continued to fall during this period, with a slight upturn in 2000.

82. To interpret these data it is important to realize that many (perhaps most) practitioners see the CPIA rating exercise as a means of establishing a rank order among countries rather than absolute scores. Certainly, for the period up to 1994, the lack of instructions about how to assign ratings to each criterion must have contributed to this view. A CPIA manager from that period was quite explicit, noting that the precise 0.500 median was not entirely accidental. This attitude should have begun to change in 1995, when definitions of performance levels for each criterion were introduced. But old habits apparently die hard, as interviews with those responsible for initiating and reviewing the

¹¹ Because the scale of CPIA ratings changed in 1998, these figures have all been normalized on a scale of 0-1. To make inter-year data more comparable, the effects of including IDA portfolio performance in CPIA ratings for the period 1993-1997 have also been removed.

specific country ratings show that relative ranking, rather than absolute score, is still a major factor.

What Does the Distribution of Ratings Look Like across Regions and Criteria in 2000?

83. The standards required to receive a rating of 5 are generally high for the 20 criteria used in the 1998-2000 CPIA exercises. Few borrowers attain them on individual criteria. Fewer still attain a rating of 6, which requires that a country perform at level 5 for an extended period. And not a single IDA-eligible borrower achieved a 5 rating overall in 1998-2000. The high thresholds may be one reason why the overall ratings tend to bunch around the median (3.5), which raises questions about optimal design.

84. In 2000, 71 IDA (and IDA-IBRD blend) borrowers were rated, yielding 1,420 individual ratings. Of these ratings only 28 were level 5 and 2 were level 6, together accounting for 2.1 percent of the ratings. And there were substantial differences by region: South Asia accounted for 11 (out of 140 ratings, or 8 percent of its total ratings); Latin America and the Caribbean for 6 (out of 180, or 3 percent); Europe and Central Asia for 5 (out of 160, or 3 percent); Africa for 7 (out of 700, or 1.0 percent); East Asia and Pacific for 1 (out of 200, or 0.5 percent); and the Middle East and North Africa for 0 (out of 40). These 30 ratings at the 5 and 6 levels were concentrated in just 12 criteria:

- Management of external debt, 9 (including one of the two 6 ratings).
- Competitive environment for private sector development, 4.
- Trade policy and foreign exchange regimes, 3.
- Management of inflation and current account, 3.
- Factor and product markets, 3.
- Poverty Monitoring and Analysis, 2.
- Fiscal policy, 1.
- Management and sustainability of development programs, 1.
- Policies and institutions for environmental sustainability, 1 (one of the two 6 ratings).
- Building human resources, 1.
- Efficiency of public expenditures, 1.
- Transparency, accountability, and corruption in the public sector, 1.

85. In the 8 criteria on which no IDA-eligible countries rated 5 or higher, involving 568 individual ratings, only 9 ratings (1.9 per cent) were even at the 4.5 level:

- Equity of public resource use, 4.
- Gender, 2.
- Social protection and labor, 1.
- Property rights and rule-based governance, 1.
- Quality of budgetary and financial management, 1.
- Financial stability and depth, 0.
- Banking sector efficiency and resource mobilization, 0.

- Efficiency of revenue mobilization, 0.

86. If each criterion were weighted according to its influence on long-term poverty alleviation, and if the definition of the top rating within each criterion were consistent with that influence and weight, these variations across criteria and regions might be meaningful. However, their weights are all the same and consider what it takes to achieve a rating of 5 in these two examples:

- *External debt*: “No arrears. Given the size and structure of the external debt, prospective foreign exchange receipts are adequate to ensure that external debt can be fully serviced under most foreseeable circumstances.” (These criteria are also problematic in that they represent a situation rather than a set of policies for managing external debt.)
- *Equity of public resource use*: “Public expenditures for social services benefit the poor more than the better-off. The government has identified individuals, groups or localities that are poor, vulnerable or have unequal access to services and opportunities, and is designing, with their participation, appropriate targeted programs. The overall incidence of revenues is progressive.”

87. Because it is easier to attain a higher rating on external debt than on equity of public resource use, the current CPIA system effectively gives a higher weight to external debt management, which is the opposite of what would be expected if each criterion were weighted according to its influence on poverty reduction. And since country performance varies for each criterion, this imbalance adversely affects cross-country equity.

What Do the Ratings on the Six Governance-Related Criteria Introduced in 1998 Show?

88. Six criteria on governance were written into the CPIA exercises in 1998-2000, reflecting the importance attached to governance by IDA management and IDA deputies. Ratings on the 6 governance-related criteria are strongly correlated with ratings on the other 14 criteria (figure 2). One interpretation is that the correlation is to be expected, since good governance and good overall policies go hand in hand. Another is that the close correlation reflects inadequate knowledge about these governance-related issues within the Bank, so there is a tendency for staff to rate countries in these areas more or less in line with their overall ratings. Whichever interpretation is correct—and they probably both contain an element of truth—the new criteria seem to have had little impact on overall CPIA ratings and therefore on IDA allocations (see corroborating discussion in part 3 on the governance discount). More appropriate and objectively measurable CPIA criteria on governance are needed, based on more convincing indicators of governance with a demonstrated influence on long-term poverty alleviation. Such work is under way.¹²

¹² Assuming the existence of improved governance indicators, there may be a case for separating out governance ratings from the policy criteria of CPIA. They could then be given a weighting thought most appropriate, whether there is a demonstrably direct effect on poverty alleviation and growth or not. Indeed, this might well be in accord with the IDA deputies intentions, when they set IDA objectives as poverty alleviation within a framework of good governance

E. Recommendations for Improving the Country Policy and Institutional Assessment

89. The analysis presented here argues for a CPIA redesign that keeps three basic objectives in mind:

- Selecting criteria for the strength of their influence on the long-term reduction of poverty.
- Increasing cross-country equity.
- Assessing policy not outcomes.

90. Any major redesign should involve key stakeholders—IDA borrowers and donors—to ensure ownership. Insofar as IDA donors intend that other multilateral donors of concessional aid use a similar rating system, they should be fully involved as well. Management is embarking on a review of the CPIA process, drawing on the recommendations of this report, internal findings and the growing experience of other donors. They then plan to take up with donors those areas where they believe improvements would be useful and cost effective.

91. The recommendations for improvements in CPIA design and implementation presented in this section include:

- Removing criteria not shown by research to be relevant and important for growth and funding research to identify policies that are relevant for poverty reduction (beyond that achievable by growth alone).
- Assigning appropriate weights to individual criteria.
- Ensuring that each CPIA criterion consists of just one element that can be appropriately rated and reviewed.
- Developing consistent definitions for each rating level for each criterion, with similar interval values between equivalent ratings for each criterion.
- Ensuring that each criterion rates policy performance rather than level of development, rewarding equally all borrowers that are doing everything feasible given their situations.
- Ensuring that each criterion can be objectively assessed—and that IDA has the capability to assess it.
- In light of ongoing consultations and research, redefining the governance indicators used in CPIA criteria.
- Establishing an audit trail of rating assessments, with a written rationale for each rating, and providing funding for the activity.

Alignment with Poverty Reduction

92. Recent research shows that a combination of sound policies and positive growth rates is closely correlated with reductions in the poverty rate, explaining up to 70 percent

and environmental sustainability. The same argument could be made for separating certain environmental factors as well, where these only have a long-term impact on poverty alleviation.

of cross-country differences in poverty levels. That knowledge should be rigorously applied to the design of CPIA criteria, leaving only criteria that research has shown to be relevant to growth and assigning them appropriate weights. Because several CPIA criteria are covariant—or even irrelevant—some Bank staff argue for a much shorter, more focused set of criteria. It is not clear, however, whether agreement could be reached on the elements of a shorter, more focused list.¹³

93. The situation is much less clear for the remaining 30 percent of cross-country differences in reductions in poverty levels. What besides growth is needed for poverty reduction? A recent Bank research paper noted that its own findings “leave plenty of room for further work, because they emphasize the fact that we know very little about what systematically causes changes in the distribution of income” (Dollar and Kraay 2000, “Growth *Is* Good for the Poor”). More research is needed, and the Bank should ensure that such research, inside or outside the Bank, is appropriately funded. In the meantime, the informed judgment of practitioners would continue to guide this part of the CPIA rating system, bringing in the results of relevant research as it emerges. It is also possible, however, that the problem is not a lack of knowledge, but rather that the relevant factors are so country specific that they become hard to generalize into a single CPIA design.¹⁴ In that case, an alternative approach might be needed (see part 5).

94. The recent introduction of the poverty reduction strategy paper exercise makes this a good time for a review of the CPIA since the criteria for the two exercises ought to be aligned. (And as shown in part 4, the relationship between the CPIA and the CAS is in need of restructuring in any case, with the CAS also needing modification once the poverty reduction strategy paper system is in place.) A redesign exercise along these lines will likely leave out some performance criteria that IDA donors, the Board, or management considers important for deciding on IDA allocations, even though the criteria cannot (yet?) be shown to have any predictive power for long-term sustainable poverty reduction. These criteria should be removed from the CPIA system and handled elsewhere, as with IDA portfolio performance, to preserve the integrity of the CPIA system.

95. The redesign will need to be reviewed regularly, to ensure continued relevance in the light of new research. In the meantime, IDA can take more immediate steps to improve the cross-country equity of the system.

Enhancing Equity

96. While the principal means of enhancing equity between countries is a well-designed CPIA, equity is also influenced by process issues. Accuracy of ratings is essential to equity. A simple process improvement would be to separate each CPIA criterion into its constituent parts, so that each element can be more accurately rated and reviewed. An example would be to separate trade policy and foreign exchange regime, which are now combined. An example of a related problem is the way participation is

¹³ It will surely not be possible to produce a list with zero covariance, although the degree of such covariance can certainly be severely reduced.

¹⁴ This is the position taken, for example, in T. N. Srinivasan’s paper: “Growth, Poverty Reduction and Inequality,” which underscores the deficiencies of cross-country regression analysis in this area and the need for in-depth country studies to better understand the link between various factors included in CPIA indicators and poverty alleviation.

spread across several criteria, making it difficult to focus the assessment directly on participation. This recommendation should not be misconstrued as a recommendation for a multiplicity of CPIA criteria. Once the elements of the 20 existing criteria are pulled out and examined closely for relevance and importance, the number found worth retaining will likely be substantially reduced. Each of the retained criteria would then need to be weighted appropriately.

97. Another process improvement is to require a written explanation for each rating, criterion by criterion. That could improve the initial rating, by encouraging thorough analysis. It would help in exposing any differences in interpretation of the criteria by different raters. It would facilitate review on a regional and cross-regional basis. And it could make it more practical to disclose results to the borrower, which seems essential for equity, especially in view of the Bank's increased emphasis on partnership.¹⁵ This change would also allow the Bank to release ratings to other development partners, should it decide on wider disclosure (see part 5). Without a written audit trail, it is impossible to determine conclusively how extensive problems of cross-country equity may be. Equity in IDA allocations is important not only in itself, but also for achieving the transparency that IDA deputies have requested. This process improvement, while substantively simple, could have considerable budgetary implications. The Bank now spends about \$700,000 on CPIA in a typical year—a small amount for a system that annually allocates some \$20 billion of public money to be lent over the following three years. Implementation of the proposal might increase the overall cost of the system by 50-100 percent.

98. These process recommendations would be easier to implement if the CPIA design provided more detail on what is required for each rating level on each criterion. This would involve a modest initial investment, easily compensated for by reduced costs for individual country ratings and reviews and improved cross-country equity. Definitions for the higher rating levels might also be reconsidered, so that IDA-eligible borrowers could more readily attain them, thus leading to greater separation across the lower levels and between borrowers (paragraphs 83-87).

Assessing Policy Not Outcomes

99. The remaining recommendations are more difficult and require reexamination of the CPIA approach, at least for certain criteria. One of the most important concerns whether the CPIA criteria rate policy performance or outcomes. Box 4 presents one example of the problem, but there are others. Each criterion should be reexamined to ensure that what is being rated is indeed policy performance.

100. CPIA criteria should be examined to ensure that they lend themselves to objective judgment and that IDA has the knowledge and capability needed to rate them. Consider criterion 16 on property rights. For the Africa Region, the bunching of ratings on this criterion is explained by the (understandable) difficulty of reaching an objective judgment given present knowledge and staffing. Is it equitable that borrowers in some regions receive a high or low rating on the basis of adequate knowledge, whereas borrowers in other regions are placed near the median because adequate knowledge is lacking? If the criterion is sufficiently important but IDA knowledge is lacking, external

¹⁵ Such disclosure was approved by the Board in August 2000.

raters could be brought into the process, as long as any resulting disclosure problems are resolved.

Box 4. CPIA Criterion 6—Financial Stability and Depth

This criterion opens with the statement that it “assesses whether the structure of the financial sector, and the policies and regulations that affect it, are conducive to diversified financial services and a minimal risk of systemic failure.” But the definitions of rating levels 2 and 5 concentrate on outcomes (the structure) more than on policies and regulations. Level 2, for example, is described as: “highly concentrated financial structure with high barriers to entry. Bank’s total capital/asset ratio less than 8 percent. High ratio of non-performing assets. Non-bank financial institutions are few or insignificant.” Level 5 is described as “diversified and competitive financial sector that includes insurance, equity and debt finance and non-bank savings institutions.” The structure described in level 2 is clearly deficient. If it is the result of government policy or failure to follow policy prescriptions presented to the government, a low rating (and reduced access to IDA funding) would be appropriate. But to the extent that the structure of the financial sector is due to the borrower’s state of development rather than policy, should the borrower be marked down?

There is a clear problem here and in several other CPIA criteria. Undoubtedly, IDA funds would have greater impact if lent to a borrower whose financial sector matched the level 5 description. And if pure efficiency of IDA resources is the goal, then that result makes sense. But if the intention is to reward equally all borrowers that are doing everything they can reasonably be expected to do in their given situations, then some criteria need to be revised.

101. Criterion 14 on safety nets (as used in the 1999 CPIA exercise¹⁶) reflects several common problems (box 5). It considers outcomes more than policy. It is sensitive to the level of development. IDA-eligible countries are unlikely to reach even a level 4 rating, which seems a very large jump from level 3. Several IDA staff were asked how this criterion was treated in practice. In some very poor countries, IDA does not recommend that governments devote funds to formal safety nets, even when traditional arrangements may not bring a country up to level 3. Yet because of the way the levels are defined, these countries can receive only a 2 or 2.5 rating. This inconsistency can lead to perverse outcomes. One country director in the Africa Region noted that a country received a low rating on the safety net criterion because the AIDS epidemic was reducing the ability of the traditional system to provide protection while increasing the demands on that system. But the borrower was not financially able to provide a formal system, nor was IDA recommending that it do so. Yet the rating was lowered, and the IDA allocation consequently reduced—certainly a questionable outcome.

¹⁶ As indicated in the discussion of changes in the 2000 CPIA exercise, this criterion was widened to include broader issues of social protection and labor. In the 2000 version, only rating levels 2 and 5 are defined—a retrograde step—but those definitions concerning the safety net element remain almost identical to those shown in box 5.

Box 5. CPIA Criterion 14—Safety Nets (as defined in the 1999 CPIA exercise)

Rating levels are defined as follows:

1. A level of 2 has persisted over several years.
2. Private and public safety nets do not adequately meet the needs of either the chronically poor or the vulnerable. (For example, traditional informal mechanisms have broken down due to rapid social change or government safety nets have collapsed due to economic transition.)
3. Private and public systems together provide little or no protection to the chronically poor, although there may be some protection for the vulnerable.
4. Government policies and programs are in place that, in combination with private systems, can be expected to protect most chronically unemployed and vulnerable groups under most foreseeable circumstances.
5. Government policies and programs are in place that, in combination with private systems, reliably protect chronically unemployed and vulnerable groups. Government programs are adequately funded and effective.
6. Same as 5 and the government programs are fiscally sustainable for the foreseeable future.

102. The safety net example raises a difficult question. If IDA does not recommend that a borrower change its policy on a particular issue, on what basis can it rate that borrower as less than perfect? Perhaps all criteria should be addressed in this way, with the levels dependent on whether there are policy changes that IDA considers practical for a borrower to adopt at its level of development. (This issue is raised again in part 5 in the discussion of the relationship between the performance-based allocation system and the CAS and poverty reduction strategy paper exercises.)

103. Many of the problems noted above also appear to apply to the environmental sustainability criterion. These issues are discussed in detail in a separate background report prepared as part of the overall OED IDA Review.¹⁷ That report concludes:

The value of the environmental indicator in the CPIA is questionable. Its low weight and lack of variability suggest that it has little impact on country allocation, and it seems not to be related to other measures of performance, however imperfect. Where environmental issues have affected country operations, it has been because of specific, high visibility, incidents such as the fall-out of the Arun II project in Nepal or the forest sector adjustment loan in Cameroon. Serious environmental issues in Kenya were eclipsed by issues of governance, rather than used to augment and extend the case for better governance. If environmental sustainability is a major IDA goal, better performance indicators should be developed and be shown to have an impact in aggregate performance rating and resulting country allocations.

104. Problems with the governance criteria and related indicators (see paragraph 88) have also been recognized. These are being addressed through extensive consultations with development partners outside the Bank and discussions within the Bank. That model

¹⁷ See also footnote 13.

might well be emulated in the further development of the overall CPIA design (as proposed in paragraph 90).

105. All criteria should be reexamined to ensure a correspondence between the definition of each rating level and its effect on IDA allocations. As part 3 shows, a change in country rating automatically affects IDA allocations—and that effect is exponential. Equitable treatment of countries demands that a move from one rating level to another be equivalent across all criteria, something that does not now appear to be the case (paragraphs 83-87).

3. THE ALLOCATION PROCESS

106. In reviewing the allocation process for IDA funds, this part of the report examines the underlying formula for converting performance ratings into normative IDA allocations (section A) and then considers three recent modifications. The first concerns the introduction in 1993 of borrowers' IDA portfolio performance. While early problems with subjectivity have been largely addressed, difficulties remain in distinguishing borrower performance from IDA's own performance and in making these ratings compatible with the CPIA ratings with which they have to be combined (section B). A second component, introduced in 1998, reduces performance ratings and allocations for borrowers with severe governance problems—the 'governance discount'. Without good governance indicators, the methodology is flawed and easily manipulated. A complete rethinking of the 'governance discount' is needed (section C). Also introduced in 1998 was the small country premium, which increased normative allocations by up to 20 percent for countries with population under 20 million. The rationale for this component was not clear, and IDA management decided not to apply it in the 2000 IDA allocation exercise (section D). This section also examines minimum and maximum allocation conventions, which mostly impact smaller countries and which could be usefully clarified.

107. The report then looks at some cases where it is more practical to make the IDA allocations before application of the performance-based formula to borrowers as a whole. It briefly reviews IDA lending limits for IDA-IBRD blend countries, where IDA final report recommendations appear to be fully implemented (section E); but it questions the relatively low allocation to India. The report then examines certain exceptional countries or groups of countries: post conflict countries; countries which have suffered devastating destruction; and the exceptional case of Bangladesh (section F). The latter poses the question of whether (and to what extent) the performance-based allocation system should link IDA lending amounts to existing policies only or to the rate of policy improvement as well. The report also considers IDA donor recommendations on the amount of IDA lending that should go to Sub-Saharan African borrowers (section G). They appear to have been intended more to give operational signals to IDA management than to affect the allocation system itself. However, note the change in the 2000 allocation exercise summarized below.

108. In section H, the report examines the results of the 2000 normative allocation exercise, to show how borrower performance has actually been translated into preliminary, normative IDA allocations. Apart from the exceptions already discussed, the allocation formula is currently applied quite strictly at this normative stage. Analysis of the annual lending strategy review, at which IDA management decides on final allocations, shows that the normative allocation exercise to a large extent drives those allocations (section I). But the transitional economies of eastern Europe and central Asia continue to receive more than their normative allocations would indicate, although less so than previously. And allocations well above the norm were provided to a number of larger, better performing Sub-Saharan Africa borrowers, in order to raise the share of that region's borrowing. Overall, the data show a tendency since 1996 toward greater selectivity favoring higher rated borrowers and penalizing poor performers, largely reflecting the change in the allocation formula. But the data also show a bunching of allocations around the median, a simple reflection of the bunching of the underlying

CPIA ratings; and that, since most better rated borrowers are small, relatively little IDA is allocated to them on an absolute basis. Recommendations for improving this stage of the allocation process include the disclosure of exceptions and alternative ways of reporting aggregate results.

A. The Allocation Formula, 1991–2000

109. The IDA allocation formula is intended to produce for most IDA-eligible borrowers a normative allocation of the IDA funds expected to be available for the following three years that reflects each borrower's performance rating and poverty (as measured by GNP per capita). The formula takes population into account through allocating equal amounts of IDA funds per capita to borrowers at the same performance and poverty levels.

110. The following equation was used for determining the normative allocation from 1991 (just before the IDA10 negotiations) through 1996:

$$\text{Total IDA availability} = 3 \text{ million SDR per borrower}^{18} \text{ plus } A \text{ times the sum, over all IDA-eligible borrowers, of [each borrower's population times each borrower's GNP per capita (raised to the power of } -0.25) \text{ times each borrower's performance rating (raised to the power of } +1.8)]$$

where A is to be determined by solving the equation.

For simplicity, this formula is usually presented as:

$$\text{GNP per capita}^{-0.25} \times \text{performance rating}^{1.8}$$

The performance rating was equal to the CPIA rating throughout this period; but from 1994 onwards the CPIA rating included an IDA Portfolio Performance element¹⁹.

111. Allocations derived from this formula rise at an increasing rate as performance improves. An increase in CPIA rating from, say, 3.0 to 3.6 (a 20 percent improvement) increases IDA allocations by about 34 percent. And an increase in GNP per capita lowers the IDA allocation, but not by much: a 20 percent increase in GNP per capita lowers the IDA allocation by less than 5 percent. Thus the formula's sensitivity to changes in performance is about 7 times its sensitivity to changes in GNP per capita.²⁰ There was no theoretical justification for either of the two specific exponents used, but they were chosen to reflect actual IDA management practice in the years before a precise formula was adopted. The effects of the formula were explained to the IDA deputies and Board in a background paper for the IDA10 negotiations and were found acceptable.

112. In 1997 the formula was changed to strengthen the link between performance and allocations and to lessen the impact of changes in GNP per capita. This change reflected IDA management's intention, in line with commitments made to the Board to be more

¹⁸ This gives effect to a minimum allocation convention. There is also a maximum allocation convention. Both conventions are reviewed in section D.

¹⁹ The IDA Portfolio Performance element had a weight of 20 percent in 1994, and 10 percent in 1995 and 1996.

²⁰ The arithmetically inclined will have arrived at this figure directly, by dividing the two exponents (1.8 by 0.25) to give 7.2 as the relative elasticity.

selective, to increase lending in favor of better performing countries and to lower it for the poorer performers. The formula became more complex in the process:

- Performance rating of less than 2.0 $\text{GNP per cap}^{-0.125} \times \text{performance rating}^{0.5}$
- Performance rating from 2.0 to 2.9 $\text{GNP per cap}^{-0.125} \times \text{performance rating}^{1.6}$
- Performance rating of 2.9 and higher $\text{GNP per cap}^{-0.125} \times \text{performance rating}^{1.95}$

For the vast majority of borrowers, whose performance rating²¹ was above 2.9, the relative sensitivity between the effects of performance and of GNP per capita more than doubled, to about 16. A performance rating increase of 20 percent now increased the allocation by more than 40 percent.

113. Further changes were introduced in 1998, most remaining in effect for 1999 and 2000. First came a minor tweaking and simplification of the formula:

- Performance rating of 3.0 or less $\text{GNP per cap}^{-0.125} \times \text{performance rating}^{1.75}$
- Performance rating higher than 3.0: $\text{GNP per cap}^{-0.125} \times \text{performance rating}^{2.0}$

114. More important were changes in the calculation of the performance rating itself. The rating went from being the CPIA score alone (which had included an IDA portfolio performance component since 1993) to a combination of the CPIA score (with no IDA portfolio performance element) and a separate assessment of IDA portfolio performance, in an 80–20 split. The combined rating was then subjected to a governance discount of one-third for borrowers judged to have severe governance problems, which effectively lowered IDA allocations by about half. Finally, IDA allocations for borrowers with populations below 20 million whose combined ratings, less any governance discount, were more than 3.0 were increased by up to 20 percent under a small country premium (which was dropped in 2000).

115. Several suggestions have been made for further changes in the basic formula. Among them:

- The formula could be corrected to eliminate the discontinuity at performance rating 3.0, which seems to serve no useful purpose. It has the strange effect of increasing IDA allocations by more than 30 percent for a borrower moving from a 3.00 to a 3.01 performance rating.
- Now that changes in GNP per capita have only about one-sixteenth the impact of changes in performance ratings, it might make sense to simplify the formula by eliminating the GNP per capita factor altogether. Alternatively, the impact could be increased again, to make it more meaningful.
- IDA allocations per capita, which now increase exponentially with performance ratings all the way to the end of the scale, could be capped or muted at an appropriate level (say at 4.0 or 4.5). The rationale for this suggestion is similar to that of the law of diminishing returns.

²¹ For 1997, the performance rating remained the CPIA with an IDA Portfolio Performance element, now with a weighting of 7 percent.

B. The IDA Portfolio Performance Factor

116. As already discussed, the IDA portfolio performance factor was introduced into CPIA in 1993, as a result of IDA10 negotiations, when it was made part of the overall assessment of borrower performance and assigned a weight of 20 percent. Because of measurement difficulties, management reduced the weight to 10 percent in 1995 and 1996 and then to 7 percent in 1997. It was eliminated from the CPIA redesign of 1998, but subsequently brought directly into the allocation formula, with a weight of 20 percent. Although the method of assessing portfolio performance was also changed in 1998, substantial methodological problems remain.

117. The only portfolio performance measurements that were readily available in 1993 were in the reports of IDA supervision missions. These ratings were often subjective and biased in a positive direction, as shown by substantial average discrepancies between the ratings of supervision missions and later independent evaluations by the Bank's Operations Evaluation Department. In addition, IDA supervision mission ratings did not adequately separate IDA responsibilities from borrower responsibilities. For example, IDA staff appraisal report progress targets are usually used as benchmarks, and these are often unrealistic. It also proved difficult to equitably distinguish between the performance of new borrowers, with a few young projects whose weaknesses may not yet have been exposed, and that of established borrowers with many mature projects. And when IDA closed a project because of poor borrower performance, the average performance of the remaining portfolio automatically improved immediately, resulting in increased IDA allocations²². These problems worried the CPIA managers. Unable to resolve them satisfactorily, they instead weakened the influence of the portfolio performance factor by reducing its weight.

118. When the effective weight was raised again to 20 percent in 1998, another important change was also made. The new system for rating IDA portfolio performance looks at the proportion of 'projects-at-risk' in a borrower's portfolio. The 'projects-at-risk' concept, introduced by the Bank's Quality Assurance Group (QAG), adjusts the findings of IDA supervision missions to account *inter alia* for past incongruities between the findings of supervision missions and OED findings at the country level. This new approach addresses one of the main problems in the previous system—the discrepancy between the ratings of supervision missions and later independent evaluations. It does relatively little for the other three cited problems, however. And while work has started on a methodology for distinguishing borrower performance from IDA performance, more management attention is needed to tackle the other two: treatment of new borrowers with young projects, and of projects cancelled for performance reasons.

119. While reducing some old problems, the new system for assessing IDA portfolio performance has introduced a new one. Because the CPIA system and the portfolio performance system use apparently inconsistent rating scales²³, the portfolio assessment

²² In one case, a borrower's performance deteriorated generally, leading to a reduction in its CPIA rating. At the same time, a considerable number of badly-performing projects were cancelled, leading to a substantially improved IDA Portfolio Performance rating. Although the latter only had a small weight, the net effect was a slight increase in the overall borrower performance rating, leading to an increased IDA allocation.

²³ Although both CPIA and the IDA Portfolio Performance ratings have a scale of 1-6, in practice the CPIA ratings do not exceed 4.5, whereas portfolio ratings cover the entire scale.

effectively carries a higher weight in the overall result than its nominal 20 percent (figure 3). And the IDA portfolio performance results appear to be more volatile than those of CPIA.

C. The Governance Discount

120. Since 1998 the CPIA has included six criteria on governance, with a combined weight of 30 percent, reflecting the importance IDA management and deputies attach to governance. This influence is heightened by the governance discount, which is activated when a borrower scores “highly unsatisfactory” in three or more of seven criteria: defined as having a rating of 2.0 or below on the six CPIA governance criteria or having deficient procurement practices in more than 30 percent of projects in the IDA portfolio. The governance discount reduces the overall performance rating by one-third, causing the IDA normative allocation to be cut by about half. It is thus severe in its effect.

121. There are several problems with the governance discount methodology and its implementation. Little was known about the governance discount or how it would operate when it was introduced into the 1998 allocation exercise. Much more was known by the time of the 1999 exercise and that difference in perspective seems to be reflected in some of the results. Seven countries subject to the discount in 1998 were not subject to it in 1999. Three of them received higher ratings on three of the six governance ratings, reflecting a widely spread increase in their CPIA ratings. The remaining four countries, however, improved their ratings on just one governance criterion, from 2.0 to 2.5 (a very subjective judgment, given the lack of definition of each rating level), but that was enough to move them out of the governance discount category. All these rating improvements may have been merited, but the fact that it takes so little to achieve a doubling of the IDA allocation suggests that this is not a robust system.

122. Ten active IDA borrowers were subject to the governance discount in 2000, comprising nine of the lowest eleven CPIA scores overall²⁴, and one rated just below the median—not surprising given the close correlation between performance on the governance criteria and performance on the other criteria (see paragraph 88 and figure 2). Yet the governance discount did not capture some countries with famously poor governance - some of which nevertheless had their lending programs curtailed, while others did not. In other words, the governance discount seems, in practice if not in intent, simply to further reduce IDA allocations to the lowest ranking performers in the CPIA exercise overall.

123. Though less important in its impact, the methodology used to define “deficient procurement practices” is also defective because it relies on a measure of procurement delays drawn from IDA supervision reports. Not all procurement delays are caused by deficient procurement practices. For example, a not uncommon cause of “delay” is over optimism in the original procurement timetables set in IDA staff appraisal reports. Staff are working to resolve this problem.

124. Overall, the governance discount system does not work, although it does send a message that IDA takes governance matters seriously. The system needs further careful

²⁴ The two other borrowers with the lowest overall CPIA scores had previously been subject to the governance discount.

study on how to achieve both equitable outcomes and a more substantial cut in lending for governance nonreformers even if their other performance ratings are average. The task is complex. It may be advisable to bring in level of effort—demonstrated willingness to improve, measured in terms of actions taken from one year to the next—as well as the absolute level of performance, to avoid penalizing a country with very weak governance that is making every reasonable effort to improve. IDA management could address these issues, in appropriate cases, by making better use of its existing powers to diverge from direct application of the performance-based allocation formula in lending allocations. IDA senior management could routinely review lending allocations to borrowers scoring in the highest and lowest deciles of governance-related CPIA ratings. And IDA could establish some minimum governance standards—any country falling below them would receive IDA lending only where it could be guaranteed that, despite poor governance, the lending would improve the lot of the poorest.²⁵

D. The Small Country Premium and Minimum-Maximum Conventions

125. A small country premium was in effect in 1998 and 1999 but was not applied in 2000. Countries with populations below 20 million that achieved a performance rating of greater than 3.0 were eligible for a sliding scale premium, which raised normative allocations from 1 percent for populations between 19 and 20 million to 20 percent for populations below 1 million. Because funding its application required a 10 percent reduction in allocations to all eligible IDA borrowers (excluding blend countries), in practice only countries with populations below 10 million were net beneficiaries. The intention of the premium seems to have been to increase resource allocations to Sub-Saharan Africa. However, application of the premium resulted in only small regional shifts in allocations. In 1999, for example, some SDR 76 million were moved from East Asia and Pacific (SDR 53 million), South Asia (SDR 18 million), and the Middle East and North Africa (SDR 5 million) to Europe and Central Asia (SDR 47 million), Africa (SDR 19 million), and Latin America and the Caribbean (SDR 10 million).

126. More importantly for the smaller countries, and as already noted, the formula guarantees that each active borrower will receive at least 1 million SDR a year, at the normative allocation stage. The amount is added to allocations based on performance and relative poverty. The performance and poverty-based allocations dominate in larger countries, while the guaranteed minimum is highly significant for smaller countries. For example, a country with a population of 1 million, and a median performance and poverty level, would be allocated 1 SDR per capita per year for the guarantee plus about 5 SDR for performance and poverty. For a country with 10 million people, of course, the guaranteed part of the allocation is quite insignificant (0.10 SDR per capita per year). But for a country with 100,000 people, the guaranteed amount accounts for 10 SDR of about 15 SDR per capita per year—far higher than any allocation that could be earned by the highest ranked borrowers (figure 4). Moreover, the lower the performance level, the more important becomes the guaranteed portion of the normative allocation.

²⁵ Management believes that the governance discount serves a very useful function. Lending has been reduced sharply in countries with very weak governance, in addition, the process has served to highlight governance weaknesses in countries that do not actually receive a governance discount. Moreover, the approach ensures that the weight of the other CPIA criteria is not diminished.

127. Some of the better performing very small countries would have been allocated even more than shown in figure 4, except for the operation of a maximum allocation convention of 15.3 SDR (\$20) at the normative allocation stage. Agreed lending allocations to very small countries are generally even higher than the normative allocations (compare figure 5 with figure 4) since there is no maximum convention at the final allocation stage, with seven small borrowers being allocated over \$20 per capita per year.

128. Although the absolute sums involved in lending to very small countries are insignificant in the overall totals, it might be worth revisiting some of these conventions and practices. First, the formula itself (section A) might be changed to omit its guaranteed portion. Instead, whatever emerges from the revised formula—based only on performance and poverty—could be made subject to a minimum allocation of 1 million SDR per year. Second, the maximum convention could be extended from the normative allocations to the agreed allocation stage. Third, management could be less ready to increase lending above the normative allocations to borrowers subject to the minimum and should explain exceptions in the relevant Country Assistance Strategy papers sent to the Board for review.

E. Lending Limitations to Blend Countries

129. Recommendations by IDA deputies concerning IDA allocations to blend countries have been modified substantially over the IDA10-12 period. During IDA10 negotiations, IDA deputies requested that IDA funds to blend countries be reduced from the more than 40 percent share received during IDA9 to 30–35 percent. In the event, the actual share for IDA10 was 38 percent. In the final report on IDA11 negotiations, the deputies noted the increasing limitations on overall IDA funding and reconfirmed the primacy of meeting the financing needs of the poorest countries. They urged that assistance strategies and lending allocations for blend countries consider creditworthiness and access to other sources of funds. They indicated that this approach should lead to further declines in the blend countries' share of IDA lending and asked that the share be closely monitored. IDA11 lending to blend countries amounted to about 35 percent.

130. The IDA12 replenishment final report contains similar exhortations, noting that the share of IDA12 lending to blend countries should decline in line with the graduation of blend and other borrowers, including China and Egypt.²⁶ In IDA12, there are four potentially major IDA blend borrowers: India, Indonesia, Nigeria and Pakistan. These four countries received 18.5 percent of IDA commitments in the IDA11 period, and 20.0 percent during the first half of the IDA12 period (i.e. through December 31, 2000). These figures need to be interpreted with caution, as Indonesia did not become IDA-eligible until FY99, Nigeria received no IDA commitments under IDA11, and Pakistan has yet to receive any IDA commitments in IDA12. Nevertheless, it does appear that IDA is complying with the intention behind the IDA12 final report recommendation. The blend countries received IDA allocations for FY02-04 considerably smaller than would be warranted if they were purely IDA borrowers receiving their normative performance-

²⁶ Although relevant in the context of IDA10-12, these recommendations to lower IDA allocations to blend countries are presumably not intended to indicate a general principle. It must surely be the wish of IDA donors that current IDA-only borrowers reach the status of IDA-IBRD blend countries as soon as possible.

based allocations. However, for disclosure reasons, these four borrowers do not appear in either figures 4 or 5.

131. IDA negotiations have usually involved informal discussions of upper lending limits to the major recipients, such as China and India, though the final reports do not usually detail the conclusions. With China's graduation, IDA12 negotiations established a *de facto* limit on IDA lending only to India, which limit is being honored. With a current IDA allocation of 0.6 SDR per capita per annum, it will be clear from figure 5 that, with India's upper quintile performance, its allocation is relatively small. This low allocation level largely reflects India's predominant size and is designed to ensure that there is sufficient funding for other borrowers. However, India has a similar proportion of absolute poor in its population as does the rest of the IDA-eligible world. Since the declared objective for IDA is to minimize the number of absolute poor, the case for restricting India's IDA allocation is not obvious. Moreover, under present arrangements, India's allocation is the only one insulated from the effects of changes in performance rating. The review recommends that IDA management makes the case for the specific lending allocation for India and brings it to the IDA Board for consideration.

F. Some Exceptional Allocation Cases

132. There are other exceptional cases, where allocations are made prior to applying the allocation formula to the remaining borrowers. There are two general classes of exceptionally high allocations –post-conflict and post-natural disaster countries—and one specific case of low allocation, which raises policy issues—Bangladesh.

133. IDA management is currently preparing a new procedure for countries that have emerged from major conflicts, for discussion during IDA13 replenishment negotiations. With societies and institutions devastated by conflict, such countries tend to have low performance ratings. Given the need for extraordinary financial assistance for a limited period as these countries make the transition to peace, the new procedure, as currently drafted, would allow such borrowers to receive IDA allocations substantially above regular normative allocation amounts. As an example, four countries—Republic of Congo, Eritrea, Guinea-Bissau and Sierra Leone—have received exceptional IDA allocations over the last six months, initially for a one year period. The draft procedure would allow for this exceptional level of support to be continued, if necessary, for three more years. The level of subsequent support would depend on country performance, as measured by a set of indicators drawn mainly from the CPIA, but modified to reflect post-conflict realities. Three of the countries that have received exceptional allocations have performance scores in the lowest quintile, while the fourth is in the upper middle quintile. The allocation to one of these post-conflict countries is equivalent to that received by the best performing IDA borrower, and two others are considerably in excess of that (figure 5).

134. In recent years, two countries severely affected by Hurricane Mitch—Honduras and Nicaragua—have been granted additional IDA allocations to assist their recovery. However, for fiscal 2002-04, their IDA allocations are no longer substantially higher than they would have been without exceptional treatment.

135. Chief among the factors that make Bangladesh a special case for IDA allocations is management's decision not to lend Bangladesh its full normative allocation because of

severe implementation capacity constraints and slow movement in Bangladesh’s policy environment (see box 6). This situation has existed for at least 10 years and has been explicitly accepted by the Board. This raises the question whether this treatment is consistent with the intention of the performance-based allocation system—as reflected in its application to all other countries, except for some short-term exceptions—to link IDA lending to current policies, as assessed by the CPIA exercise, not to expectations of policy change.

Box 6. The Case of Bangladesh

CPIA rating background. Bangladesh’s CPIA ratings for 1991–2000 have consistently fallen within the middle or upper middle quintiles. These overall ratings reflect relatively high ratings on macroeconomic management and policies for social inclusion and equity and relatively low ratings on criteria related to public sector management and governance—though not low enough to trigger the governance discount. The results do not appear to be out of line with those of other countries.

Lending allocations. Consistently over the same 1991–2000 period, the final allocations approved by IDA management have been only 40–65 percent of the normative allocations that would result from such CPIA ratings (about \$1 billion a year). Actual lending commitments have often fallen below even these final allocations. The normative allocation, as in all other countries, reflects population (high in this case), per capita income (low) and CPIA ratings (middle to upper middle quintile).

Rationale for low actual lending. The explanations put forward for the low final allocations have varied somewhat over time. The 1992 CAS, while not explicit about the rationale for the specific lending program, implied that the proposed IDA lending, along with what other donors were anticipating, was sufficient to allow Bangladesh to achieve a growth rate of more than 5 percent over the medium term. The 1994 CAS noted that the actual level would depend on progress in project processing and portfolio performance, which would in turn depend on success in implementing the reforms. The 1994 lending strategy review noted the continuing difficulties affecting the program for Bangladesh, where the pace of reform on sectoral policies was deemed highly uncertain.

The 1995 CAS proposed a lending program of \$400–450 million a year, without comment. The high case scenario, at \$600–650 million, was below normative allocations. The CAS noted: “The relatively low level of lending, for a country with Bangladesh’s population and economic performance, reflected our strategy of conditioning new lending on quantitative improvements in several key infrastructure subsectors. This approach did not generate a substantive change in government strategy or significant policy and institutional reform. We now feel that an alternative approach towards these infrastructure areas, in which IDA support is linked to articulation of more fundamental structural reforms in the subsectors and to milestones in the gradual implementation of such a strategy, would be more effective.”

The 1996 lending strategy review noted that proposed lending for Bangladesh of about \$500 million a year reflected the positive outcome of initial dialogue with the new government and the expectation that it will be better able to implement some of the most politically difficult reforms. In the 1997 lending strategy review, the same level of allocation was predicated on achievement of an accelerated pace of policy reform, with expanded lending in support of financial sector reform and private investment in infrastructure.

The 1998 CAS contained an unusually full and frank discussion of the proposed lending program with respect to the CPIA and the normative allocation (which was quoted as \$1 billion). It proposed a base case of \$600–650 million. Staff noted that this increase over earlier base cases of \$400–450 million reflected a fairer allocation, given Bangladesh’s poverty level, but that it would be contingent on the country’s meeting its performance benchmarks. The 1999 lending strategy review allocated only about \$400 million a year – a decline explained by increasing absorptive capacity constraints, slower than expected progress in structural reforms, and weaker institutions and poor governance.

The 2000 CAS, widely endorsed by the Board, recommended a continuation of lending levels of around \$300–\$700 million per year depending on progress made to address institutional weaknesses and improve governance so that the country raises its capacity to absorb larger amounts of aid and use resources more effectively.

136. The Bangladesh case is important because of its size and the issue of equitable treatment across all IDA borrowers. Its application suggests that the underlying philosophy of the performance-based allocation system might need to be revised to take into account more strongly the expected direction of policy change. Perhaps not all available IDA funds should be allocated according to CPIA ratings, but only a certain proportion, say 60–70 percent. The rest could be allocated according to a related but different set of judgments, linked to perceptions of whether a country is continuing to make policy progress. The most difficult aspect of that approach, obviously, is that it would be even more subjective than the current CPIA ratings, but the option deserves consideration.

G. Lending to Sub-Saharan Africa

137. IDA replenishment final reports usually mention the share of IDA lending that deputies would like to see going to Sub-Saharan Africa. The IDA10 final report recommended that African borrowers account for 45–50 percent of total lending ‘subject to performance-based allocation’. The IDA11 final report stressed the need for a significant increase in the share of IDA lending to Sub-Saharan African borrowers, ‘as long as supported by good performance’. The IDA12 final report made the same observation, suggesting a 50 percent share.

138. If performance rules continue to be applied to Sub-Saharan African countries—as indicated in these recommendations—the proportion of IDA lending allocated to them will emerge directly from that process and will not be affected by the target figures. What then do these recommendations actually mean? Consultations with staff suggest that they were intended to give two signals to IDA management:

- That all practical assistance should be given to African countries to help them improve their performance and become eligible for increased allocations.
- That IDA management should ensure, through appropriate budget allocations and other administrative actions, that IDA is actually able to commit to these countries the full amount of the performance-based allocations made to them (without, of course, compromising project standards).

139. The recommendations to increase lending to Sub-Saharan Africa were thus not essentially an issue of the design or implementation of the performance-based allocation system itself, at least through 1999. However, as will be seen in section I, in 2000 some better performing Sub-Saharan Africa borrowers were given allocations in excess of their normative allocations in order to raise the share of that region in the total.

140. It should be noted as well that if a large, populous country like Bangladesh were to improve its performance rating or even to receive its normative allocation based on its current performance (see the preceding section and box 6), it would be extremely difficult for Sub-Saharan Africa to be allocated 50 percent of IDA lending.

H. The Results of the 2000 Normative Allocation Exercise

141. After the annual CPIA exercise, IDA financial staff calculate normative allocations for each potential borrower. As mentioned in the preceding sections, for a small number of borrowers—some of them large—the amount of IDA lending has been pre-allocated through other means, so the allocation formula is applied only to the remaining IDA funds. To ensure equity, these pre-allocations should cover the minimum possible number of countries and be fully transparent. However, as will be seen in part 4, the Country Assistance Strategies reviewed by the Board and eventually published do not usually reveal the rationales for the proposed lending amounts.

142. Figure 4 shows the distribution of normative allocations in 2000, covering the fiscal 2002–04 commitment period. The dotted curve shows the relationship between IDA allocations per capita and borrower performance (combining CPIA ratings, IDA portfolio performance ratings, and the governance discount, if any), assuming a strict application of the allocation formula, assuming arbitrarily that all borrowers have the same GNP per capita and ignoring the minimum and maximum lending conventions. As expected from the exponential nature of the allocation formula, the dotted curve becomes progressively steeper as performance ratings increase. The discontinuity in the curve at rating level 3.0 reflects the anomalous 30 percent jump in IDA allocations that the formula creates between rating 3.00 and 3.01.

143. The vertical spread of actual data points around the dotted curve mainly represents, at any given level of performance, the effect of different levels of GNP per capita. But there is also an effect from the way that the formula brings in the minimum lending convention. For large countries, this effect is hardly noticeable. However, as the data points which have been circled show, the effects can be very large for borrowers with populations less than about 800,000. The five data points at 15.3 SDR (\$20) per capita per year demonstrate the effect of the maximum convention. The bunching of data points in the mid-range reflects the bunching of CPIA results noted in part 2. There are relatively few good and poor performers.

144. IBRD/IDA blend countries do not appear in figure 4, as that would allow their individual performance ratings to be identified. Nonactive borrowers are also excluded.

I. The 2000 Lending Strategy Review

145. The next step in the allocation process is the annual lending strategy review. Normative and predetermined allocations are distributed to the regions, which are asked to accept them as the basis for lending scenarios for the next three fiscal years or to suggest alternative allocations. If needed, a Bankwide meeting is convened to discuss any proposed alterations (under the chairmanship of the vice president for operations policy). The financial staff then makes a recommendation to IDA senior management, which makes the final decision. In most cases, the results of the lending strategy review form the base case lending scenarios in all CASs that are proposed to the IDA Board before the next lending strategy review (see part 4).

146. The results of the 2000 lending strategy review allocations remain dominated by performance, as shown by their alignment with the dotted curve in figure 5—which is the curve from figure 4. But note that

- Allocations were increased for a substantial number of low- and middle-rated countries. The preponderance of these increases occurred in the transitional economies of eastern Europe and central Asia, reflecting their extra-ordinary needs. While these increases were less in 2000 than previously, the review wonders for how long such extraordinary allocations can be justified. The other increases involve better performing borrowers from Sub-Saharan Africa, in order to increase the share of IDA commitments to that region.
- Allocations were increased for most very small borrowers, some greatly, with a number breaching the \$20 (15.3 SDR) per capita limit. As already noted, it should be clarified whether this maximum lending convention should continue only to have validity at the normative allocation stage.
- Allocations to eligible post-conflict countries are very high. By definition, they will be high compared to the normative allocation appropriate to their current performance ratings. Less obvious is why three of the four cases are allocated amounts per capita exceeding those earned by borrowers with the very highest performance ratings. And none of the four cases have populations below 1 million.

147. There are, of course, many good reasons why final allocations should vary from normative allocations, including changed circumstances since the normative allocations were determined, credible borrower promises of positive policy changes, scarcity or abundance of other concessional funds, new windows of opportunity or temporary setbacks, problems of absorptive capacity, and special treatment for countries emerging from conflict or natural disasters. IDA deputies have explicitly agreed to allow for such differences, up or down, but they also recommended that such variances be openly discussed in the subsequent CAS, and that is not yet usually done (see part 4).

148. IDA management has signaled a move toward greater selectivity through changes in the allocation formula and close adherence to the formula results. Is there in fact greater selectivity in lending strategy review allocations today than in the past? A comparison of results for the lending strategy review of 1996, covering funding for fiscal 1998–2000, and that of 1999, covering fiscal 2001–03, suggests that the answer is yes, according to the manner in which management has been typically presenting the data (see upper panel of table 1):

- Allocations per capita to the top quintile of performers increased from 1.38 times the average in 1996 to 1.57 times in 1999—a 14 percent increase.
- Allocations per capita to the lowest quintile dropped slightly, from 0.37 of the average to 0.31—a 16 percent decrease.
- Average allocations per capita in the top quintile rose from 3.7 to 5.1 times that in the bottom quintile—a 38 percent increase.

149. The results as presented by management, however, do not do full justice to the actual results. First, the lowest quintile includes some nonactive borrowers, such as

Afghanistan, an outcome that does not really reflect a selectivity judgment by IDA management. Second, the averages within quintiles are not weighted by population. Once adjusted accordingly, the results are markedly different—and show even greater improvements in some aspects of selectivity (see lower panel of table 1):

- Allocations per capita to the top quintile of performers increased from 1.15 times the average in 1996 to 1.48 times the average in 1999—a 29 percent increase.
- Allocations per capita to the lowest quintile dropped by almost half, from 1.01 to 0.52 times the average.
- Average allocations per capita in the top quintile more than doubled, rising from 1.1 to 2.8 times that in the bottom quintile. While representing a substantially larger percentage increase over 1996 than shown by the management data above, the absolute level of this number (2.8) is lower than might be desirable for strong selectivity.

150. Some anomalies show up in these tables, where the average lending in some quintiles is higher than the average in higher quintiles. This is principally because of the influence of Bangladesh, a major borrower with a large population, allocations to which have already been discussed and are anomalous. Note that both the management and the adjusted data reflect, in the closeness of the figures across the three middle quintiles, the bunching of performance ratings around the median.

151. Management has accepted that the data are more meaningful when weighted by population and with nonactive borrowers excluded. Table 2 shows management data from the 2000 lending strategy review, excluding nonactive borrowers, in both weighted and unweighted variants. The data are not directly comparable with those discussed above for 1996 and 1999 because:

- As well as excluding nonactive and IBRD-IDA blend countries, other exceptional lending allocations have also been excluded—the four post-conflict borrowers and Bangladesh.
- All small borrowers have now been included (previously excluded because they had a misleading effect on data that were not weighted by population).

152. What does this table tell us that is new? First, as expected, the introduction of the smaller countries (many of which are relatively good performers) accentuates the differences between the population weighted and unweighted data²⁷. Second, the ratio between the average lending to the top quintile performers and to the lowest quintile performers is now a more respectable 4+. But this tells us more about the lowest quintile being restricted than it does about the top quintile—note the relative closeness of the allocations per capita for the top four quintiles.

153. Arranging performance quintiles by number of countries, as done above, is appropriate for assessing how well IDA management differentiates between countries

²⁷ This also explains an anomaly in the unweighted data in table 2, where the average commitments to the lower quintile are higher than those of the middle quintile. The lower quintile includes three small islands. Excluding them, the average would have been 6.2 SDR pcpa. The anomaly disappears, of course, in the population weighted data.

according to performance. However, it is also interesting to see how total IDA lending relates to performance. There are at least two ways of showing this. IDA donors and management might wish to consider these approaches for future reporting purposes in addition to what is being done now. Table 3 arranges the performance quintiles by population, covering 2000 lending strategy review data. This presentation can include the small population borrowers, without introducing distortions, but must continue to exclude the IBRD-IDA blends. The left panel includes Bangladesh (the reason for the relatively low allocation to the upper quintile) and the four post-conflict countries. Largely because of the latter, the ratio between per capita lending to the highest and lowest quintiles is only 2.0. The right panel therefore replaces the actual allocations to these five countries by their normative allocations to provide a more meaningful comparison. The ratio between the highest and lowest quintiles increases marginally to 2.1. Very similar results to those of table 3 would be obtained if the data were arranged by quintiles of IDA allocation amounts rather than by quintiles of population.

154. Another way to present the data is to show IDA lending arranged by performance level bands, covering the 2000 lending strategy review (figure 6). A major advantage of this kind of presentation is that it can include the IBRD-IDA blend borrowers without producing the distortions that required their exclusion from previous presentations. Small countries are also be included, as are the four post-conflict countries, although there would be a statistical case for excluding the latter. Only about 8 percent of IDA allocations went to borrowers with performance ratings of 4.0 and higher, with about 75 percent going to borrowers with ratings of 3.4 to 4.0 and about 17 percent to borrowers with rating between 3.0 and 3.4, while only about 4 percent went to those with ratings below 3. These results partly reflect the concentration of the underlying performance ratings, and partly reflect the fact that it is mainly the smaller countries that achieve the highest ratings. But they also show how little goes to the poorer performers. (Data concerning actual lending, as opposed to planned lending allocations, are presented in table 4, in part 4.)

4. ALLOCATION LINKS TO THE COUNTRY ASSISTANCE STRATEGY AND ACTUAL LENDING

155. This part of the report looks at how the IDA allocations resulting from the lending strategy review are translated into proposed lending programs in Country Assistance Strategies (CASs) and into actual lending. In almost all cases, base case lending scenarios in the CASs are consistent with management approved allocations emerging from the lending strategy review. However, rarely is there any discussion in a CAS of the rationale for the management approved allocation, a particularly important shortcoming when there is a difference between that allocation and the normative allocation derived from strict application of the performance-based allocation formula or in the exceptional cases when that formula is not used. While this means that management is not yet implementing the IDA12 recommendation that CASs justify the proposed lending amounts, that may not be possible until details of the CPIA results—on which the normative allocations are based—are disclosed. Nor is there any evident consistency between the triggers for high case lending scenarios presented in the CASs and the CPIA rating and performance-based allocation system. As for actual lending, it appears to be more differentiated by performance than planned allocations, probably because good performers are more likely to achieve their CAS lending scenarios than are poorer performers.

A. The Link between the Performance-Based Allocation System and Country Assistance Strategies

156. Country assistance strategies are prepared periodically for all IDA-eligible borrowers—once every two years for large borrowers, with an intervening progress report, and once every three years or so for small borrowers. They contain management’s proposals for medium-term assistance to the country, typically proposing IDA lending programs for at least the following three years. A base case lending scenario lays out proposed lending programs on the assumption that policy and institutional conditions remain on track. CASs usually also contain a high case lending scenario, which would be activated if the borrower implemented certain improved policies, and a low case scenario, which would be activated in the event of major backsliding. The base case is usually in line with the allocations agreed by IDA management at the preceding lending strategy review. But this is not always the case, since country situations can change.

157. Given the importance of the base case lending scenario, it is surprising to find virtually no discussion in the CAS of how it was arrived at. That, in turn, means that the underlying reasons are not discussed when the CAS is presented to the Board. Nor does OED address the issue in its periodic country assistance evaluations. A review of 15 CASs from 1998/99 confirms this. Only one of these CASs—that for Bangladesh in 1998—contained a full discussion of the normative IDA allocation and why the base case differed from it so much (see box 6). In another CAS, the base case was not the same as the lending strategy review amount, but no explanation was provided. In the other 13 CASs, the base cases were the same as the lending strategy review amounts. In 8 of these, the lending strategy review amounts were also in line with the normative allocations, so there would have been little to explain in the CAS, other than to note that the base case scenario reflected the performance-based IDA allocation system. But 4 CASs presented

base case lending scenarios substantially higher than the normative allocations and one substantially lower. The CASs do not allude to this, and there was no Board discussion.

158. Until IDA12 there were no recommendations on this issue by IDA deputies. The IDA12 final report contained the following recommendation:

Future CASs should justify IDA allocations relative to country performance assessments (including governance), needs, capabilities and other sources of finance and explicitly link the assessments to the lending scenarios incorporated in the CAS.

How then have the most recent CASs responded to this recommendation? Some, but far from all, now mention specifically that the base case lending scenario is in line with the lending strategy review allocation. But none state whether there was any discrepancy between the lending strategy review allocation and the normative allocation, which is the more important fact. This implies that IDA management has not yet begun to address the cited recommendation. Of course, this is clearly difficult for management to do as long as the results of the underlying country performance assessments are not provided to the Boards or to the public. (See further discussion of disclosure in part 5.) Nor do any of the CASs adequately explain proposed lending programs in cases in which the lending strategy review allocations are not directly dependent on the normative allocations: the exceptional countries, countries affected by the minimum and maximum allocation conventions, and the blend countries (see part 3, sections D-F).

159. Logic would seem to demand that there be a consistency between borrower actions needed to trigger a CAS high case lending scenario and the performance-based allocation system. That is to say, if such a trigger was activated, the same borrower actions should also lead to a higher borrower performance rating that would bring an appropriately higher normative allocation in the next allocation exercise. However, a typical recent CAS set a high case scenario 46 percent above the base case²⁸. To generate that kind of increase in a normative allocation would require a 20 percent improvement in the CPIA rating (the allocation formula being quadratic), say from 3.5 to 4.2. That would be a very major improvement indeed. But activation of the triggers in this case would not have produced anything like that kind of an increase in the CPIA rating. The practical importance of this absent link is currently slight, however, since triggers for high case scenarios have never actually been activated, at least not prior to the preparation of a new CAS.

B. Actual Lending and Borrower Performance

160. So far, this report has traced the country performance assessment process from the performance-based rating system through calculation of the normative allocation and management approval of an allocation level in the lending strategy review, to the Board-sanctioned lending allocation in the CAS. But a lot can happen in transforming the lending program proposed in the CAS into actual lending commitments. In theory, any deviation ought to enhance rather than weaken the relationship between lending and

²⁸ The weighted average of high case scenarios for CASs prepared in 2000 was 33 percent above the base case scenarios, equivalent to a 15 percent improvement in the CPIA rating, say from 3.5 to 4.0.

performance, since good performers should be able to implement their lending programs successfully, while poorer performers might lag behind on their (smaller) lending programs. And this is what seems to have happened.

161. Table 4 shows actual lending commitments for selected three-year periods, arranged by quintiles of borrower performance, as reported by IDA management to the Board and to IDA deputies (top panel) and as modified by the review through weighting by population and through elimination of non-active borrowers (bottom panel). The data from the bottom panel show, as expected:

- A tendency toward greater differentiation over time. The ratio between the top and lowest quintile lending per capita increases from 1.4 to 3.5.
- A major difference between actual lending figures for FY98-00 shown here and the allocation figures for the same period shown in the lower panel of table 1.

5. ADDITIONAL CONSIDERATIONS

162. This final part of the report addresses some additional issues that might usefully be considered:

- Alternative allocation mechanisms, such as: assigning a portion of IDA availability on a program basis (for example, for furthering girls' education or for regional projects) rather than assigning all of it according to country policy performance; allocating prefixed lending amounts per capita, depending on performance, rather than using the allocation system simply to distribute everything that is available; and establishing minimum levels for certain key CPIA criteria as a threshold condition for the allocation process to proceed.
- Alternatives to the CPIA in setting policy targets in the context of the new poverty reduction strategy paper process.
- Need for greater disclosure about the performance-based allocation system and its results.

A. Allocation Mechanisms Other Than by Country

163. The full amount of IDA funds available is currently allocated to specific borrowers. While that may well be the optimal way of allocating funds, some alternatives ought to be explored before that determination is made. One alternative would be to continue to allocate a high proportion of IDA funds according to policy performance, while reserving a small proportion to finance programs or projects specifically designed to further key IDA objectives (e.g. furthering of girls' education) or regional initiatives. These sums would be made available to appropriate projects and programs, as they are presented by countries and appraised by IDA. This would probably be a highly contentious alternative, given recent emphasis on putting the borrower at the center of the development process, but it is not necessarily in conflict with that philosophy.

164. Another alternative would be to offer IDA borrowers fixed amounts per capita, at given performance ratings. Under present arrangements, changes in the distribution of IDA funds depend on relative improvements in performance since if all countries improve their performance equally, there is no change in the IDA allocation to any country. Suppose, instead, that a progressive scale of lending were applied, say \$10 per capita per year for countries with a high rating (4.5), \$5 for those with an average rating (3.5), and \$1 for those with a poor rating (2.0), with suitable intermediate rates. Donors might further agree to ensure any IDA-eligible borrower with a rating higher than 4.5 that its development program would not be held back because of a shortage of capital.

165. These rates would be fixed for a given IDA replenishment period so that, say, 75 percent of the funds would be allocated on this basis at the time of the IDA negotiations.²⁹ If ratings of individual countries did not increase during the replenishment period, some of the replenishment funds would remain unused, to be transferred to the subsequent replenishment period. If country performance improved on a scale that would exhaust the current IDA replenishment or require a higher new IDA replenishment, that would make

29. The 75 percent figure is purely notional at this stage and IDA management would need to examine it in detail should the broad approach be found worth looking into. To introduce such a system, it might well be advisable to start with a higher figure.

a strong case to IDA donors for a need to increase IDA contributions. Under the present system, there is no good yardstick for determining whether an increased amount should be provided to the next IDA replenishment. Of course, such a system would need more robust CPIA ratings. And it would be advisable to continue to allow for some variations to take account of specific country situations, such as the availability of concessional funding from other donors, as long as these variations were totally transparent.

B. Alternative Ways of Setting Policy Targets

166. Under the present CPIA system, IDA established the appropriate set of policies for each rating level in a one-size-fits-all development model. As this analysis has shown, that is extremely difficult to do well, given countries' different natural endowments and levels of development. Bangladesh's case shows further that IDA likes to see movement toward improved policies even for setting normative allocations. And anecdotal evidence suggests that in many countries level of effort and expectations do enter into the overall ratings, even though they are not supposed to. In addition, under the new poverty reduction strategy paper process, each country is expected to lay out its short- and medium-term poverty reduction strategy, and donors are expected to accept this plan as the basis for their lending. These poverty reduction strategy papers will presumably set out a timetable for policy improvements as well as proposed investments.

167. Together, these factors suggest a reasonable alternative to the present methods of performance rating. IDA could rate a country's poverty reduction strategy, rather than its policies, as the basis for determining normative allocations.³⁰ Lending at the normative allocation level would then be dependent on the government following its own proposals for improving policies. If the timetable is met, lending will continue at that level and rate. If there is slippage, lending will slow. There would be no incentive for countries to avoid later reductions in IDA lending by setting low expectations in the poverty reduction strategy paper since that would presumably result in a low initial rating and a low basic lending allocation. This system would eliminate the potential conflict between today's CAS process, which sets lending rates and defines triggers for raising or lowering lending amounts, and the annual performance-based allocation system, which rations funds on a different basis.

168. The current performance-based allocation system is additive. Even if a borrower gets a very low rating in one or more policy areas that bring into question its ability to make good use of IDA resources, the borrower might nevertheless receive a substantial overall CPIA rating because of higher ratings on other criteria (at least temporarily). An alternative would be to establish minimum performance levels for certain critical CPIA criteria, such as governance and the environment. Borrowers exceeding these minimums would continue to receive allocations based on their overall performance ratings. Borrowers falling below the minimum levels would receive no normative allocations but would be treated by IDA management on an ad hoc basis, with lending proposals fully justified to the Board through the CAS process.

30. Taking care, of course, that IDA rates the substance of the poverty reduction strategy papers, rather than drafting skill and that the poverty reduction strategy paper is truly a borrower document.

C. Greater Transparency

169. The only reasonably effective way to ensure equity across borrowers and to enable the Bank to take advantage of external expertise and experience is to provide for complete disclosure of CPIA design, rating results, allocations (normative, lending strategy review outcomes, and CAS base case lending amounts), and the reasons for any discrepancies between them. This change would be in line with the move toward greater transparency within the Bank (and with the Bank's own recommendations to borrowers). Indeed, if the Bank cannot disclose CPIA results, then the results cannot be used openly in CASs, which are now being publicly disclosed. The CASs would then continue to fail to address one of the most important issues in Bank-borrower relations.

170. There have been some recent improvements in disclosure. CPIA design and borrower performance by quintile are published on the Bank's web site. Borrowers are now to be informed about their CPIA ratings and about the average rating for countries, following a Board decision in August, 2000. It would be useful, in addition, for borrowers to know how (and why) their ratings differ from those of other countries, especially those at similar levels of development. And a problem could arise if borrowers are the only ones informed of the results, since pressure on staff could become substantial in the absence of clear and strong checks and balances (including, most importantly, an audit trail of written rationales for rating, as recommended in part 2).

171. What is preventing full disclosure? One recognized obstacle is that IBRD-only borrowers are also currently rated in the CPIA system, and there are concerns that ratings for IBRD-only borrowers might be misinterpreted by potential commercial lenders. Management does not want different disclosure policies for IBRD and IDA borrowers. One possible solution would be to use the CPIA system for IDA allocations only. Indeed, trying to design the CPIA system to work for both IDA and IBRD borrowers may explain some of the problems with the use of the CPIA for IDA allocations. The CPIA is not needed to allocate funds for IBRD-only borrowers, since these are restricted only by creditworthiness considerations. However, serious consideration is being given to using CPIA ratings in determining the distribution of the Bank's administrative budget, which would require that ratings be provided for IBRD borrowers as well as IDA borrowers. There are severe methodological problems in doing that, and in any case, wider considerations of the need to disclose CPIA ratings should take precedence. Another reason for including IBRD in the CPIA exercise is to create a worldwide data base for research purposes. As shown in this report, CPIA data are not really suitable for such purposes.

172. A practical impediment seen by the review is that the CPIA results are not yet robust enough to withstand full disclosure. And the results cannot be made robust enough without the proposed audit trail. This effort will require additional funding, as discussed in paragraph 97.

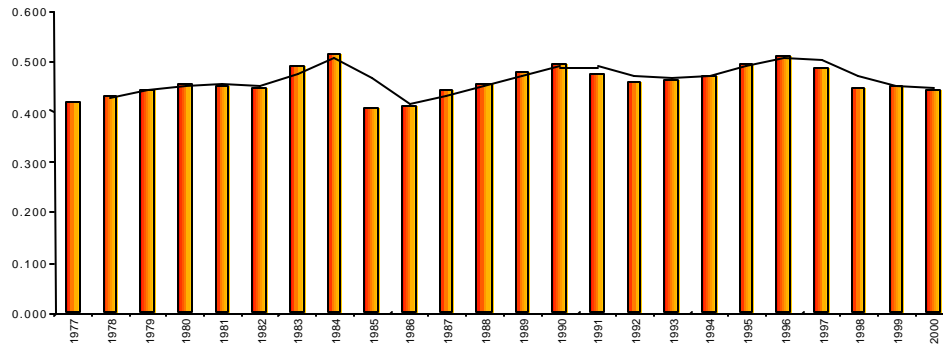
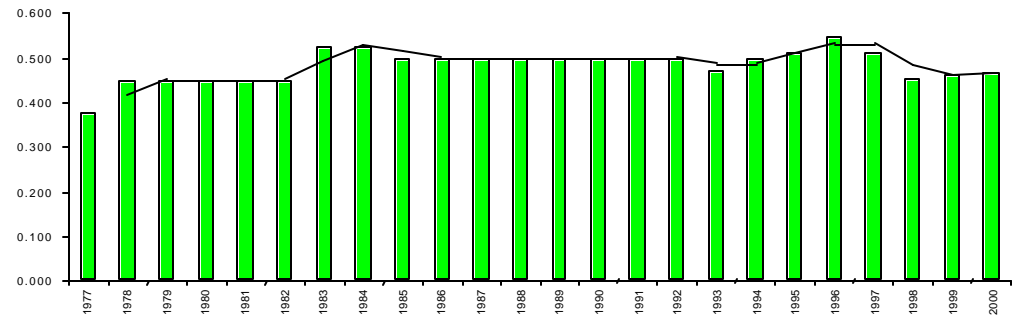


Figure 1: CPIA results, 1977 - 2000 - IDA & IDA/IBRD blend borrowers only.
 Note: Normalized on a scale of 0 to 1

Median →



← **Standard Deviation**

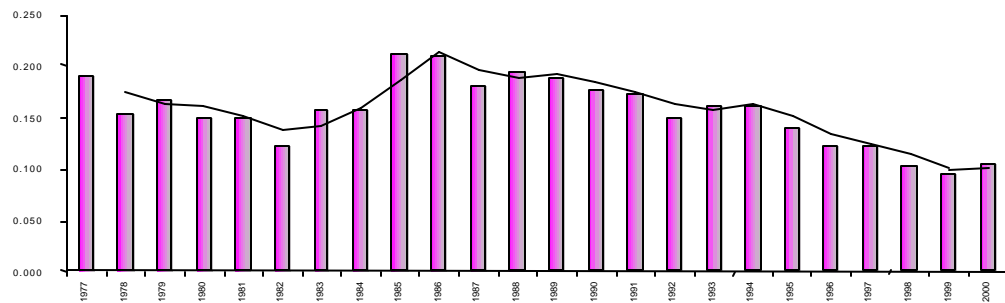


Figure 2. Governance-Related Ratings Compared with Other Ratings, 1999 CPIA

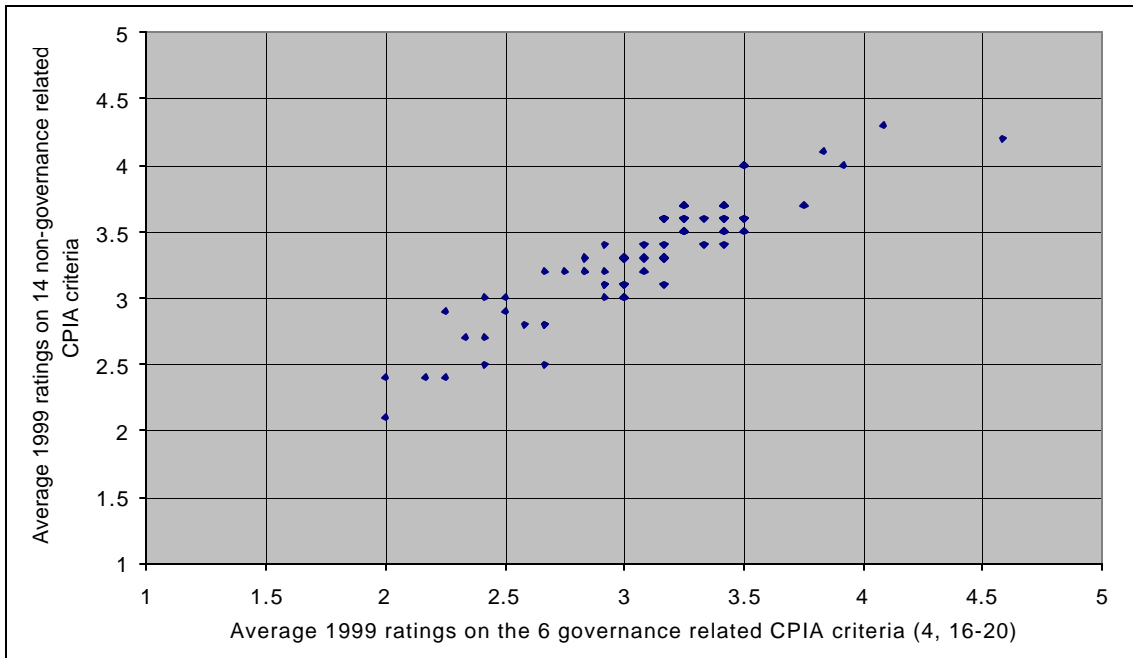


Figure 3. CPIA and Portfolio Performance Ratings Compared

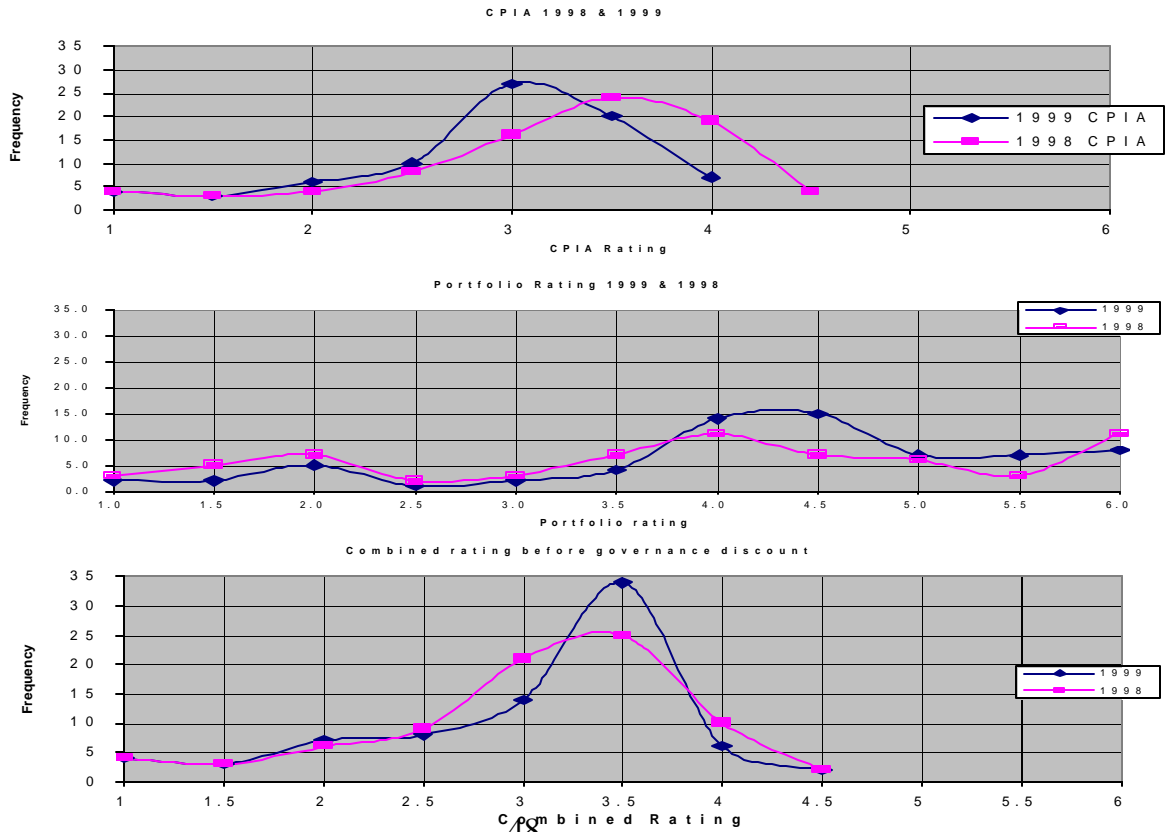


Figure 4: Proposed Lending Allocations FY 02-04

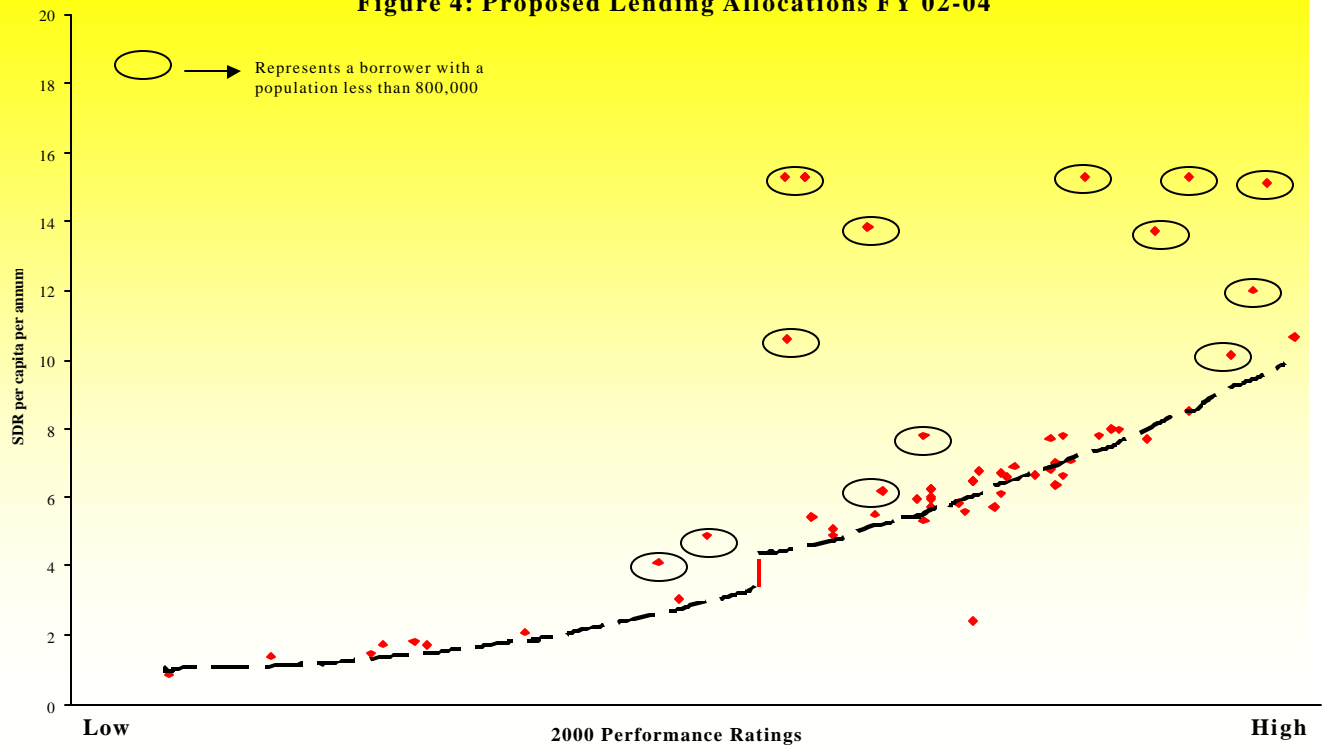


Figure 5: Agreed Lending Allocations FY 02-04

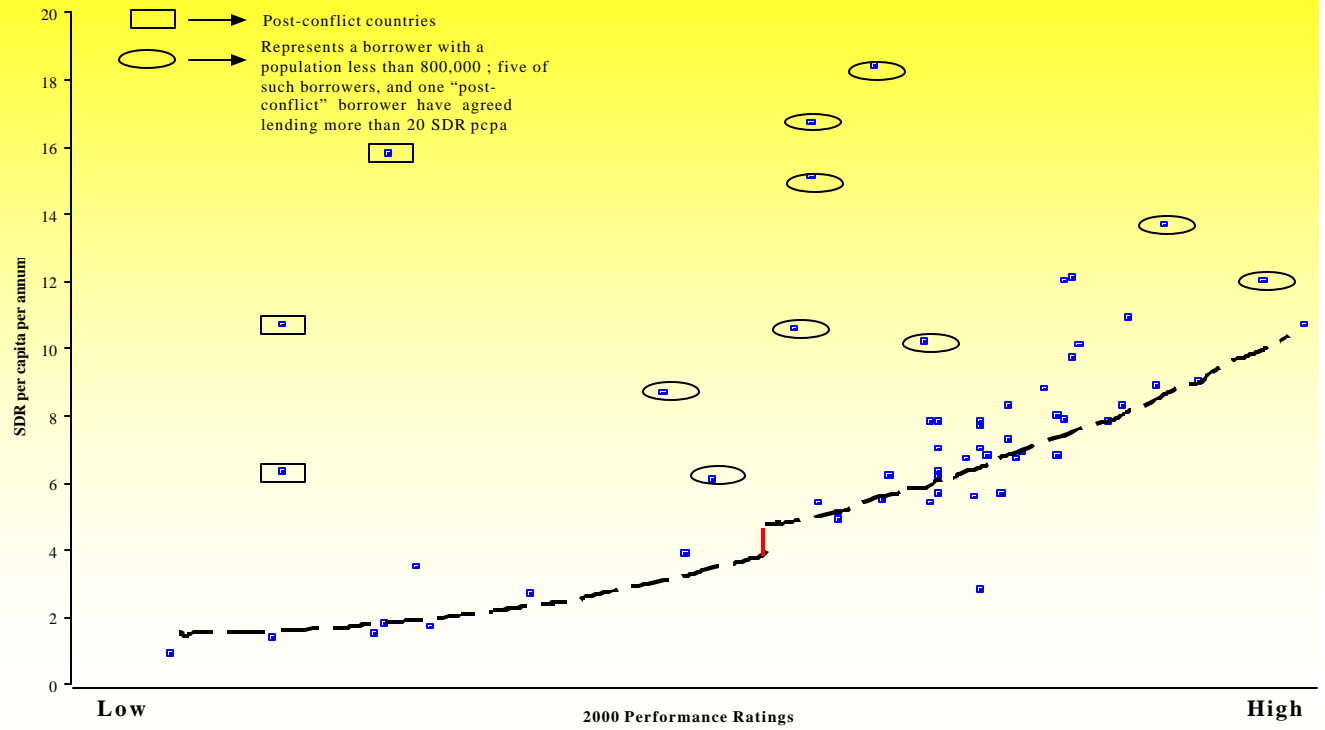


Figure 6:

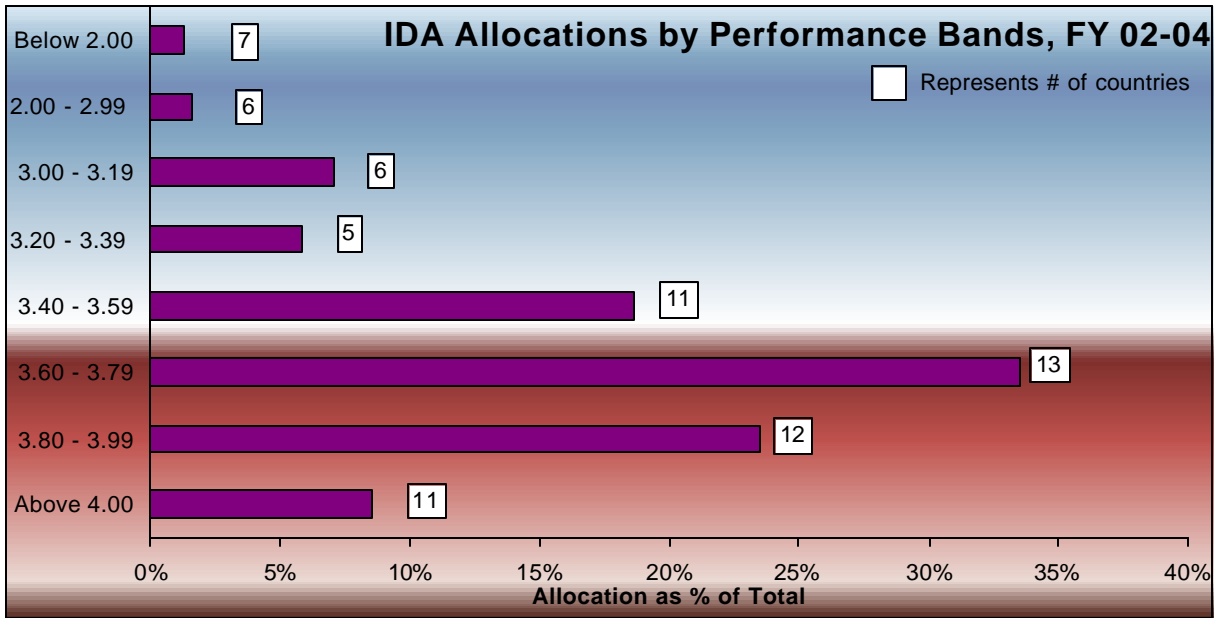


Table 1: IDA Allocations by Performance Quintile, FY 98-00 and FY 01-03

IDA Allocations and Country Performance as Presented by Management^{a/}

Performance Quintile	FY98-00			FY01-03		
	Number of countries	Avg. Rating ^{b/}	Avg PCPA SDR	Number of countries	Avg. Rating ^{b/}	Avg PCPA SDR
Top	11	3.61	7.82	11	3.89	9.11
Upper	11	3.30	6.33	11	3.64	6.92
Middle	11	3.04	6.72	11	3.45	7.41
Lower	11	2.64	5.42	11	2.62	3.79
Lowest	10	1.35	2.07	11	1.20	1.78
Total	54	2.79	5.67	55	2.96	5.80

Indexed PCPA data relative to the Total	Top	1.38	1.57
	Upper	1.12	1.19
	Middle	1.18	1.28
	Lower	0.96	0.65
	Lowest	0.37	0.31
	Total	1.00	1.00

a/ Based on data for IDA-only countries, excluding those with population of less than one million; includes blend countries with no current IBRD lending and non-active IDA

b/ Represents the arithmetic average of all countries in the quintile of the performance rating in the year allocations were made i.e. 1996 performance ratings for the FY 98-00 allocations and 1999 performance ratings for the FY 01-03 allocations

PCPA = Per Capita Per Annum

**IDA Allocations and Country Performance
(weighted by population and excluding non-active IDA borrowers)**

Performance Quintile	FY98-00			FY01-03		
	Number of countries	Avg. Rating	Avg PCPA SDR	Number of countries	Avg. Rating	Avg PCPA SDR
Top	10	3.71	6.19	9	3.92	8.58
Upper	10	3.35	6.34	9	3.68	5.05
Middle	10	3.16	3.68	9	3.58	5.91
Lower	9	2.82	5.27	9	3.30	6.41
Lowest	9	2.30	5.44	9	2.56	3.02
Total	48	3.07	5.38	45	3.41	5.79

Indexed PCPA data relative to the Total	Top	1.15	1.48
	Upper	1.18	0.87
	Middle	0.68	1.02
	Lower	0.98	1.11
	Lowest	1.01	0.52
	Total	1.00	1.00

Table 2: IDA Allocations by Performance Quintile, FY 02-04 ^{a/}

Performance Quintile	LSR 02-04			LSR 02-04		
	Number of Countries	Average Rating	Average PCPA (SDR)	Number of Countries	Average Rating	Population Weighted Average PCPA (SDR)
Top	13	4.17	14.0	13	4.06	8.7
Upper	12	3.79	9.2	12	3.78	7.8
Middle	12	3.57	7.0	12	3.58	6.8
Lower	13	3.29	8.7	13	3.27	5.6
Lowest	12	2.27	5.5	12	1.91	2.1
Total	62	3.43	8.9	62	3.43	6.5
Indexed PCPA data relative to the Total		Top	1.57			1.34
		Upper	1.03			1.20
		Middle	0.78			1.05
		Lower	0.97			0.86
		Lowest	0.61			0.33
		Total	1.00			1.00

a/ Excludes:

- (i) Inactive countries: Afghanistan, Congo DR, Liberia, Myanmar, Sudan and Somalia;
- (ii) Post-conflict countries: Congo Rep., Eritrea, Guinea-Bissau, and Sierra Leone;
- (iii) Blend countries for which allocations are fixed well below the norm: Nigeria, Indonesia, India and Pakistan;
- (iv) Bangladesh for which the allocation is set well below the norm in view of absorptive capacity constraints.

Table 3: IDA Allocations by Population Quintile, FY 02-04

Actual			Amended for Bangladesh and "post conflict" extremes^d		
Population Quintile ^{a/ b/}	Avg. Performance Rating (2000)	Avg PCPA SDR	Population Quintile ^{a/ b/}	Avg. Performance Rating (2000)	Avg PCPA SDR
Top	3.93	8.14	Top	3.93	8.14
Upper	3.66	5.93	Upper	3.66	6.93
Middle	3.54	4.94	Middle	3.54	6.18
Lower	3.42	3.63	Lower	3.42	3.63
Lowest	2.61	4.09	Lowest	2.61	3.90
Total	3.43	5.35	Total	3.43	5.76

a/ Arranged in the order of 2000 performance ratings

b/ Based on data for IDA-only countries, including small countries and ECA blend countries with no direct IBRD lending; but excluding non-active IDA countries

c/ Actual allocations to Bangladesh and four "post-conflict" countries replaced by their normative allocations

PCPA = Per Capita Per Annum

Table 4: IDA Commitments by Performance Quintile, FY 93-95 through FY 98-00

As presented by management ^{a/}

Performance Quintile	FY93-95			FY95-97			FY98-00 ^{b/}		
	Number of countries	Avg Rating ^{c/}	Avg PCPA \$	Number of countries	Avg Rating ^{c/}	Avg PCPA \$	Number of countries	Avg Rating ^{c/}	Avg PCPA \$
Top	11	3.44	10.9	11	3.48	12.4	11	3.87	16.7
Upper	11	3.13	8.2	11	3.27	9.8	11	3.68	10.7
Middle	11	2.81	7.1	11	2.99	6.1	11	3.46	7.2
Lower	10	2.40	5.8	11	2.64	5.3	11	2.61	5.7
Lowest	10	1.37	1.2	10	1.35	1.0	11	1.35	0.7
Total	53	2.63	6.6	54	2.75	7.0	55	2.99	8.20
Indexed PCPA data relative to the Total	Top		1.65			1.88			2.04
	Upper		1.24			1.48			1.30
	Middle		1.08			0.92			0.88
	Lower		0.88			0.76			0.70
	Lowest		0.18			0.15			0.09
	Total		1.00			1.00			1.00

a/ Based on data for IDA-only countries, excluding those with population of less than one million; includes ECA blend countries with no current IBRD lending and non-active IDA countries.

b/ Includes IDA HIPC Grants.

c/ Represents the arithmetic averages across all countries in the quintile of the average performance ratings over the 3-year period.

PCPA = Per Capita per Annum

Without the non-active countries and averages weighted by population

Performance Quintile	FY93-95			FY95-97			FY98-00		
	Number of countries	Avg. Rating	Avg PCPA \$	Number of countries	Avg. Rating	Avg PCPA \$	Number of countries	Avg. Rating	Avg PCPA \$
Top	10	3.47	6.71	10	3.52	8.17	10	3.90	14.60
Upper	9	3.25	5.16	9	3.29	5.24	10	3.69	5.87
Middle	9	2.88	3.78	9	3.08	4.42	9	3.54	5.88
Lower	9	2.67	7.79	9	2.81	6.26	9	3.11	4.36
Lowest	9	2.09	4.79	9	2.48	5.04	9	2.19	4.16
Total	46	2.87	5.64	46	3.04	5.83	47	3.29	6.97
Indexed PCPA data relative to the Total	Top		1.19			1.40			2.09
	Upper		0.91			0.90			0.84
	Middle		0.67			0.76			0.84
	Lower		1.38			1.07			0.63
	Lowest		0.85			0.86			0.60
	Total		1.00			1.00			1.00