



**AFRICAN DEVELOPMENT BANK GROUP**

**THE AFRICAN DEVELOPMENT BANK'S 2005 COUNTRY  
PERFORMANCE ASSESSMENT**

**A SUMMARY OF THE AfDB 2005 CPIA RATINGS SCORES**

**November 2006**

# THE AFRICAN DEVELOPMENT BANK 2005 COUNTRY PERFORMANCE ASSESSMENT

## 1. Introduction

**1.1.** The Country Policy and Institutional Assessment (CPIA) provides a snapshot of the country's policy and institutional environment. The CPIA is designed to assess the quality of a country's present policy and institutional framework, in terms of how conducive such a framework is to ensuring the efficient utilization of scarce development resources in the pursuit of sustainable and poverty reducing development in the Regional Member Countries (RMCs). Except for the regional integration dimension added to the trade and environment criteria under cluster B, the 2005 CPIA of the African Development Bank was driven by a questionnaire closely aligned with to one developed by the World Bank for its 2005 CPIA exercise. All countries, including post-conflict countries have been assessed in 2005.

**1.2.** Since 1999, Bank Management has employed a Performance-Based Allocation (PBA) system for allocating ADF resources among the eligible Regional Member Countries (RMCs). The PBA system is aimed at providing a transparent means of allocating concessional ADF funds to ADF-eligible countries according to performance. The PBA is a function of the Country Performance Assessment<sup>1</sup> (CPA) which is made up of two parts: the Country Policy and Institutional Assessment (CPIA), and the Country Portfolio Performance Rating (CPPR). The CPIA accounts for 70 percent, with the CPPR accounting for 30 percent of the overall CPA rating.

## 2. The Country Policy and Institutional Assessment (CPIA)

**2.1.** The CPIA exercise is carried out each year for all of the Bank's RMCs<sup>2</sup>. The 2005 assessment process was launched with a review of the Bank's CPIA questionnaire by a Task Force, in the light of lessons learnt from the preceding exercises as well as insights gained from consultations, including brainstorming with partner institutions (IDA and AsDB). The questionnaire was then approved by the Operations Management Team (OMT) comprising all Operations Directors, under the chairmanship of the Vice President for Regional and Country Programs and Policy (ORVP). Country Teams, comprising all the various expertise working on each country were then asked to complete the questionnaire and submit proposed scores to the Operations Policy and Review Department (POPR), now the Operations Policies and Compliance Department (ORPC), for compilation and analysis. The compiled results were later submitted to the OMT for review and ratification.

**2.2.** The CPIA awards ratings to countries based on scores from sixteen assessment criteria. As Box 1 shows, these 16 CPIA criteria are grouped into four main clusters: A) Economic Management, B) Structural Policies, C) Policies for

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<sup>1</sup> While the CPA applies to all RMCs, the allocation of resources is limited to ADF-eligible countries.

<sup>2</sup> Except Libya which has not requested development financing from the Bank.

Social Inclusion and Equity, and D) Public Sector Management and Institutions. The specific contents of each of the criteria are presented below.

**Box 1. THE COUNTRY POLICY AND INSTITUTIONAL ASSESSMENT CRITERIA**

<p><b>A. Economic Management</b></p> <ol style="list-style-type: none"><li>1. Macroeconomic Management</li><li>2. Fiscal Policy</li><li>3. Debt Policy</li></ol> <p><b>B. Structural Policies</b></p> <ol style="list-style-type: none"><li>4. Policies and Institutions for Economic Cooperation, Regional Integration &amp; Trade</li><li>5. Financial Sector</li><li>6. Business Regulatory Environment</li></ol> <p><b>C. Policies for Social Inclusion/Equity</b></p> <ol style="list-style-type: none"><li>7. Gender Equality</li><li>8. Equity of Public Resource Use</li><li>9. Building Human Resources</li><li>10. Social Protection and Labour</li><li>11. Environmental Policies and Regulations</li></ol> <p><b>D. Public Sector Management and Institutions</b></p> <ol style="list-style-type: none"><li>12. Property Rights and Rule-based Governance</li><li>13. Quality of Budgetary and Financial Management</li><li>14. Efficiency of Revenue Mobilization</li><li>15. Quality of Public Administration</li><li>16. Transparency, Accountability, and Corruption in the Public Sector</li></ol>
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**2.3.** The four clusters defined above in Box 1 are equally assigned a weight of 25%. Furthermore, within each cluster, criteria are equally weighted even though clusters have unequal number of criteria. Thus, components in Economic Management and Structural Policies have an individual weight of 8.33% while individual criteria in the cluster for Policies for Social Inclusion/Equity and Public Sector Management and Institutions each carry a weight of 5.0%. This implies that a criterion in clusters A & B has relatively higher significance than a criterion in the other clusters. Countries were also rated against a set of benchmark countries for which agreed ratings had been provided to staff. Ratings were then reviewed across Vice Presidencies (Complexes) to ensure fairness and consistency.

**2.4.** The CPIA criteria were rated using a six-point rating scale (see Box 2). Definitions of all rating levels had earlier been agreed upon, and care was taken to ensure that the ratings were applicable to all candidate RMCs, regardless of the level of development, with levels defined in such a way that they could be attained by a country implementing the right policy mix, irrespective of its stage of development.

**2.5.** Higher scores do not set unduly demanding standards, and can be attained by a country at any stage of development with a policy and institutional framework that strongly fosters growth and poverty reduction. The assessment is squarely based on judgments about policies and institutions but not economic outcomes that could be influenced by exogenous factors (drought or the discovery of natural resources, etc). Most of the available data (e.g., macroeconomic data and social indicators) refer to “*outcomes*”. In the context of a framework for growth and poverty reduction, policies and institutions can be seen as “*inputs*”—as elements that are essentially under the country’s control – while “*outcomes*” can be affected by external factors beyond the country’s influence. However, factual indicators of economic outcomes were drawn upon to validate judgments about the effectiveness of the relevant policies and institutions, and to foster comparisons among countries.

<b><u>Box 2: CPIA Rating Scale</u></b>	
<b>Rating Scale</b>	<b>Rating</b>
Highly Unsatisfactory for 2 years or more	<b>1.0</b>
Highly Unsatisfactory	<b>2.0</b>
Unsatisfactory	<b>3.0</b>
Satisfactory	<b>4.0</b>
Good	<b>5.0</b>
Good for 2 years or more	<b>6.0</b>

**2.6.** In general, the rating scale described in Box 2, provided a basis for ordinal ranking of RMCs on performance by specific criteria, based on informed judgment integrating knowledge of the country, critical analysis of policies and institutions, and tangibles outcomes. The following are broad representations of the various rating categories.

- “1” Very weak for 2 years or more**
- “2” Weak**
- “3” Moderately weak**
- “4” Moderately strong**
- “5” Strong**
- “6” Very strong for 2 years or more**

**2.6.** The rating scale allows for intermediate ratings such as **1.5; 2.5; 3.5; 4.5,** and **5.5.**, though integer scoring numbers would be preferable to avoid bunching or inadvertent upgrading or downgrading. The rating scale applies to each criterion irrespective of the number of dimensions. However for criteria with multiple dimensions, a rating for each dimension had to be provided in the write-up along with its justification to ensure objectivity and transparency, and to permit scouting and validation by a third party if called for. Each criterion included suggested indicators to assist country teams in determining country scores and in ranking countries. Staff took into account the relative sizes of national economies and their degrees of sophistication.

### 3. The Country Portfolio Performance Rating (CPPR)

**3.1.** The Country Portfolio Rating (CPPR) measures the performance of the Bank's portfolio, highlighting the degree to which it is at risk. The CPR provides a useful indicator of performance and effectiveness in the use of aid resources. Similar to the World Bank rating, the CPPR exercise is based on the results of the Annual Project Performance Review (APPR) that uses the broader concept of "projects-at-risk" (PAR)<sup>3</sup>. The PAR index combines both potential and actual problem projects. Problem Projects (PP)<sup>4</sup> are defined as projects for which implementation progress is assessed as unsatisfactory or objectives are unlikely to be achieved. Potential Problem Projects (PPP)<sup>5</sup> are those that are currently rated satisfactory, but have risk factors associated with unsatisfactory outcomes. These risk factors include unsatisfactory procurement, insufficient counterpart funds and disbursement delays, unsatisfactory implementation and/or development objective ratings less than 1.5 for two or more consecutive Annual Project Performance Reviews in the recent past.

**3.2.** The 2005 Country Portfolio Ratings derive from the assessment of operational performance of the Bank Group's ongoing Portfolio Performance during the calendar year 2005. The assessment of this performance determines the health of the Bank Group's portfolio as a measure of the number and percentage of projects at risk (PAR), expressed as a proportion of the total number of rated<sup>6</sup> operations assessed. The PAR level is determined using a three-step procedure.

**3.3.** The first step involves identifying problem projects (PP). These are projects that task managers, through supervision of performance ratings, have rated as unsatisfactory based on their own assessment of the likelihood that the operation will not attain its intended development objective (DO) and the project's current implementation progress (IP). The IP comprises 14 indicators, rated from 0 to 3, while the DO uses 4 indicators, also rated from 0 to 3. The IP and DO rates are averaged individually, and, if either of them is less than 1.5, the operation is

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<sup>3</sup> **Projects at Risk (PAR):** Operations that are either problem or potential problem projects ( $PAR = PP + PPP$ ). The PAR rate for a sector or country is calculated by dividing the number of PARs by the total number of rated projects per sector or per country.

<sup>4</sup> **Problem Project (PP):** An operation whose average IP indicator score or average DO indicator score is less than 1.5.

<sup>5</sup> **Potential Problem Project (PPP):** A project that has a high probability of not achieving satisfactory or higher ratings in the future.

<sup>6</sup> For 2005, the entire ongoing portfolio is composed of the 638 on-going operations of which 403 were supervised between 1<sup>st</sup> January 2005 and 31<sup>st</sup> December 2005 and for which supervision ratings have been entered into the SAP System. In addition, the following operations were removed from the operations-oriented analysis : Grant-financed, stand-alone studies, all emergency operations, a Project Preparation Facility Operations (PPF) and all Middle Income operations (MIC). Finally, the risk analysis review was based on only 368 rated operations.

deemed to be “problematic”. A problem project rate is then derived by dividing the number of PPs by the total number of operations rated

**3.4.** The second step involves determining potential problem projects (PPP) - these are operations that are currently rated as satisfactory - with IP and DO rates that are greater than 1.5 - but that have two or more of the critical factors listed below, signalling a high possibility that in the future these projects may experience problems with implementation progress or development objectives and therefore require close monitoring. These critical factors include:

- (i) The period between approval and effectiveness of project loans, PBLs, or Technical Assistance Funds (TAFs) exceeds 12 months;
- (ii) Conditions precedent to effectiveness and to first disbursement are rated less than 1.5 (Indicator A1: Compliance with loan conditions preceding to entry into force)
- (iii) Procurement Performance is rated less than 1.5 (Indicator B.2: Procurement of goods and works);
- (iv) Availability of Counterpart Funds is rated less than 1.5 (Indicator C.2 : Availability of Local Currency);
- (v) Project Management Performance is rated less than 1.5 (D.4: Performance of Project Management)
- (vi) The IP or DO ratings are less than satisfactory for two years in a row;
- (vii) Less than 10 percent of the loan has been disbursed two years after loan effectiveness or less than 50 percent of the loan has been disbursed five years after loan effectiveness;
- (viii) The project has not been completed after 8 years (five years for TAF grants) from the date of approval;
- (ix) TAF-financed capacity building operations have less than 50 percent of resources disbursed 3 years after approval.

**3.5.** The third step computes the Projects at risk (PARs) which are determined by adding up the total number of problem problems and potentially problematic problems. The PAR rate is calculated by dividing the number of PARs by the total number of rated operations.

**3.6.** To reduce the “young/small portfolio” bias and the high effective weight of the CPPR, a conversion scale of the percentage of “projects-at-risk” into the six-point rating has been recalibrated to bring the CPPR scores more in line with those of the CPIA (see Box 3 below). Through the introduction of 0.5 intervals, the new conversion scale “rewards” RMCs for smaller increments in portfolio

improvement. The process has been further enhanced such that stand-alone TAF studies have not been included in the calculations of projects-at-risk per country<sup>7</sup>.

**Box 3: Country Portfolio Rating**  
**CPR - Projects at Risk Conversion Table**

% Projects at Risk per Country	Rating
X = 0% for 3 or more years	6
$0 \leq X \leq 5\%$	5
$5 < X \leq 15\%$	4.5
$15 < X \leq 30\%$	4
$30 < X \leq 35\%$	3.5
$35 < X \leq 45\%$	3
$45 < X \leq 65\%$	2.5
X > 65%	2
X > 65% for 3 or more years	1

#### 4. The Governance Factor

**4.1.** In 2002, the Performance-Based-Allocation (PBA) system was strengthened by the introduction of the governance factor for three reasons: The first was to signal concerns about weak governance. The second was to make governance a key focus of country dialogue and policy reform. The third was to provide an incentive for good governance linked to country allocation of resources. The computation of the Governance Factor uses the same methodology as the risk analysis process but limited only to the two procurement indicators namely:

- B1: Procurement of Consultancy services and
- B2: Procurement of Goods and Works.

**4.2.** The first step involves identifying Procurement-at-Risk projects. A Procurement-at-Risk operation is defined as an operation for which the B1 indicator score or the B2 indicator score is less than 1.5. It is a measure of the number and percentage of operations in a specific country that are rated as procurement at risk, expressed as a proportion of the total number of rated operations assessed. This percentage is then converted into a 6-scale conversion table as presented in Box 4 below.

<sup>7</sup> Projects-at-risk are calculated as a percentage of the number of projects at risk, not by loan volume. Consequently, studies, which are not significant in volume, would tend to have a disproportionate influence in calculating the projects-at-risk, and have therefore been excluded.

<b><u>Box 4 : Procurement-at-Risk</u></b>	
<b><u>Procurement-at-Risk Conversion Table</u></b>	
<b><i>% Procurement-at-Risk Projects per Country ((X)</i></b>	<b><i>Rating</i></b>
X = 0% for 3 or more years	6.0
0<X≤5%	5.0
5<X≤15 %	4.5
15<X≤30 %	4.0
30<X≤35 %	3.5
35<X≤45 %	3.0
45<X≤65 %	2.5
X > 65%	2.0
X > 65% for 3 or more years	1.0

**4.3.** The second step combines the Procurement at risk rating with the five indicators of the fourth cluster of the CPIA to compute an average Governance Rating (GR). Then, the *Governance Factor (GF)*, similar to the one introduced by the World Bank, is derived by dividing the country's average rating for the six governance criteria (GR) by 3.5, the mid point of the assessment range. The overall CPA rating is then multiplied by this factor, generating the adjusted CPA, which results in an increase or decrease of the adjusted CPA, depending on the degree to which the country's governance rating is satisfactory (above 3.5) or unsatisfactory (below 3.5). The objective of double-counting of governance in the CPIA is to further strengthen the weight assigned to this factor in ensuring development effectiveness of aid resources.

## **5. Disclosure of the numerical 2005 CPIA scores for all RMCs**

**5.1.** In 2005, the African Development Bank began disclosing the CPIA in a quintile format for all Regional Member Countries. The Bank posted the quintile-based rating results for the CPIA and for its four clusters on its external web-site. The Board of Executive Directors of the African Development Group in November 2005 approved the full disclosure of the numerical CPIA scores for all the Regional Member Countries starting with the results of the 2005 exercise. In accordance with the harmonization and alignment principles, the Bank is disclosing for all its Regional Member Countries, individual 2005 CPA numerical ratings, including all its components on the Bank website.

**5.2. The 2005 results.** The CPIA and its sixteen component scores are presented in two tables (Table 1 and Table 2). The Governance factor and its components are presented in Table 3 while the Overall CPIA, the CPPR and the overall Governance ratings scores are presented in table 4:

- (i) Table 1 (Countries listed alphabetically)
- (ii) Table 2 (Countries ranked by CPIA score)
- (iii) Table 3 (The Governance Factor and its components)
- (iv) Table 4 (CPIA, CPPR and Governance Ratings, Countries listed alphabetically).

6. Questions and comments on this document may be sent to [p.afrika@afdb.org](mailto:p.afrika@afdb.org) and copied to [f.lawson@afdb.org](mailto:f.lawson@afdb.org) . Alternatively, you may call the authors directly using the following telephone numbers:

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