AFRICAN DEVELOPMENT BANK GROUP

2007 COUNTRY PERFORMANCE ASSESSMENT RATINGS

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2007 COUNTRY PERFORMANCE ASSESSMENT OF THE AFRICAN DEVELOPMENT BANK

1. Introduction

1.1 Since 1999, Bank Management has employed a Performance-Based Allocation (PBA) system for allocating ADF resources among the eligible RMCs. The PBA system is aimed at providing a transparent means of allocating concessional ADF funds to ADF-eligible countries according to performance. The performance of a country is determined by the Country Performance Assessment (CPA) score.[1], and the CPA is determined by three main factors, namely,: (i) country policy and institutional assessment (CPIA), which assesses the country's social, economic, political and institutional environment; (ii) country portfolio performance rating (CPPR), which measures the performance of the Bank's portfolio in the county, and (iii) governance rating (GR), which gives an indication of the country's performance in the area of governance. Based on the simplified PBA formula adopted by the ADF Deputies at the final meeting of the ADF-11 replenishment consultations in London in December 2007, the CPIA now accounts for 26 percent of the overall CPA rating, the CPPR, 16 percent, and Governance Rating 58 percent.

2. The Country Policy and Institutional Assessment (CPIA)

2.1 The Country Policy and Institutional Assessment (CPIA) provides a snapshot of the country's policy and institutional environment. It assesses the efficacy of the country's present policy and institutional framework in encouraging the efficient use of scarce development resources to promote sustainable and poverty reducing development in the Regional Member Countries (RMCs).

2.2*.* The CPIA is determined using a questionnaire which is administered every year in all of the Bank's RMCs[2]. Except for the regional integration dimension in the trade and environment criteria, the 2007 CPIA questionnaire of the African Development Bank was closely aligned with that of the World Bank. All countries, including post-conflict countries, were assessed in 2007.

2.3 The 2007 assessment process began with a review of the Bank's CPIA questionnaire by a Task Force to incorporate lessons learnt from the preceding exercises, and insights gained from consultations 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 experts working on each country, were asked to complete the questionnaire and submit proposed scores to the Operations Policy and Compliance Department (ORPC), for compilation and analysis. The compiled scores and analysis were submitted to the OMT for review and ratification.

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[1] While the CPA applies to all RMCs, the allocation of resources is limited to ADF-eligible countries.
[2] Except Libya which has not requested development financing from the Bank.

2.4. The CPIA process rates countries based on scores from eleven assessment criteria. As Box 1 shows, these 11 CPIA criteria are grouped into three main clusters: A) Economic Management, B) Structural Policies, and C) Policies for Social Inclusion and Equity. Cluster D of the previous (ADF-10) CPIA on Public Sector Management and Institutions, is now used to determine the Governance Rating in the overall CPA.

BOX 1. CPIA CRITERIA AND RATING UNDER ADF-11

A. Economic Management
1. Macroeconomic Management
2. Fiscal Policy
3. Debt Policy

B. Structural Policies
4. Policies and Institutions for Economic Cooperation, Regional Integration & Trade
5. Financial Sector
6 Business Regulatory Environment

C. Policies for Social Inclusion/Equity
7. Gender Equality
8. Equity of Public Resource Use
9. Building Human Resources
10. Social Protection and Labour
11. Environmental Policies and Regulations

Rating: Countries are rated on a scale of 1-6 on each of the 11 criteria in the three clusters, 6 being “Highly Satisfactory and 1 “Highly Unsatisfactory. The average rating for the criteria is the CPIA rating.

2.5. Each of the three clusters in Box 1 is assigned a weight of 33.33% and the criteria within each cluster are equally weighted. Thus, the three criteria in the Economic Management and Structural Policies cluster have an individual weight of 11.11% while the four criteria in the Policies for Social Inclusion/Equity cluster carry an individual weight, of 6.67%. This implies that a criterion in cluster A or B has relatively higher significance than a criterion in cluster C. 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.

2.6. Countries are rated on a scale of 1-6 on each of the 11 criteria in the three clusters, 6 being “Highly Satisfactory” and 1 “Highly unsatisfactory” (see Box 2). Definitions of all rating levels are agreed upon, and care is taken to ensure that the ratings are applicable to all RMCs, regardless of the level of development. The levels are defined such that they could be attained by a country implementing the right policy mix, irrespective of its stage of development.

2.7. Higher scores do not set unduly demanding standards, and can be attained by a country with a policy and institutional framework that fosters growth and poverty reduction. The assessment is squarely based on judgments about policies and institutions and not economic outcomes that could be influenced by exogenous factors such as drought, and the discovery of natural resources. In the context of a framework for growth and poverty reduction, policies and institutions can be seen as *"inputs"*— elements that are essentially under the country's control – while most of the available data (e.g., macroeconomic data and social indicators) can be seen as "*outcomes*". Outcomes can be affected by external factors beyond the country's influence. Factual indicators of economic outcomes were selected to validate judgments on the effectiveness of the relevant policies and institutions. Also, the selected indicators were used to compare the effectiveness of relevant policies and institutions among countries.

Box 2: CPIA Rating Scale

Rating Scale	**Rating**
Highly Unsatisfactory for 2 years or more	**1.0**
Highly Unsatisfactory	**2.0**
Unsatisfactory	**3.0**
Satisfactory	**4.0**
Good	**5.0**
Good for 2 years or more	**6.0**

2.8. The rating scale described in Box 2 provides the basis for ordinal ranking of RMCs on performance by specific criteria, based on informed knowledge of the country, critical analysis of policies and institutions, and tangible outcomes. The broad representations of the various rating categories are:

"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

2.9. The rating scale allows for intermediate ratings such as **1.5**; **2.5**; **3.5**; **4.5,** and **5.5**., though integer scoring numbers is preferable to avoid bunching or inadvertent upgrading or downgrading. The rating scale applies to each criterion irrespective of the number of dimensions. For criteria with multiple dimensions, a rating for each dimension has 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 has suggested indicators to assist country teams in determining country scores and in ranking countries. The relative size and degree of sophistication of the national economies are taken into account in scoring and ranking the countries.

3. Governance Rating

3.1. In 2002, the Performance-Based-Allocation (PBA) system was strengthened by the introduction of governance rating for the three main reasons:

- it signalled concerns about weak governance;
- it made governance a key focus of country dialogue and policy reform;
- it provided an incentive for good governance by linking it to the allocation of resources..

3.2 Cluster D of the previous (ADF-10) CPIA on Public Sector Management and Institutions, was used to determine the Governance Rating in the overall CPA. The specific contents of each of the criteria are presented in Box 3.

BOX 3. GOVERNANCE RATING UNDER ADF-11

D. Public Sector Management and Institutions

1. Property Rights and Rule-based Governance
2. Quality of Budgetary and Financial Management
3. Efficiency of Revenue Mobilization
4. Quality of Public Administration
5. Transparency, Accountability, and Corruption in the Public Sector

Rating:

Rating: Countries are rated on a scale of 1-6 on each of the 5 criteria in cluster D, 6 being “Highly Satisfactory” and 1 “Highly Unsatisfactory”. The average rating for the criteria is the Governance Rating (GR).

4. The Country Portfolio Performance Rating (CPPR)

4.1. The Country Portfolio Rating (CPPR) measures the performance of the Bank’s portfolio, highlighting the degree to which it is at risk. The CPPR provides a useful indicator of performance and effectiveness in the use of aid resources. Similar to the World Bank, the CPPR exercise is based on the results of the Annual Project Performance Review (APPR) which uses the concept of “projects-at-risk” (PAR)[3]. The PAR index corresponds to the actual problem projects index

[3] ***Projects at Risk (PAR):*** *Operations that are problem projects (PAR = PP). 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.*

(PP)[4]. Problem Projects are defined as projects for which implementation progress is assessed as unsatisfactory or objectives are unlikely to be achieved.

4.2. The 2007 Country Portfolio Ratings were derived from the assessment of operational performance of the Bank Group's ongoing portfolio during the calendar year 2007. 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[5] operations assessed.

4.3. The CPPR process involves identifying the number of problem projects (PP) in a Country's Portfolio. These are projects that have been rated unsatisfactory by task managers, through field supervisions, based on their own assessment of the likelihood that the operation would attain its intended development objective (DO) and it's current implementation progress (IP). The IP uses 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 separately, and, if either of them is less than 1.5, the operation is deemed to be "problematic". A problem project rate is then derived by dividing the number of PPs by the total number of operations rated.

4.4. **Portfolio Conversion Scale: Percentile Matching Methodology (PMM)**
The computation of the new CPPR uses a new conversion scale (see below) as per the World Bank's Percentile Matching Methodology. The aim is to match the distribution of portfolio ratings with the distribution of the new CPIA[6] ratings across regional member countries, by modifying the conversion scale. This is to ensure that more volatile portfolio ratings (% of projects at risk) maintain the weight they are assigned in the Performance-Based-Allocation formula.

Old CPPR - 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

New CPPR - Projects at Risk Conversion Table

% Projects at Risk per Country	Rating
X = 0% , big Portfolio (#>5)	5.0
X = 0% , Small Portfolio (#=<5)	4.5
$0\ \% < X \leq 20\ \%$	4.0
$20\ \% < X \leq 40\ \%$	3.5
$40\ \% < X \leq 60\ \%$	3.0
$60 < X \leq 80\ \%$	2.5
$80\ \% < X \leq 100\ \%$	2.0
X = 100% for 3 or more years	1.5

[4] ***Problem Project (PP):*** *An operation whose average IP indicator score or average DO indicator score is less than 1.5.*

5. Disclosure of the numerical 2007 CPIA scores for all RMCs

5.1. In accordance with its information disclosure policy, the Bank is disclosing on the Bank Group's website, for all its Regional Member Countries, individual 2007 CPA numerical ratings, comprising all its components, the CPIA, CPPR and GR.

5.2. The CPIA and its 11 component scores are presented in two tables (Tables 1 and Table 2). The Governance Rating (GR) and its 5 elements are presented in Table 3 while the CPIA, the CPPR and the GR scores are presented in table 4:

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

6. Questions and comments on this document may be sent to p.afrika@afdb.org and copied to a.mwaba@afdb.org , f.lawson@afdb.org and l.yapo@afdb.org . Alternatively, you may call the authors directly using the following telephone numbers:

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