

**The Country Policy and Institutional Assessment (CPIA)  
and Allocation of IDA Resources:  
Suggestions for Improvements to Benefit African Countries**

By

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## Executive Summary

As innocent victims of food, fuel, and finance shocks, African countries warrant higher levels of grants and highly concessional funds to meet their essential spending needs, make progress toward the MDGs, and respond in a counter-cyclical way to the sputtering global economy without deepening their debt difficulties.

The CPIA should help African countries achieve these goals. The World Bank uses the CPIA to rate the policy and institutional performance of its approximately 135 IBRD and IDA recipient countries. (See Attachment A for CPIA policies.) But, the CPIA is not used to allocate assistance to IBRD countries; it is only used for this purpose in the 79 countries eligible for IDA assistance. The CPIA has numerous limitations, including:

**An Unproven Premise.** There is little evidence to show that the CPIA serves its intended purpose: to help improve policies and institutional performance in order to achieve growth, poverty reduction and aid effectiveness.

**One-size-fits-all Design.** The CPIA assumes that the same set of policies will advance aid effectiveness, poverty reduction, and growth in all countries. By designing a second set of indicators for Post-Conflict Countries (the Post-Conflict Performance Indicators (PCPI)), the Bank acknowledges that different challenges merit different measures of performance. Ideally, the Bank would have country-specific indicators because “good” policies vary by the country, its stage of development, and its circumstances. Experts and authorities contest many of the CPIA’s “ideal” policies.

**Undercutting Democratic Practice.** By promoting one set of policies, the CPIA poses a risk to globalization and democracy because it shrinks national governments’ capacity to respond to the policy preferences of their electorates. Lack of responsiveness to citizens creates political instability and builds opposition to governments and the globalization process.

**Lack of Responsiveness to Africa’s Unique Priorities.** The CPIA does not adequately address issues that are vital to Africa’s future, including: economic vulnerability to powerful exogenous shocks; MDGs; agriculture; manufacturing; and environmental challenges (e.g., mitigation of and adaptation to climate change). Unfortunately, the use of the CPIA results in lower allocations for countries with low levels of human development or low levels of progress (or regression) relative to the MDGs.

**Double Standards: The West and the Rest.** The richest countries in the world have been unable to achieve many of the “ideal” policies specified by the CPIA. If the World Bank used the CPIA to rate the financial and economic management performance of the US and many European governments, these countries would receive the CPIA’s lowest possible rating (e.g. for risk management, oversight and supervision of the financial sector; budget imbalances; and debt levels).

**Double Standards: The IBRD vs IDA.** The Bank treats IBRD countries differently than IDA countries in two ways. The CPIA scores of IBRD countries are not publicly disclosed or used for allocation purposes, as they are for IDA countries.

**Subjective Rating Process.** The African Development Bank (AfDB) and the World Bank use the same CPIA criteria to assess the performance of the same African countries. Yet, the country ratings of the AfDB are higher than those of the Bank for most of the 16 CPIA criteria. (See Attachment D.) Why? Have average

AfDB scores shown stagnation in most areas of performance, as IDA scores have? Does IDA cluster the ratings of African countries in such a small range (2.5 to 3.5) that it is not possible to discern progress?

**Aid Concentration.** Two-thirds of IDA's assistance to Africa goes to only six countries. (See Attachment B for IDA Commitments and Disbursements to each African country.) Also, assistance to fragile states is highly concentrated in a few countries – the “donor darlings.” Fragile states that are not longer eligible for post-conflict allocations generally experience a sharp drop in their allocation. Countries should be treated fairly. (See Attachment B for a list of commitments and disbursements to each African country.)

In addition, the allocation process fails to take into account the extent to which donors and creditors other than the World Bank provide financing to each recipient government, so precious IDA resources are disproportionately allocated to donor “darlings.”

**Complexity and Lack of Transparency.** The IDA allocation system is complex, with eight factors that, in addition to the CPIA, determine a country's IDA allocation. (See pp. 14-15.) Given this complexity and the fact that the CPIA is built on confidential data, it is not possible for outsiders to verify the results. This undermines the credibility of the allocation process.

**With these problems in mind, the paper makes recommendations that relate to:**

- **The Performance-Based Allocation (PBA) system** (which includes not only CPIA, but also each country's portfolio performance (e.g., rate of disbursement of IDA assistance), GNI per capita, and population – together with a base allocation).
- **The CPIA** used to rate all IDA countries other than “post-conflict” states.
- **Special Provisions for small, indebted and post-conflict countries – the Post Conflict Performance Indicators (PCPI).**
- **Transparency and Participation** in the PBA system.

**1. Change the PBA system in the following fundamental ways:**

**a) Diminish the population exponent** of the allocation formula to ensure more equitable distribution of grants and credits to African countries; and

**b) Include each country's rating on two indices: the Economic Vulnerability Index (EVI) and the Human Assets Index (HAI).** By so doing, it would acknowledge the major role of external shocks to the prospects of African countries, which would advance progress toward the MDGs and lead to more equitable IDA allocations for countries, including those *fragile states that are not eligible for special allocations*.

**2. Eliminate use of the CPIA,** per the recommendation of the 2009 Evaluation of the CPIA by the World Bank's Independent Evaluation Group (IEG). After revising the CPIA indicators, the IEG states that “the Bank could continue to produce and publish the separate CPIA components, since this would allow for country specificity.”

**If the use of the CPIA is not eliminated, revise it in ways summarized below:**

**a) Economic Management (CPIA Cluster A).** Revise these CPIA criteria to support goals including: sustainable growth, attainment of the MDGs, heightened agricultural and manufacturing productivity, domestic resource mobilization, and environmental sustainability. Expand access to affordable credit for production and employment; raise the domestic tax base; foster agricultural growth in crops for domestic consumption; and provide incentives for intra-regional and South-South trade that can lead to greater structural diversification of the economy. Policies should enable countries to *spend* most aid, as opposed to *absorbing* it.

**b) Structural Policy (Cluster B).** Balance liberalization and regulation in ways not done before the global financial crisis. **The Trade Indicator** should not include specific tariff targets and should reward increased levels of intra-regional and South-South trade; the **Financial Policy Indicator** should be completely revised (pp. 16-17); and, in the **Business Regulatory Environment Indicator**, the “ease of hiring and firing” measure should be eliminated, as it appears to violate Bank policy.

**c) Social Inclusion/Equity and the Environment (Cluster C).** Include an assessment of “equity and equality of opportunity to disadvantaged groups” in the CPIA; re-orient the indicators so that countries with low levels of progress toward the MDGs will not have their allocations reduced; ensure that government policy encourages compliance with all core labor standards, not just one, as is currently the case; revise the “environmental sustainability” criterion to take into account a broad array of environmental sectors and give this criterion more weight.

**d) Governance (Cluster D).** Reduce the weight of this cluster in the CPIA from 68% to 50% (the weight of the cluster in the AfDB’s CPIA) or less. The current weighting punishes African countries and creates volatility in aid allocations.

**In addition, the CPIA should:**

**e) Include Outcome Indicators** in the CPIA in order to: 1) significantly expand policy space; 2) respond to the evidence that there is no one correct definition of “good” policies; and 3) counter the fact that the CPIA lacks country-specificity. New Outcome-Based Indicators should reward progress toward achieving the MDGs, expanding employment; heightening agricultural and manufacturing productivity; improving food security; and fostering mitigation of and adaptation to the challenges of a warming climate.

### **3. Change Allocation Parameters for Small, Fragile, Post-Conflict, and Indebted States**

a) **PCPI.** Advise the World Bank about the proposed content and weighting of the **Post-Conflict Performance Indicators.** (See Attachment A.)

b) **Support for post-conflict countries.** Augment the support for post-conflict countries (those that are not donor darlings) -- to at least 5 years with a 10 year phase out.

c) **Support for small countries.** Double the base allocation and eliminate the per capita allocation ceiling.

### **4. Expand Assistance to Indebted Countries**

a) **Netting out.** Encourage the IDA Deputies to re-open the discussion about whether or how to deduct or “net out” debt relief under the Multilateral Debt Relief Initiative (MDRI). Africans should urge them to eliminate the MDRI netting-out entirely.

b) **Redistribution of compensatory resources.** Reject the proposal to redistribute compensatory resources on a performance basis. Distribute them the basis of vulnerability and need.

### **5. Claim Rights to Participation in and Ownership of the CPIA**

a) **Participation.** Arrange for routine participation in the CPIA process by government authorities and civil society before ratings are finalized.

b) **Ownership.** Ensure that the PRSP (or other country strategy) guides the goals of assistance rather than the CPIA.

**6. Enhance Transparency.** Make the CPIA data and methodology public so that the ratings can be replicated by others, thus enhancing its credibility.

# **The Country Policy and Institutional Assessment (CPIA) and Allocation of IDA Resources: Suggestions for Improvements to Benefit African Countries\***

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## **I. Background**

In the post-Cold War era, donors lost faith in the effectiveness of aid. By 1997, aid levels had plummeted to their lowest level in fifty years. Then, in 1998, the World Bank released *Assessing Aid*, the results of a multi-year research program on aid effectiveness. The finding was that aid is successful in reducing poverty where recipient countries have robust government institutions and exercise sound economic management.<sup>1</sup>

Based on this finding, the World Bank designed the “Country Policy and Institutional Assessment” (CPIA).<sup>2</sup> The aid industry was impressed by the fact that the CPIA is, in effect, ex-ante conditionality. In other words, the CPIA helps ensure that aid is provided on the basis of performance, rather than promises of policy reform. Over time, many donors and creditors adopted the CPIA to allocate development assistance.<sup>3</sup> And, aid levels rose.

Over time, research has not upheld the premise of *Assessing Aid*. In June 2009, the World Bank’s Independent Evaluation Group (IEG) released an evaluation, “*The World Bank’s Country Policy and Institutional Assessment*,” [henceforth known as the “IEG Evaluation”] which concluded “there is little consensus on the impact of aid on growth and poverty reduction and on the conditions, including the role of policies and institutions, under which aid can influence growth.”

The IEG evaluation states that, “the CPIA criteria pertain to policies and institutions that are found to be important for sustained growth and poverty reduction (and welfare more generally).” However, it concludes that research “offers only mixed evidence regarding the relevance of the content of the CPIA

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\*The author acknowledges the Bank’s Independent Evaluation Group (IEG) for its outstanding 2009 evaluation of the CPIA from which this paper draws.

<sup>1</sup> Dollar, D., Pritchett, L., (1998): *Assessing Aid—What Works, What Doesn’t, and Why*, World Bank.

<sup>2</sup> From 1977-89, the World Bank used a crude allocation formula relying primarily upon “back of the envelope” estimates of each country’s short- and long-term economic management. In 1989, US and UK coalitions in which I participated urged the Bank to include ratings of a country’s effort to reduce poverty to the formula, which was done in a fashion. The year 1989 was the year that the Bank declared poverty reduction as a purpose of the institution. The IMF followed suit a decade later.

<sup>3</sup> For instance, the Asian and African Development Banks, The European Commission, the U.K., France, Norway, Switzerland, and the Strategic Partnership with Africa.

for aid effectiveness broadly defined...” And, “It is difficult to establish an empirical link between the CPIA and growth outcomes.”

It is important to resolve the credibility questions related to the CPIA. Among other things, African countries are innocent victims of colossal shocks in food, fuel and finance. Among other things, the global financial crisis caused export volumes to decline by 2.5% and import volumes by about 8%. Due to the fall in commodity prices, Africa’s terms of trade and current account balances have deteriorated.

As innocents of these shocks, African countries warrant higher levels of grants and highly concessional funds to meet their essential spending needs, make progress toward the MDGs, and respond in a counter-cyclical way to the sputtering global economy without deepening their debt difficulties.

## **II. The Performance-Based Allocation (PBA) System**

### **A. The Basics**

The Mid-Term Review of IDA’s 15<sup>th</sup> replenishment, or funding cycle (IDA15), and the first IDA16 meeting called for major reviews of the CPIA, the first since 2004, and another set of indicators – the “Post-Conflict Performance Indicators” (PCPI). The PCPI are used to provide an “exceptional allocation” of resources to post-conflict and re-engaging countries. These reviews are scheduled for completion by July 1, 2011 -- the beginning of IDA-16. During the intervening months, African governments can provide input to the review process.

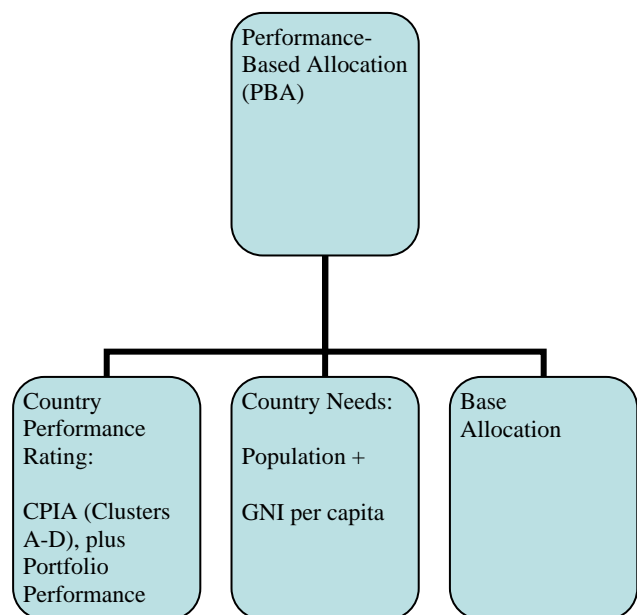
In 2009, there are 79 IDA countries, 32 are fragile of which 19 are in Africa. Fragile states have a CPIA score of 3.2 or less. (See Attachment D)

The CPIA is used to rate the performance of the approximately 130 countries that receive financial assistance from the World Bank (i.e., the IBRD and IDA); but it is only used to allocate resources based on performance for IDA countries. In addition, the CPIA is an important input to each country’s Debt Sustainability Analysis which determines the grant-to-loan ratio in each country’s allocation of assistance.

The CPIA consists of 16 criteria that are grouped into four clusters: A) Economic Management, B) Structural Policies, C) Policies for Social Inclusion and Equity, and D) Public Sector Management and Institutions (i.e., Governance). (The criteria included in each category are listed in Attachment A.) The CPIA, plus a rating of each country’s portfolio performance, constitute the Country Performance Rating (CPR).

This paper proposes changes in the Performance-Based Allocation (PBA) system (figure 1) and the Country Performance Rating, which is comprised of the CPIA plus the portfolio performance rating. (Box 1).

Figure 1



**Box 1**

**How a Country Performance Rating (CPR) Is Calculated**

The IDA CPIA\* comprises four clusters with the following weightings\*\*:

|                         |            |
|-------------------------|------------|
| A. Economic Management: | 8%         |
| B. Structural Policy    | 8%         |
| C. Social Inclusion     | 8%         |
| Total A-C               | 24%        |
| <b>D. Governance</b>    | <b>68%</b> |

Country portfolio performance rating: 8%

Country Performance Rating 100%

\*The African Development Bank's CPIA rating system gives equal weight to the total of clusters A-C and the governance cluster D.

\*\*The IEG writes "The literature offers no evidence to justify any particular set of weights on the four clusters whether in deriving the overall CPIA rating or in calculating the IDA allocation."

**Box 2**

**IDA in Africa**

**Largest Recipients.** In FY09, six countries received two-thirds of IDA commitments to Africa: Nigeria (SDR880 million), Ethiopia (SDR789 million), Tanzania (SDR519 million), Ghana (SDR361 million), Democratic Republic of Congo (SDR353 million), and Kenya (SDR352 million).

**IDA Commitments.** Of all regions, the Africa Region continued to receive the largest volume of IDA commitments -- SDR4.9 billion in FY09 -- compared to SDR3.6 billion in FY08. *Africa's share in total commitments in FY09 was 55 percent, compared to 50 percent in FY08 and compared to the annual average of 48 percent during IDA13-14.*

**IDA disbursements.** IDA's disbursements to the African Region fell to SDR1300 in FY09 from SDR1437 in FY08. The Region's share of total IDA disbursements also declined to 47% in FY09 from 53% in FY08. Africa's disbursements for investment operations rose by 8% and *disbursements for Development Policy Operations (DPOs), such as Poverty Reduction Strategy Credits (PRSCs) fell by 46% during FY08-09.*

Source: IDA (March 2010) "IDA's Commitments, Disbursements, and Funding in FY09."

## **B. PROPOSED CHANGES TO THE PERFORMANCE-BASED ALLOCATION SYSTEM (PBA) <sup>4</sup>**

The World Bank has found that external shocks have become more significant than internal shocks in terms of retarding a country's economic and social progress.<sup>5</sup> There is evidence that aid effectiveness depends more significantly on economic vulnerability to shocks than on the quality of institutions and policies in recipient countries. All things being equal, aid is more effective in vulnerable countries, i.e. aid softens the negative impact that vulnerability has on growth.

*The World Bank recognizes the importance of addressing shocks because “vulnerability and resilience” is one of the three emerging themes of the institution’s African Strategy Renewal. The other two being: “competitiveness and employment” and “governance and public sector capacity.”<sup>6</sup>*

In addition, the status of human development in Low-Income Countries (LICs) adds to their vulnerability. Indeed, one should ask how the performance of African countries can improve in any area – governance, economic management, poverty and social inclusion/equity – without making major headway towards achievement of the MDGs. While the largest number of poor people is in Asia, Sub-Saharan Africa accounts for half of the world's 10 million under-5 deaths and its share is growing. The region also accounts for 47% of out-of-school children worldwide. This implies that nearly 78 million of the region's secondary school-age children are not enrolled in secondary school about half of all low-income countries with data spent less than 4% of their national income on education in 2006.<sup>7</sup> Rates of hunger and disease – including HIV/AIDS, TB, and Malaria -- are also high.

Given these and other unique vulnerabilities of LICs, in general, and many African countries, in particular, this paper posits that the PBA system warrants major modifications to take the economic and human vulnerability of African countries into account.

The Guillaumonts have proposed using four measures to shape the PBA system by: the level of income per capita and that of the human capital, structural economic vulnerability and the quality of policy and governance. With respect to the measures of human capital and vulnerability, they would replace the current country performance rating (CPR) with a weighted average of the:

- (1) Country Performance Rating
- (2) Economic Vulnerability Index (EVI)
- (3) Human Assets Index (HAI)

The EVI and HAI are compiled by the UN for the purposes of identifying least developed countries.”<sup>8</sup> (See IDA(a).) See the components of these indices in Box 3, below.

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<sup>4</sup> The Bank states that it takes a country's needs into account by: 1) More than doubling Africa's allocation by capping the allocation to India and Pakistan; 2) Assigning a minimum or base allocation for each country (of particular benefit to small countries of which Africa has three: Cape Verde and Comoros and Sao Tome); 3) Including in the Performance-Based Allocation measures of country's population size and GNI per capita (See figure 1); 4) Making special provisions for post-conflict and re-engaging countries, countries in need of arrears clearance, and countries suffering from natural disasters; and 5) Creation of a Crisis Response Window. According to IDA, “The CRW could be funded through a combination of ex ante and ex post funding, with an overall ceiling of 5 percent of total IDA16 replenishment resources.”

<sup>5</sup> World Bank (2010) *Global Monitoring Report*, p. 51.

<sup>6</sup> See, World Bank, “Africa Strategy Renewal” PPT, August 16, 2010.

<sup>7</sup> Education for All Global Monitoring Report 2009, Regional Fact Sheet: Sub-Saharan Africa.

<sup>8</sup> Guillaumont, 2009.

Whereas the Guillaumonts – designers and proponents of the proposal – see tremendous benefits accruing to Africa from use of these indices, the Bank objects to them on several bases.

**Box 3**

**Components of the Economic Vulnerability Index (EVI) and the Human Assets Index (HAI)**

**The EVI** addresses risks posed by exogenous shocks and utilizes the seven following indicators:

a) population size; b) remoteness; c) merchandise export concentration, d) share of agriculture, forestry and fisheries in GDP, e) homelessness owing to natural disasters; f) instability of agricultural production; g) instability of exports of goods and services.

**The HAI** takes into account four indicators: a) the percentage of population undernourished; b) under 5 child mortality; c) the gross secondary school enrolment ratio; and d) the adult literacy rate.

Research by the World Bank claims that, under most scenarios, African countries would lose much of their share to India and that the allocations for post-conflict and reengaging states would decline unless, as fractions of the CPIA, the weight of the EVI was increased to two-thirds and the weight of the CPIA declined to one-third.<sup>9</sup>

Furthermore, Bank research asserts that there is an unacceptable lag in obtaining necessary data which makes the allocation process backward looking and that the vulnerability data exhibit significant fluctuations over time, which would place the vulnerability adjustment at odds with aid predictability.

In response to these objections, I have suggested that: a) post-conflict allocations are backward-looking insofar as they address recovery from a past war or conflict; why should major external shocks not be treated in the same manner? b) the simulations should assume a cap on incremental resources for India; c) it is precisely because the vulnerability data is so volatile that the CPIA should take the data into account; d) volatility in scores could be addressed by means such as averaging scores over time (as is done in the Debt Sustainability Analysis); changing the weights of variables; or making only part of a rating performance-based and guaranteeing the remainder; and e) the Bank should acknowledge the role of donors and creditors in creating aid volatility and external shocks since aid – especially budget support – is highly unpredictable, as described below.

The content of the Human Assets Index (HAI) may need to be revisited, but as it is, it would augment the use of GNI per capita as an indicator of human needs. The GNI per capita has a small weight in the Performance-Based Allocation compared to the CPIA.

As it is, many of the countries with the lowest human development levels have low levels of policy and institutional performance and, therefore, they receive relatively low levels of IDA aid allocations. *During IDA15, IDA countries in the top performance quintile received about 2.7 times in allocations per capita than those in the lowest quintile.*

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<sup>9</sup> Simulations show that application of the EVI would increase resources to India from SDR310 million to SDR2.5 billion under one scenario and would diminish sharply only if the capped allocations in the PBA system can be replaced by reducing the exponent of population in addition to the introduction of EVI and HAI.

### **RECOMMENDATION 1: Changes in the Performance-Based Allocation System**

**a) Diminish the population exponent** of the allocation formula to ensure more equitable distribution of grants and credits to African countries.

**b) Include in the PBA each country's rating on two indices: the Economic Vulnerability Index (EVI) and the Human Assets Index (HAI).** In part, the region's economic vulnerability stems the fact that economic growth in LICs is more volatile than in richer ones, about twice as much. The World Bank has recognized this by making "vulnerability and resilience" one of the three emerging themes in its Africa Strategy Renewal. Commission research on ways of including the two indices in the PBA to achieve more equitable IDA allocations for African countries, including those that are not eligible for special allocations, and advance progress toward the MDGs.

**c) Take into account the volume of aid which a country receives from non-IDA sources,** so that more equitable treatment of countries is possible.

### **III. Should the CPIA exist?**

This Section challenges the underlying premises of the CPIA and, thereby, questions the need for its existence. The CPIA is characterized by:

**1. An unproven premise.** The CPIA was intended to help improve policies and institutional performance in order to achieve growth, poverty reduction and aid effectiveness. The IEG Evaluation states the difficulty of linking aid, in general, or the CPIA, in particular, with these outcomes. The Bank has attempted to make these linkages in a number of papers, however, according to experts, the methodologies employed for this purpose are flawed.<sup>10</sup>

**2. One-size-fits-all Design.** One cannot argue that certain policies and institutions are important for growth and development, including those identified in the CPIA. However, these vary with the country, its stage of development, and its circumstances. According to Guillaumont, the "one-size fits all" CPIA approach "implicitly assumes homogeneity in countries and so applies the same policies."<sup>11</sup>

By designing a second system of indicators – one for Post-Conflict Countries (the Post-Conflict Performance Indicators (PCPI)) -- the Bank implicitly acknowledges the principles that different policies benefit different groups of countries and that ratings are relative. (The CPIA and PCPI indicators are listed in Attachment A. The highest score on the PCPI (6) corresponds to a just above score on the CPIA scale (3.5 or 4)).

However, these principles should be taken to their logical conclusion by designing country-specific ways to measure performance in ways that reward progress (e.g., through outcome-based indicators) toward the goals of African countries.

In addition, many of the CPIA's "ideal" policies are highly contested. (For selected "ideal" policies, see Attachment C.) For instance, currently, there is a significant difference of opinion between the U.S. and Europe about whether recovery can best be achieved through fiscal stimulus or consolidation. Why should the IMF and World Bank short-circuit democratic debates in recipient countries and require compliance with one set of allegedly good policies?

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<sup>10</sup> See Rodrik, Dani (2005): "Why we learn nothing from regressing economic growth on policies." <http://ksghome.harvard.edu/~drodrik/policy%20regressions.pdf>

<sup>11</sup> Patrick Guillaumont and Sylviane Guillaumont-Jeanneney (2009), *Accounting for Vulnerability of African Countries in Performance Based Aid Allocation*, Working Papers Series N° 103, African Development Bank, Tunis, Tunisia.

**3. Undercutting Democratic Practices.** Dani Rodrik, Harvard University Professor, stated that, by assuming an *a priori* definition of “good policies,” the CPIA fosters the “greatest risk to globalization...that national governments’ room for maneuver will shrink to such levels that they will be unable to deliver the policies that their electorates want and need in order to buy into the global economy.”<sup>12</sup> Indeed, citizens through work with the executive branch and input to their elected officials should have an important role in diagnosing challenges and shaping policies. For this reason, there should be participation in the CPIA rating process -- at least by country authorities and experts.

**4. Lack of Responsiveness to Africa’s Unique Priorities.** The CPIA does not adequately address issues that are vital to Africa’s future, including: a country’s base of productivity (e.g., agriculture), “stage of development,” policy priorities, political economy, environmental challenges (e.g., adaptation to climate change), vulnerability to internal and external shocks, and the status of human development (for instance, as measured by the MDGs). See below and p. 24 for a discussion of these factors.

*Economic Vulnerability.* Low-income countries (LICs) are unique. In part, the region’s economic vulnerability stems the fact that economic growth in LICs is more volatile than in richer ones, about twice as much. About half of the growth volatility in LICs stems from purely exogenous factors, such as the fact that poor countries are specialized in economic sectors which are intrinsically more volatile. The three major sources of exogenous volatility in LICs are terms of trade (both export and import prices), natural disasters and aid flows. The CPIA does not address economic vulnerability.

*Human Development.* Sub-Saharan Africa needs financial support to enhance human development in order to achieve the governance, economic management, or social and environmental goals set out by indices, such as the CPIA.<sup>13</sup> Yet, use of the CPIA results in lower allocations for countries with low levels of human development or low levels of progress (or actual regression) relative to the MDGs. (See the criterion, “Building Human Resources,” p. 21-22.)

**5. Perpetration of Double Standards: The West and the Rest.** If the World Bank used the CPIA to rate the financial and economic management performance of the US and many European governments, these countries would receive the CPIA’s lowest possible rating (e.g. for risk management, oversight and supervision of the financial sector; budget imbalances; and debt levels).

In much of the West, there is *state capture* by narrow vested interests of financial institutions and agribusiness – sectors which receive huge subsidies. In the U.S., *risk management and supervision* of financial institutions completely failed and triggered the global financial crisis. *Adherence to Basel core principles is very mixed.* On the environmental front, Western countries are primarily responsible for the *build-up of greenhouse gases* in the atmosphere. In many European cultures, *low flexibility to hire and fire* ensures a “safety net” and cushioned the blow of the crisis on populations. Smaller and weaker economies are even more prone to problems in these areas, so should the CPIA punish them for not achieving sometimes impossible goals?

**6. Double Standards: the IBRD vs IDA.** The Bank treats IBRD countries differently than IDA countries in two ways. The CPIA scores of IBRD countries are not publicly disclosed or used for allocation purposes, as they are for IDA countries.

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<sup>12</sup> Rodrik, D., “The cheerleaders threat to global trade,” *Financial Times*, 2-27-07.

<sup>13</sup> Education for All Global Monitoring Report 2009, Regional Fact Sheet: Sub-Saharan Africa.

**7. Subjective Rating Process** as characterized by: (a) **AfDB vs World Bank ratings.** The African Development Bank and the World Bank use the same CPIA criteria to assess the performance of the same countries. Yet, in comparing 2007 CPIA ratings by the AfDB and IDA, the Bank’s evaluators found that the ratings by the AfDB are higher than those by the Bank for all 16 criteria. (See Attachment D, which compares the 2009 CPIA ratings of the two institutions.)

In addition, the World Bank’s ratings are particularly distorted by subjectivity with regard to:

(b) **Benchmark countries.** The choice of “*benchmark*” countries against which all African countries are compared during the rating process.

(c) **Review process.** The process of reviewing the preliminary ratings (most reviewers concentrate on ratings of criteria in the “Economic Management” cluster rather than those in the other clusters).

(d) **“Stage of Development” Judgments.** The manner in which ratings are adjusted by the Bank’s staff in order to reflect the size of the economy and its degree of sophistication in implementing the CPIA policies.

**8. Aid Concentration.** Two-thirds of IDA’s assistance to Africa goes to only six countries. (See Attachment B for IDA Commitments and Disbursements to each African country.) Also, assistance to fragile states is highly concentrated in a few countries – the “donor darlings.” Fragile states that are not longer eligible for post-conflict allocations generally experience a sharp drop in their allocation. (See Attachment B for a list of commitments and disbursements to each African country.)

In addition, the allocation process fails to take into account the extent to which donors and creditors other than the World Bank provide financing to each recipient government, so precious IDA resources are disproportionately allocated to donor “darlings.”

**9. Lack of rationale for stagnating African scores.** According to IDA ratings, performance relative to “economic management” has improved over five years; whereas average scores on the other dimensions—structural policies, equity and social inclusion, and public management—have stagnated.<sup>14</sup> It is important to know whether the AfDB finds the same level of stagnation in performance relative to these clusters. In addition, the hypothesis should be tested that stagnation (on average) can be attributed, in part, to the failure of the PBA formula to take into account economic and lack of human capital. It could be that these factors play a larger role in fostering aid effectiveness and poverty reduction than the “governance cluster” does.

Bank officials rightly point out that economic policies are easier to change than other policies, much less institutions. However, as Section VII states, it is critical to know the reasons why scores stagnate, on average. If country authorities and experts participate in the CPIA rating process, they might identify these reasons (including those related to political economy) more effectively than Bank staff does.

**10. Complexity and Lack of Transparency.** There are eight factors that, in addition to the CPIA determine a countries IDA allocation:

- World Bank portfolio performance rating
- Size of country population
- Country Income Level
- Discounts for grants, debt cancellation, MDRI netting-out and reallocation of donor contributions
- Advances on future allocations Size of IDA envelope for performance-based allocations

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<sup>14</sup> “How Have Policies and Institutions in Low-Income African Countries Fared?” (June 2009), *Africa Can...End Poverty Blog* of Shanta Devarajan, Chief Economist, African Region, World Bank.

- Per capita allocation caps for Blend countries
- Performance, size and income levels of other IDA countries
- Exceptions for post-conflict, re-engagement, natural disasters and regional integration

Given the complexity and the fact that the study is built on confidential data, it is not possible for outsiders to verify the results. This undermines the credibility of the allocation process.

**RECOMMENDATION 2. Eliminate the CPIA**, per the recommendation of the 2009 Evaluation of the CPIA by the World Bank’s Independent Evaluation Group (IEG). After reviewing and revising the clusters and indicators, the IEG states that “the Bank could continue to produce and publish the separate CPIA components, since this would allow for country specificity.”

## IV. Proposed Revisions to the CPIA Policy Clusters

This section recommends changes in the content and shifts in the weighting of the components of the CPIA.

### Cluster A: Economic Management<sup>15</sup>

#### **Box 4: Rating Specifications for Economic Management. Criteria 1-3.**

1. **Macroeconomic Management:** aggregate demand policies pursue external and internal balances, Policy responses mitigate the effects of shocks; monetary and exchange rate policies target price stability; public spending does not crowd out private investment.
2. **Fiscal Policy:** Fiscal policy supports macroeconomic stability; the primary surplus is managed to maintain a stable and low ratio of public debt to DGP; public expenditures and revenues adjust to shocks; provision of public goods (including infrastructure) is adequate to support medium-term growth.
3. **Debt policy:** policy is conducive to debt sustainability; debt management and macroeconomic policies are coordinated; good debt management unit; statistics are regularly prepared, comprehensive, and accurate; medium-term strategy for financing the government is defined annually; legal framework for public borrowing is clearly defined.

#### **RECOMMENDATION 2a:**

- **Disclose IMF input.** There should be coherence between IMF and the World Bank policies. Most of the components of this cluster rely on IMF policies, so the IMF input should be transparent and publicly disclosed.
- **Revamp macroeconomic management and fiscal policy** criteria to support the goals of growth with equity, attainment of the MDGs, heightened agricultural and manufacturing productivity, domestic resource mobilization, and environmental sustainability.
- **Justify ratings on subjective factors about which there is controversy**, such as: What constitutes acceptable balances? What justifies seeking a primary surplus? How much price stability is enough? Are policy responses really capable of supporting macro, fiscal, and debt-related goals in the face of major shocks?
- **Revamp monetary policy criterion** to support a) greater access by domestic firms and consumers to affordable credit for expanding production and employment; b) increasing the

<sup>15</sup> This section draws from Rowden, R. (2010) “Why a human rights based approach to economic policy is needed.”

domestic tax base; c) maintaining low real interest rates, rather than attempting to maintain low inflation with high interest rates which dampens aggregate demand and growth prospects.

- **Foster South-South Trade.** Exchange rate management should foster intra-regional and South-South trade, in particular, that can lead to *greater structural diversification* of the economy.
- **Increase levels of aid spending.** There is always concern that spending aid (as opposed to absorbing it) will put pressure on the nominal exchange rate and on the level of domestic prices. If the central bank is focused on keeping inflation at bay while still managing the nominal exchange rate, one could observe the central bank seeking to limit the extent of absorption of additional aid that the government may actively be seeking to achieve through higher spending.
- **Discourage tax havens and capital flight.** *Measures should be put in place to insure that investing firms are not headquartered in tax havens and that capital flight is arrested.*

Historically, the IMF and World Bank have favored stabilization over growth and development. The institutions had no choice but to accept higher deficits (but in many of those cases, monetary policy was tightened) from 2007-2009, but now, there is evidence that the institutions are calling for excessive contraction in many countries.<sup>16</sup> This is worrisome since the global economy is very fragile and aid should be counter-cyclical.

## **Cluster B: Structural Policies, including Trade, Finance, and Business Regulatory Environment**

***Liberalization: the root or the fruit of development?*** Dani Rodrik challenges a fundamental assumption of the CPIA: namely, that liberalization is the “root” or the cause of development and growth. Instead, he states that, in successful developing countries, liberalization is the “fruit” or the outcome of development. In support of that position, Ha-Joon Chang, an economic historian at Cambridge University, states that history demonstrates that every industrialized Western and Asia country went through a lengthy process of protecting infant industries and strategically targeting credit to such industries prior to undertaking liberalization.

If the CPIA assumption is wrong, then its policy incentives could represent a barrier to growth and development.

***The IEG Evaluation: “Balance liberalization and regulation.”*** The IEG Evaluation says that one lesson of the financial crisis is that the balance between liberalization and regulation needs re-thinking. In particular, they point to the need to revise the trade and finance policy criteria. (See Attachment C for the “ideal” policies for these criteria.)

### **1. Trade Policy**

#### **Box 5: Rating Specifications for Trade Policy: Criterion 4.**

a) *Trade Restrictiveness*: low average tariffs (less than 7%; maximum 15%); non-discriminatory internal taxes; few if any non-tariff barriers; no export taxes. b) *Customs and trade facilitation*: low corruption; high risk management standards; few physical examinations, use of IT; easy collection of duties and taxes and payment of refunds; laws, regs, guidelines published, simplified; speedy customs appeals;

The CPIA’s “ideal” trade policy includes “Average tariff rate less than 7 percent; maximum tariff rate 15 percent.” The IEG Evaluation states:

<sup>16</sup> “Standing in the Way of Development? A Critical Survey of the IMF’s crisis response in low income countries,” (2010), Eurodad, Third World Network, Heinrich Boell Foundation.

*“The trade criterion does not adequately allow for country specificity. The specification of particular tariff rates for different ratings reflects a one size-fit-all approach to trade liberalization that is not supported by country experience.”*

*[The Indicator] “does not allow for flexibility in trade reform approaches that have proven to work in different countries. Also, the implicit assumption behind the relative weights—that tariff reduction is much more important than complementary institutions for successful liberalization—is not supported by evidence.”*

*“[T]he assessment of trade liberalization needs to take into account the extent of intersectoral labor mobility because the former in the absence of the latter could exacerbate poverty.”*

The Evaluation recommended *inclusion in the trade indicator of a subcomponent on exports that evaluates performance as well as policies and institutions*. Currently, the revenue mobilization criterion calls for import tariffs that are “low and relatively uniform” No indicator, including the trade indicator, focuses on export performance. K.Y. Amoako -- Executive Secretary, Economic Commission for Africa and UN Under-Secretary General – who was an advisor on the Evaluation suggested the need for additional indicators, including export diversification and compliance with regional integration obligations.

#### **RECOMMENDATION 2b(i). Trade Policy.**

Eliminate any reference to specific tariff rates in the indicator. Instead, it should focus on exports, export diversification, and regional integration. In addition, given the weak demand in some Western countries, the CPIA should reward countries that increase the focus of their export strategies on intra-African trade and South-South trade. Finally, the assessment of trade policies should take into account intersectoral labor mobility and the distributive impact of policies.

## **2. Financial Policy**

### **Box 6. Rating Specifications for Financial Sector. Criterion 5:**

- a) *financial stability*: banking sector resilient to shocks; low share of NPLs and capital at risk; adherence to Basel core principles; good quality of risk management and supervision in financial institutions.
- b) *sector efficiency, depth; resource mobilization*: strong size and reach of financial markets; strong capital markets; low interest rate spreads; high ratio of private sector credit to GDP; efficient microfinance.
- c) *access to financial services*: good payment, clearance and credit reporting; broad access of population and SMEs to formal financial services; legal and regulatory framework supports access to finance.

The IEG Evaluation<sup>17</sup> notes the following shortcomings this Indicator:

**Financial stability:** 1) There is controversy around which policies contribute to financial stability and work to limit banking crises; 2) NPLs usually become problematic after, rather than before, a crisis, therefore, NPL measures are crude and inadequate as indicators of problems. (NPLs for residential mortgages did not provide an early warning for the U.S. housing market.) 3) There is only weak econometric evidence that compliance with Basel core principles improves financial performance. 4) There is insufficient evidence about a relationship between financial performance and measures of

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<sup>17</sup> This section includes parts of the IEG Evaluation’s CPIA critique and recommendations (pp. 108-111), but is not intended to be fully-representative of them.

banking supervision and regulation. 5) The CPIA should include a measure relating to information (accounting and disclosure requirements) and incentive structures (e.g., deposit insurance).

**Sector efficiency, depth and resource mobilization.** 1) The indicator “size and reach of financial markets” is vague; 2) the indicator “development of capital markets” is usually measured in terms of overall stock market capitalization, but the free-float of shares may be a tiny fraction of total capitalization. There is no evidence that confirms that market capitalization leads to economic growth. 3) Many factors influence “interest rate spreads” and there is no unambiguous link between spreads and sustainable growth. 4) The microfinance indicator is vague.

**Access to financial services.** There is a lack of firm evidence of a significant growth or poverty reduction impact of microfinance. The “microfinance” indicator and the indicator on “legal and regulatory framework supporting access to finance” are vague. The indicator on credit reporting does not specify how this component should be assessed. Regarding indicators of access, there is no evidence of a strong influence of household financial access on growth or on poverty, although access of SMEs to formal sector financial services is critical.

### **RECOMMENDATION 2b(ii). Financial Sector Policy**

Completely revise the assessment of the sector, per the recommendations of the IEG Evaluation, to respond to the following questions.

--**Financial stability** “Does policy create good incentives for prudential management of financial firms? How strong and effective are supervisory powers (e.g. use of tools for risk assessment) ? How vulnerable are financial institutions to shocks?

--**Financial depth and efficiency.** What is the size of private sector credit as a share of GDP, adjusted for the country’s overall level of development? Is intermediation effective and efficient? What are the barriers to financial efficiency and depth?

--**Access.** Have policies created an enabling environment for expanding outreach of the financial system? What is the percentage of the population with access to formal financial services? How good is the access of SMEs to financial services? Is the microfinance industry financially secure?

### **3. The Business Regulatory Environment**

#### **Box 7. Rating specifications for Business Environment. Criterion 6:**

a) *regulations affecting entry, exit, competition: few bans or investment licensing requirements.* regulations facilitate efficient entry and exist of business; good legal framework against anti-competitive conduct is enforced; public sector entities are free to procure from any source. b) *regulations of ongoing business operations.* streamlined industry licensing, permits, and inspections requirements; state intervention in goods market limited to regulation or legislation to smooth out market imperfections; corporate governance laws encourage disclosure, protect shareholder rights and are enforced. c) *regulation of factor markets (labor and land).* high flexibility to hire and fire; state intervention in labor and land markets limited to regulation/legislation to smooth out market imperfections; simple, low cost, fast procedures to register property.

Critiques:

**Ease of Business Entry.** Attempts to reduce licensing, permitting and inspections requirements has sometimes led to defunding labor inspectorates; exempting companies from requirements to register with the labor office to ensure that workers receive health benefits; reducing or eliminating the requirement for

companies to abide by fire, safety and security or to get inspections of their premises by municipal and health authorities; and not requiring environmental permitting.

**Regulatory simplification.** A UNIDO-GTZ study states that there is no evidence that the structural weaknesses of the private sector in sub-Saharan Africa can be overcome through regulatory simplification. They suggest that other constraints may be more binding including: a missing stratum of dynamic medium-sized firms; little upward mobility in the enterprise sector; low levels of inter-firm division of labor and specialization in the value chain; lack of export competitiveness and innovativeness; low technical and entrepreneurial skills; and lack of access to investment capital and market information.<sup>18</sup>

**Connection between labor flexibility and formal sector job creation.** Most of the studies cited by the World Bank to show that labor flexibility is good for job creation are highly flawed.<sup>19</sup>

**Labor deregulation.** In October 2009, the World Bank President sent a Guidance Note<sup>20</sup> to Bank staff stating that the criterion used by the Bank to measure progress in the labor market (the *Doing Business Report's* Employing Workers Indicator) “does not represent World Bank policy and should not be used as a basis for policy advice or in any country program documents that outline or evaluate the development strategy or assistance program for a recipient country.” This CPIA criterion includes a rating of the “ease of hiring and firing.” Although, the criterion ostensibly does not represent Bank policy, the “Business Regulatory Environment” Indicator continues to employ this measure in violation of the spirit, if not the letter, of the President’s note.<sup>21</sup>

The CPIA does not acknowledge that labor deregulation has significant costs in terms of its impacts on health, inequality and poverty. If the “Business Regulatory Environment” Indicator measures the “ease of hiring and firing” as it has in the past, then it encourages the use of fixed-term contracts for extended periods of time which often means that workers will not qualify for regular employment benefits including medical insurance and pensions. It discourages both the employee and the firm from investing in the temporary worker’s training and skills because of the uncertainty of continued employment. It discourages any restrictions on night work or a regular weekly holiday and encourages a 50 hour (or longer) work week during 2 months of the year.

The “cost of firing” has generally been measured by the cost of advance notice requirements; severance payments and penalties due when firing a redundant worker (measured in weeks of salary). However, those which are fired first are often racial and ethnic minorities and women, so “ease of hiring and firing” can continue the acceleration of inequality we have witnessed over the past three decades.

As the IEG has stated, “The level of [employment] regulation in any country should reflect a country’s preferred tradeoff between public goods and private (firm) benefits.”<sup>22</sup>

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<sup>18</sup> UNIDO-GTZ (2008), “Creating an enabling environment for private sector development in sub-Saharan Africa”.

<sup>19</sup> See: Alexander, N., A Critique of the “Doing Business Report” (DBR) of the World Bank/IFC, March 2009.

<sup>20</sup> “Guidance Note for World Bank Group Staff on the Use of the Doing Business Employing Workers Indicator for Policy Advice,” October 2009.

<sup>21</sup> The Bank does not use the Doing Business Report’s EWI as a guidepost for the CPIA, so it is unclear what the Bank uses to measure “ease of hiring and firing.”

<sup>22</sup> The Independent Evaluation Group (IEG) of the World Bank Group (2008), “DOING BUSINESS -- An Independent Evaluation: Taking the Measure of the World Bank-IFC Doing Business Indicators,” (para 1.4)

### **RECOMMENDATION 2b(iii). Business Regulatory Environment**

- Eliminate the “ease of hiring and firing” indicator;
- Commission the ILO to research the claims that labor flexibility leads to formal sector job creation;
- Undertake further research to ascertain whether efforts to streamline business entry are deleterious to working conditions, fire safety, and security;
- Per the *Global Competitiveness Report*, redesign this indicator to measure collusion between public and private spheres and the rule of law. This factor is a much greater determinant of business environment than registration time, anti-corruption laws and investment promotion.

### **Cluster C: Social Inclusion/Equality**

#### **Box 8: “Ideal” Policies for Social Inclusion/Equality. Criteria 7-11.**

**7) Gender Equality:** a) access to human capital development: no gender differences in primary completion rates and enrollment in secondary education; high access to delivery care and family planning services; low adolescent fertility rate; policies and laws addressing gender equality in these areas are enforced. b) access to productive and economic resources: no gender differences in labor force participation, land tenure, property ownership, inheritance practices; policies and laws addressing gender equality in these areas are enforced; active programs and institutions to promote gender equality exist. c) equal status and protection under the law: equal individual and family rights; low violence against women, no unusual gender differences in political participation, policies and institutions promoting gender equality exist.

**8) Equity of Public Use:** a) consistency of government spending with PRS: public expenditures aligned with poverty reduction priorities; strong poverty diagnosis; strategy defined and implemented to assist those in need; spending is tracking and benefit incidence analysis conducted; b) revenue collection: no egregious regressive taxes; revenue generation aligned with poverty reduction priorities.

**9) Building Human Resources:** a) health and nutrition: health/social insurance policies with wide coverage; universal access to good preventative and curative health services; good national health strategy and effective regulation; policies and resources allow prevention and treatment of all forms of malnutrition; cost effective use of public resources; b) education and training: good and universal basic education; good equitable early childhood development programs; good post-basic education and training systems; effective oversight of private providers; tracking of school performance and student learning outcomes provides feedback and guides policy; equitable access and high efficiency of resource use at all levels. c) HIV/AIDS, TB, and Malaria: strong policies for prevention and treatment with extensive coverage; tracking systems show annual improvements in delivery; appropriate government oversight; cost effective use of public resources.

**10) Social Protection and Labor:** a) social safety nets: income support to poor and vulnerable groups; cost-effective, well-targeted programs with M&E guiding policy; b) protection of basic labor standards: laws reflection international core labor standards and are implemented; government policy encourages the reduction of child labor; c) labor market regulations: these promote broad access to employment in the formal sector; d) community-driven initiatives: government promotes these and involves communities in planning and provides significant resources to them; and e) pension and old age savings programs: these generate income security for vulnerable groups; are consistent with long-term financial sustainability; and minimally distort labor markets.

**11) Environmental Sustainability:** comprehensive regulations and effective implementation for pollution and natural resource issues; no harmful subsidies; transparent and public consultations; environmental assessment legislation is effective and findings are acted upon; ministries capacity to deal with environmental issues and inter-ministerial coordination takes place.

**IEG made recommendations** that:

a) To the Gender Criterion, **add assessment of equity and equality of opportunity of disadvantaged socioeconomic groups** (e.g., ethnic, religious, and caste groups, in addition to women). The IEG Evaluation stated that “Growth will lead to poverty reduction if it does not lead to greater inequality at the same time.”

To address issues of these issues of inequality, the CPIA already includes several useful measures including: strengthening property rights over land; expanding access to education; means-tested income transfers; access to credit; access to education.

b) **Eliminate the “Equity of Public Resource Use” criterion** because the content is captured by other indicators.

c) **Revise the “Environmental Sustainability” Criterion.**

**Other problems** with the criterion:

a) **Weighting.** Each of the policies in this cluster has less weight than the policies in the other three clusters – economic management, structural policy, and governance. They should be given at least equivalent weight.

b) **Punishing poor progress toward MDGs.** At present, use of the “Building Human Resources” criterion can result in withholding resources from governments that lack the policies, programs and implementation capacity for meeting important human development goals:

- preventing and treating HIV/AIDS, TB, and malaria...
- achieving universal basic education, literacy and training
- providing equitable access to a minimum package of basic health services, protecting against the financial burdens of illness, or preventing malnutrition.

c) **Actively supporting only one core labor standard.** While the “Social Protection and Labor” criterion calls for legal conformity with the four core labor standards (i.e., those relating to child labor; forced labor; discrimination; and freedom of association/collective bargaining), the criterion only calls for government policy to reduce child labor. This could be understood as implicitly discouraging government policies relating to the other three core labor standards.

d) **Rewarding countries with no active programs or institutions to promote equality.** At present, the aid allocation system withholds resources from countries where there is violence against women (including female genital mutilation and sex trafficking) rather than providing funding to address these matters. When countries have only small gender differences in school environment; equitable laws; and few or no cases of violence against women, then, the system rewards countries (with a “5” grade) that have:

- “no active programs or institutions to increase access to education, delivery care or family planning services, or to ensure that adolescent fertility remains low.”
- “no active programs or institutions to prevent increases in gender inequalities in the labor force, land tenure, property ownership and inheritance practices.”
- “no active programs or institutions to prevent an increase in domestic violence or to promote gender equality.”

It is a mystery how a country could reach a stage of relative equality without active programs and institutions to achieve that status. Inconsistencies in this criterion should be corrected.

### **RECOMMENDATION 2c. Social Inclusion/Equity and the Environment (Cluster C).**

- i) **Enhance the weight of the components of this cluster.** The CPIA gives less weight to the components of this cluster than to the components of any other cluster.
- ii) **Embrace the IEG recommendations**, including the one which advises the Bank to include an assessment of “equity and equality of opportunity to disadvantaged groups” in the CPIA. However, retain “Gender Equity” as a separate criterion. Alternatively, gender equity considerations should be added to each of the CPIA criteria.
- iii) **Stop violence against women.** The aid allocation system withholds resources from countries where there is violence against women (including female genital mutilation and sex trafficking) rather than providing funding to address these matters.
- iv) **Re-orient the indicators to foster achievement of the MDGs.** As it is, poor performance by governments on the “Building Human Resources” criterion can result in a lower aid allocation. Poor performance is characterized by the lack the policies, programs and implementation capacity for meeting some human development goals, including MDG targets.
- v) **Encourage active support of all four core labor standards.** While the “Social Protection and Labor” criterion calls for legal conformity with the four core labor standards (i.e., those relating to child labor; forced labor; discrimination; and freedom of association/collective bargaining), the criterion only calls for government policy to reduce child labor. This could be understood as implicitly discouraging government policies relating to the other three core labor standards.
- vi) **Revise the “environmental sustainability” criterion** to take into account a broad array of environmental sectors (e.g., including biodiversity, energy, mitigation and adaptation to climate change) and give this criterion more weight.

### **Cluster D: Governance**

**Why does the AfDB rate African countries much higher than IDA does? What Role does the weight assigned to the Governance Cluster play?** Attachment D displays the significant difference between AfDB and IDA ratings of each cluster and each of the five governance indicators.

In comparing 2007 CPIA ratings by the AfDB and IDA, the Bank’s evaluators found that the ratings by the AfDB are “higher than those by the Bank for all 16 criteria. For 12 of the 16 criteria, the ratings were statistically significantly higher at the 5 percent level.” The differences between the ratings of the two institutions appear to be at least as significant for 2009 ratings.

In addition to the fact that AfDB records higher CPIA scores than does the IDA, the AfDB also accords less weight to the governance cluster. For IDA’s CPIA, the governance cluster (D) represents **68%** of the IDA CPIA score; for the AfDB, it cluster represents **50%** of the CPIA score.

The 68% weight assigned to the Governance cluster by IDA is 8.5 times the weight of each of the other clusters (A-C). Yet Rodrik writes “I am not aware of any strong econometric evidence that relates standard governance criteria to *growth* ... And there are enough countries that are growing rapidly despite poor governance—China, Vietnam, Cambodia to name some of the prominent Asian examples—to render suspect any general claim to the contrary...[I]t as good news that large-scale institutional

transformation—of the type entailed by the governance agenda—is hardly ever a prerequisite for getting growth going.” Of course, growth is only one dimension of aid effectiveness, but it is an important one.

The IEG Evaluation states, “*Empirical analysis indicates there is insufficient evidence to conclude that the governance cluster associates better with loan performance than the other clusters. Based on this finding, as well as the lack of consensus in the literature on the conditions under which aid has an impact on growth, it can be surmised that the way the CPIA enters the formula for the allocation of IDA funds is driven much more by fiduciary and possibly other concerns of donors than by the objectives of achieving sustained growth and poverty reduction.*”

**Box 9: Summary of Governance Criteria. Criteria 12-16:**

**12. Property Rights/Rule based Governance:** a) secure property and contract rights; b) predictability, transparency; impartiality of laws and their enforcement; c) crime and violence as an impediment to economic activity.

**13. Budgetary and Financial Management:** a) comprehensive and credible budget linked to policy priorities; b) effective financial management systems; c) timely and accurate accounting, reporting; audits.

**14. Revenue Mobilization:** tax policy, tax administration.

**15. Quality of Public Administration:** a) policy coordination and responsiveness; b) service delivery and operational efficiency; c) merit and ethics; d) pay adequacy and management of wage bill.

**16. Transparency, Accountability and Corruption:** a) accountability of executive to oversight institutions; b) access of information on public affairs; c) state capture by narrow vested interests.

**Budgetary and Financial Management Policy.** The “ideal” policy states that funds available to agencies and ministries are “highly predictable within the budget year.” However, donors and creditors sometimes make that impossible. Budget support represents a fifth of official development assistance (ODA) and is more unpredictable than project aid. For the countries studied, the variance in predictability (about 65% for budget aid and 40% for project aid in one sample examined by the World Bank) is largely unexplained.<sup>23</sup>

**Revenue Mobilization/Taxation Policy.** The CPIA’s “ideal” revenue mobilization policy states that “The bulk of revenues are generated by low-distortion taxes such as sales/VAT, property, etc. Import tariffs are low and relatively uniform, and export rebate or duty drawback are functional. There is a single statutory corporate rate comparable to the maximum personal tax rate.”

However, sales taxes and the VAT are regressive. The shift should be from such taxes to income, property, and corporate taxes. There is no legitimate reason that there should be a “single corporate tax rate” or that the rate should be “comparable to the maximum personal tax rate.”

Moreover, the World Bank Group should ensure that no project financing supports firms that are headquartered in tax havens (e.g., the case of the IFC in Ghana). Such firms rob countries of tax revenues that are rightfully theirs.

The 2010 *African Economic Outlook* focuses on domestic resource mobilization, which is logical since the levels of donor aid could decline (although they have not done so, to date) and global economic

<sup>23</sup> Source: “Predictability of aid: Do fickle donors undermine aid effectiveness,” by Oya Celasun (IMF) and Jan Walliser (World Bank), forthcoming. The sample was comprised of 60 low-income countries during 1990-2005.

shocks will continue to affect the continent. Thus, the *Outlook* urges African countries and their partners to end the vicious circle of aid dependence that shifts government accountability away from citizens towards donors. Instead, they need to start a virtuous circle of aid working to make itself redundant, by supporting public resource mobilisation.

#### **RECOMMENDATION 2d. Governance (Cluster D)**

**i) Explore the reasons for stagnation in ratings of performance by African countries.**

Commission research to explain why, according to IDA ratings, performance relative to “economic management” has improved over five years; whereas average scores on the other dimensions—structural policies, equity and social inclusion, and public management—have stagnated.<sup>24</sup> Such research should ascertain whether the AfDB finds the same level of stagnation in performance relative to these clusters. In addition, test the hypothesis that declines in government performance can be attributed, in part, to the failure of the PBA formula to take into account economic vulnerability and lack of human capital. It could be that these factors play a larger role in fostering aid effectiveness and poverty reduction than the “governance cluster.”

**ii) Reduce the weight of this cluster** from 68% to 50% (the weight in the AfDB CPIA) or less of the CPIA score. The current weighting punishes African countries and creates volatility in aid allocations. Reducing the weight would allow IDA to consider other factors for lagging governance performance, such as the need to achieve stronger human development.

**iii) Remove prejudicial policies.** Many of these policies are prejudicial against low-income countries. For instance, the “ideal” policy of the “Quality of Budgetary and Financial Management” criterion calls for funds to ministries and agencies to be “highly predictable in the budget year.” However, for aid dependent countries, aid flows are, themselves, unpredictable as are external shocks. Thus, it may be beyond a government’s capacity to perform at this level.

**iv) Stop collusion.** Design and implement criteria relating to the level of collusion between the public and private sectors.

**v) Revise the criterion relating to “Efficiency of Revenue Mobilization,”** to clarify the tax treatment of foreign direct investors and justify why all corporations should receive the same tax treatment and why the corporate tax rate should not exceed the maximum personal tax rate.

**vi) Question the absence of a criterion on effectiveness of parliaments** (or comparable bodies) in recipient countries, since about a fifth of all budget support conditions make aid disbursement conditional on passage of laws recommended by IDA.<sup>25</sup> In effect, performance against loan conditionalities represents a rating of these elected bodies. Even though such rating would be intrusive, highly political and controversial, other criteria are equally so.

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<sup>24</sup> “How Have Policies and Institutions in Low-Income African Countries Fared?” (June 2009), *Africa Can...End Poverty Blog* of Shanta Devarajan, Chief Economist, African Region, World Bank.

<sup>25</sup> Alexander, N. (2008) “The New Approach To Policy Conditionality.”

## V. Proposed Additions to the CPIA

### A. Include Outcome-based Indicators in the CPIA

To a great extent, the CPIA is designed to measure intermediate indicators rather than policy outcomes.

Ravi Kanbur of Cornell University has proposed that the CPIA include criteria that are outcome-based. A benefit of this proposal is that – if an allocation were triggered by a country’s progress toward achievement of an MDG target, for instance – then a country would have the “policy space” to determine the means by which to achieve it.

IDA’s analysis shows that -- with a “dynamic” results-based allocation (RBI) which predicates an IDA allocation on changes in the UN’s Human Development Index -- the share of IDA resources flowing to Least Developed Countries increases from 49% to 63% with flows to the remaining IDA countries shrinking from 51 to 37%. Africa’s share would increase from 48% to 52%. These findings should be validated by further simulations.

Some Bank officials voice three objections to the outcome-based approach – namely that the proposal would: 1) shift IDA resources from least developed to low-income countries; and 2) raise problems “in terms of aid volatility, policy incentives, and the time lag between outcome data and allocations.” (IDA(a), p. 11) and 3) In addition, there is an impression that the European Union’s use of the outcome-based approach has worked poorly – mainly because the outcomes set were too ambitious.

If an outcomes-based approach would heighten volatility, then the Bank could consider placing a guarantee on part of the allocation, with the remainder being performance-based. The Bank makes the false assumption that an outcomes-based approach would dilute policy incentives for the authorities to achieve progress. There is no reason to believe this would be the case. Finally, there is no need for significant time lag between obtaining data and making the allocations. An effort to reduce the lag would provide an incentive to improve the quality and the frequency of the monitoring process.

On the last point, most EU officials would not agree with the Bank’s impression that their approach has worked poorly. Moreover, if the EU is being too ambitious, it makes more sense to make them less ambitious than to abandon the idea.

The development world is moving toward a “results” and “outcomes-based” approach to development progress and the CPIA should reflect the changing consensus.

### B. Missing or Underrepresented Components of the CPIA

#### 1. MDGs: Poverty, Employment, and Human Capital

The financial crises are having an impact in several key areas of the MDGs, including those related to hunger, child and maternal health, gender equality, access to clean water, and disease control. Even if there is not a double dip recession, the crises will continue to affect long-term development prospects well beyond 2015, according to the World Bank’s *Global Monitoring Report 2010: The MDGs after the Crisis*.

**MDGs:** At present, the World Bank punishes countries with poor performance if they lack the policies, programs, and implementation capacity for:

- preventing and treating HIV/AIDS, TB, and malaria...
- achieving universal basic education, literacy and training

--providing equitable access to a minimum package of basic health services, protecting against the financial burdens of illness, or preventing malnutrition.

The Bank should not deduct aid from a country's allocation for poor government performance in these critical areas where they obviously need help.

The World Bank should revise the CPIA's "Social Inclusion/Equity" cluster to focus the resources needed to achieve the MDGs.

**Employment:** The multiple crises have increased unemployment significantly. The "ideal" CPIA policies would make employment more precarious and improve the targeting of safety nets. See the critique of the "Business Regulatory Environment" Indicator, which rates countries on the "ease of hiring and firing" on p. 17.

Instead, the CPIA should include an assess country progress toward MDG1, Target 1 on decent work, by for instance, monitoring:

1. Growth rate of GDP per person employed
2. Employment-to-population ratio
3. Proportion of employed people living below \$1 (PPP) per day
4. Proportion of own-account and contributing family workers in total employment
5. Share of women in wage employment in the non-agricultural sector (MDG 3).

These indicators should be complemented by other ILO decent work indicators on social protection, social dialogue and workers' rights. Such monitoring will provide important feedback on whether poverty reduction really is taking place, as measured by increased incomes, access to social protection, and decent working conditions.<sup>26</sup>

## 2. Agriculture

The IEG Evaluation recommends that the CPIA's "Fiscal Policy" criterion should include a reference to public goods for agriculture. Evaluation Advisor, K.Y. Amoako agrees, but says that change would be insufficient. What is really needed, according to Amoako, is a set of indicators reflecting progress on research and extension services; adoption of new technologies; strengthening land tenure; provision of credit to farmers; and marketing distribution and pricing issues. The CPIA should also measure progress toward food security.

At the same time, the Bank's policy framework for agriculture should be re-examined. For instance, it currently suggests an apparently inevitable progression from more to less agriculture in a country's economy. It assumes a progression from more extensive, small-scale and labor intensive forms of agriculture to intensive, large-scale and input-intensive forms of farming.

## 3. Climate

Despite the fact that IDA financial flows to climate-affected sectors (agriculture, flood protection, water supply, and health) are being scaled up, the CPIA Questionnaire does not mention the climate.

## 4. Manufacturing

**The CPIA does not mention manufacturing – the major path to growth, development and poverty reduction.** The CPIA Indicators lack any component that would rate a country's progress in developing a

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<sup>26</sup> Trade Union Statement to the 2010 Summit of the General Assembly on the Millennium Development Goals, "A BREAKTHROUGH PLAN TO ACCELERATE PROGRESS IN ACHIEVING THE MILLENNIUM DEVELOPMENT GOALS BY 2015," United Nations, New York, 20 – 22 September 2010.

productive manufacturing base, even though developed countries have reached that status by becoming industrialized. In Africa, the manufacturing indices have declined over time and play an important role in the continent's marginalization in world trade.<sup>27</sup>

**RECOMMENDATION 2(e). Include Outcome Indicators** in the CPIA in order to: i) significantly expand policy space; ii) respond to the evidence that there is no one correct definition of "good" policies; and iii) counter the fact that the CPIA lacks country-specificity. iv) In addition, commission research to determine the indicators most conducive to the outcome-based approach and to design the indicators.

New outcome-based criteria should reward countries' progress toward achieving the MDGs, expanding employment; heightening agricultural and manufacturing productivity; improving food security; and fostering mitigation of, and adaptation to, the changes of a warming climate.

## **VI. Fragile, Post-conflict, and Indebted Countries**

### **A. Allocation Issues Relating to Fragile and Post-Conflict States**

**The PCPI.** The World Bank does not use the CPIA to gauge the performance of post-conflict states. Instead, it uses a set of Post-Conflict Performance Indicators (PCPI). (See Attachment A for a list of the PCPI and the CPIA Indicators.) An external panel recommended that the Bank revise the PCPIs and include new ones, such as: Business Regulatory Environment, Financial Sector; Rule of law/crime; Accountability (elections and voice; Natural resources management; Corruption); Gender, Ethnic and Regional discrimination; Infrastructure; and Education & Health. However, the critiques applying to the CPIA Indicators also apply to the PCPI. **African governments should provide the Bank with their feedback on these recommendations.**

**Level of commitments.** IDA commitments to fragile and conflict-affected states have increased from \$772 million in FY00 to \$1.6 billion in FY09, as the plight of these countries has become a primary focus of donors and creditors. As noted below, the four years of post-conflict assistance is likely to be augmented by an eight year phase-out period (rather than the present six years.) Additional funds are available through multi-donor trust funds (MDTF).

**Concentration of assistance.** The OECD<sup>28</sup> raises issues related to the concentration of assistance. In 2007, half the ODA destined for 48 fragile states benefited just 5 countries: Iraq (23%); Afghanistan (9.9%); Ethiopia, Pakistan and Sudan, and about a fifth was in the form of debt relief. *IDA should be compensating for this by reducing IDA allocations for donor "darlings" and attending to donor "orphans"* (as Luxembourg and Ireland attempt to do). For instance, twenty fragile and conflict-affected countries receive two-thirds of their aid from three donors or less, according to OCED.

**Where the money goes.** In Africa, 2009 post-conflict allocations are to: Angola (\$87 million); Burundi (\$115 million); Congo, D.R. (\$324 million); Congo, Rep. (\$20 million); Cote d'Ivoire (\$200 million); Liberia (\$72 million). Other fragile states received the following allocations: Cameroon (\$100 million), The Gambia (\$7 million); Guinea (\$10 million); Guinea-Bissau (\$8 million), Sierra Leone (\$14 million).

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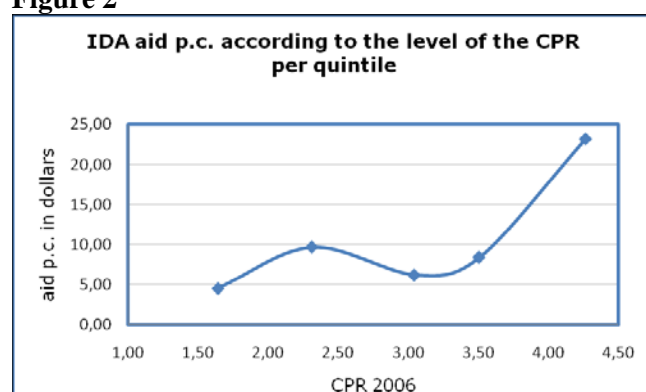
<sup>27</sup> See Reinert, E.S. (2007): The Other Canon Foundation; Amaizo, Yves Ekoue, UNIDO; Kattel, R., Tallinn University of Technology, "The Economics of Failed, Failing and Fragile States; Productive Structure as the Missing Link," *The Economics of FFF States*.

<sup>28</sup> OECD (March 2009), "Ensuring Fragile States are not Left Behind."

**Low allocations for fragile states that are no longer eligible for post-conflict allocations.** The figure below shows the drop in IDA allocations for fragile states that were not eligible for post-conflict special allocations in 2006. An updating of the statistics to 2009 would show the same type of drop.

Fragile states are defined as states with CPIA scores of 3.2 or less. For some fragile countries, there is a risk that, if resources are insufficient to finance the basic functions of the state, they could become failed states and conflict could be (re)ignited. At present, there are no proposals on the table to address the dip in performance allocations for *fragile states that are no longer eligible for post-conflict allocations*. A study should be undertaken to determine the extent to which the major proposals suggested in part of this paper could address the needs of these countries.

**Figure 2**



Source: Guillaumont, P. (2008), “Adapting Aid Allocation Criteria to Development Goals,” PPT.

**B. Proposals under consideration by IDA Deputies:** The IDA Deputies are considering whether to:

- 1) extend the support for post-conflict countries *from four years plus 6 years of phase out to four years plus 8 years of phase out*.
- 2) permit regional projects between two countries, including a fragile state (rather than three countries, as it is at present). Eighty percent (80%) of the regional funds are allocated to Africa.
- 3) strengthen support for small states (populations less than 1.5 million) by a) eliminating the maximum per capita allocation ceiling; and b) doubling the base allocation.
- 4) eliminate or reduce the netting out related to the Multilateral Debt Relief Initiative (MDRI). In IDA16, the Deputies have had contentious discussions about whether or how to net-out MDRI resources (i.e., deduct the volume of a country’s debt relief from its allocation and reallocate the resources IDA-wide) and redistribute the compensatory resources from donors.

The Deputies have provisionally decided to: 1) cap the deduction at 30%, so for instance, the netting out for a country with an allocation of \$90 million could not exceed \$30 million or, put differently, the country would maintain an allocation of at least \$60 million; 2) redistribute MDRI-related compensatory resources using the performance-based allocation. (The resources accruing from the volume discount on grant allocations is also distributed via the PBA system.)

## **RECOMMENDATIONS:**

### **3. Change Allocation Parameters for Small, Fragile, and Post-Conflict States**

- a) **PCPIs.** Advise the World Bank about the proposed content and weighting of the Post-Conflict Performance Indicators.
- b) **Support for post-conflict countries.** Augment the support for post-conflict countries (those that are not donor darlings) -- to at least 5 years with a 10 year phase out.
- c) **Support for small countries.** Double the base allocation and eliminate the per capita allocation ceiling.

### **4. Expand Assistance to Indebted Countries**

- a) **Netting out.** Encourage the IDA Deputies to re-open the discussion about whether or how to “net out” debt relief under the Multilateral Debt Relief Initiative (MDRI). Africans should urge them to eliminate the MDRI netting-out entirely.
- b) **Distribution of compensatory resources.** Reject the proposal to redistribute compensatory resources on a performance basis. Instead, the resources should be distributed on the basis of vulnerability and need.

## **VII. Rights to Participation in and Ownership of the CPIA**

The Paris Declaration on Aid Effectiveness, which has signatories including most country officials and donors and creditors, including the World Bank, enshrined “country ownership” as the guiding principle that animates the development process. However, reportedly, country authorities and experts have little or no input to or influence over the CPIA rating process. A survey should be conducted to ascertain how much consultation there is in African countries prior to CPIA preparation.

The Guillaumonts write, “Dictating to governments which policy should be followed prevents them from taking ownership of the policy and so limits effectiveness.”<sup>29</sup>

**Influence of the CPIA on the National Development Strategy?** It would be worrisome if the CPIA were a more important guide to the Bank’s Country Assistance (or Partnership) Strategy than each country’s own Poverty Reduction Strategy Paper (PRSP). But, according to a 2006 World Bank analysis, this was the case.<sup>30</sup> If this is still true, then the CPIA could potentially be an obstacle to the implementation of each country’s PRSP, which would constitute a serious ownership problem.

Whatever the tensions between reliance on the CPIA or the PRSP to guide policy priorities, some countries which are in dire need of higher allocations may decide that actions to raise their CPIA score must take precedence before all else. This would mean that use of the CPIA distorts national development priorities.

**The Importance of Local Participation to Achievement of Higher CPIA Ratings.** Ravi Kanbur of Cornell University (as a member of the Advisory Panel on the IEG Evaluation) stated that a “radical” idea was to bring in local expertise at the time of the rating, e.g., a standing panel of distinguished country experts. However, this should not be a radical idea.

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<sup>29</sup> The Guillaumonts (2008).

<sup>30</sup> S. Koeberle, Z. Stavreski, and J. Walliser, “Budget Support as More Effective Aid?” The World Bank, 2006, p. 49-51.

As it is, ratings take into account “stage of development,” including political economy considerations. Local participation could assist in this process.

Participation by country authorities and experts could also help unravel the mystery of why some CPIA scores are declining. Indeed, as Daron Acemoglu writes, “...policy reform, without understanding why policies were distorted in the first place and what the political economy constraints are, is likely to fail or may even create further inefficiencies.”<sup>31</sup> In general, Bank staff are not trained in political economy and the CPIA process does not involve steps to determine the causes of perceived policy distortions.

#### **RECOMMENDATION 5: Claim Rights to Participation in and Ownership of the CPIA**

- a) Participation.** Government authorities and civil society should routinely participate in the assessment of their country performance before the CPIA ratings are finalized. After finalization of ratings, there should be a local debate and discussion of the extent to which local knowledge is reflected in the ratings.
- b) Ownership.** Ensure that a country-owned strategy sets the priorities for IDA assistance, not the CPIA.

### **VIII. Transparency**

This section considers two transparency issues. The first issue relates to the double standard in transparency – the fact that the World Bank only discloses the CPIA ratings for IDA countries, not IBRD countries. Disclosure of IDA ratings began in 2006 with the results of the 2005 rating.

The IEG Evaluation of the CPIA recommended that the IBRD ratings be disclosed. However, the Board appeared to be more interested in whether the costs of preparing the CPIA for these borrowers outweigh the benefits.

The second issue relates to the fact that the data base for the ratings remains secret. In order to increase the credibility of the ratings, the data should be in the public domain, so that recipient country experts and other interested parties can attempt to replicate the ratings. Even then, it would be difficult to replicate a series of subjective judgments and, possibly, the Bank does not disclose this information for that reason. For instance, the Bank is involved in creating “guidelines” for raters to use in judging a country’s “stage of development,” which is then factored into the CPIA, but ultimately this is a subjective task.

Ultimately, the Bank should either disclose the entire data base for the CPIA or the exercise should be conducted by a third party.

#### **RECOMMENDATION 6. Enhance Transparency**

- a) Disclose the CPIA ratings of IBRD countries.**
- b) Disclose Data and Methodology.** Make the CPIA data and methodology public so that the ratings can be replicated by others, thus enhancing its credibility. If this information is not disclosed by the Bank, then a third party should carry out the CPIA ratings.

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<sup>31</sup> World Bank (2008) “Governance Growth and Development Decision-Making.” In this document, Douglass North, John Wallis, and Barry Weingast also refine the argument, saying that the process of reforming policies and institutions ignores the fact that states adopt policies to “address the problem of violence by giving individuals and groups with access to violence an incentive to cooperate.”

## IX. Recommendations to Benefit African Countries

With these problems in mind, the paper makes recommendations that relate to:

- **The Performance-Based Allocation (PBA) system** (which includes not only CPIA, but also each country's portfolio performance (e.g., rate of disbursement of IDA assistance), GNI per capita, and population – together with a base allocation).
- **Elimination or revision of the CPIA** used to rate all IDA countries other than post-conflict states.
- For **Post-Conflict States**, extension of the period of eligibility for assistance, including phase out, and revision of the **Post-Conflict Performance Indicators (PCPI)**. For **small states**, double the base allocation and eliminate the per capita allocation ceiling.
- For **Indebted States**, a change in the terms of the Multilateral Debt Relief Initiative, including the terms for redistribution of compensatory resources.
- **Transparency and Participation** in the PBA system.

### 1. Change the PBA system in the following fundamental ways:

a) **Diminish the population exponent** of the allocation formula to ensure more equitable distribution of grants and credits to African countries.

b) **Include in the PBA each country's rating on two indices: the Economic Vulnerability Index (EVI) and the Human Assets Index (HAI)**. In part, the region's economic vulnerability stems the fact that economic growth in LICs is more volatile than in richer ones, about twice as much. The World Bank has recognized this by making "vulnerability and resilience" one of the three emerging themes in its Africa Strategy Renewal. Commission research on ways of including the two indices in the PBA to achieve more equitable IDA allocations for African countries, including those that are not eligible for special allocations, and advance progress toward the MDGs.

c) **Take into account the volume of aid which a country receives from non-IDA sources**, so that more equitable treatment of countries is possible.

### 2. Eliminate Use of the CPIA or revise it:

**Eliminate the use of the CPIA**, per the recommendation of the 2009 Evaluation of the CPIA by the World Bank's Independent Evaluation Group (IEG). After reviewing and revising the clusters and indicators, the IEG states that "the Bank could continue to produce and publish the separate CPIA components, since this would allow for country specificity."

### If the use of the CPIA is not eliminated, revise it in ways summarized below:

#### a) **Economic Management (CPIA Cluster A)**

i) **Disclose IMF input**. There should be coherence between IMF and the World Bank policies.

Most of the components of this cluster rely on IMF policies, so the IMF input should be transparent and publicly disclosed.

ii) **Revamp macroeconomic management and fiscal policy** criteria to support the goals of growth with equity, attainment of the MDGs, heightened agricultural and manufacturing productivity, domestic resource mobilization, and environmental sustainability.

iii) **Justify ratings on subjective factors about which there is controversy**, such as: What constitutes acceptable balances? What justifies seeking a primary surplus? How much price stability is enough? Are policy responses really capable of supporting macro, fiscal, and debt-related goals in the face of major shocks?

iv) **Revamp monetary policy criterion** to support a) greater access by domestic firms and consumers to affordable credit for expanding production and employment; b) increasing the domestic tax base; c) maintaining low real interest rates, rather than attempting to maintain low inflation with high interest rates which dampens aggregate demand and growth prospects.

- v) **Foster South-South Trade.** Exchange rate management should foster intra-regional and South-South trade, in particular, that can lead to *greater structural diversification* of the economy.
- vi) **Increase levels of aid spending.** There is always concern that spending aid (as opposed to absorbing it) will put pressure on the nominal exchange rate and on the level of domestic prices. If the central bank is focused on keeping inflation at bay while still managing the nominal exchange rate, one could observe the central bank seeking to limit the extent of absorption of additional aid that the government may actively be seeking to achieve through higher spending.
- vii) **Discourage tax havens and capital flight.** *Measures should be put in place to insure that investing firms are not headquartered in tax havens and that capital flight is arrested.*

## b) Structural Policy (Cluster B)

Balance liberalization and regulation in ways not done before the global financial crisis.

### i) Trade Policy

Eliminate any reference to specific tariff rates in the indicator. Instead, it should focus on exports, export diversification, and regional integration. In addition, given the weak demand in some Western countries, the CPIA should reward countries that increase the focus of their export strategies on intra-African trade and South-South trade. Finally, the assessment of trade policies should take into account intersectoral labor mobility and the distributive impact of policies.

### ii) Financial Sector Policy

Completely revise this indicator, per the recommendations of the IEG Evaluation. See the extensive critique of it on pp. 18-19. The assessment of the sector should respond to the following questions.

--**Financial stability** “Does policy create good incentives for prudent management of financial firms? How strong and effective are supervisory powers (e.g. use of tools for risk assessment) ? How vulnerable are financial institutions to shocks?

--**Financial depth and efficiency.** What is the size of private sector credit as a share of GDP, adjusted for the country’s overall level of development? Is intermediation effective and efficient? What are the barriers to financial efficiency and depth?

--**Access.** Have policies created an enabling environment for expanding outreach of the financial system? What is the percentage of the population with access to formal financial services? How good is the access of SMEs to financial services? Is the microfinance industry financially secure?

### iii) Business Regulatory Environment

--Eliminate the “ease of hiring and firing” indicator;

-- Commission the ILO to research the claims that labor flexibility leads to formal sector job creation;

--Undertake further research to ascertain whether efforts to streamline business entry are deleterious to working conditions, fire safety, and security;

--Per the *Global Competitiveness Report*, redesign this indicator to measure collusion between public and private spheres and the rule of law. This factor is a much greater determinant of business environment than registration time, anti-corruption laws and investment promotion.

## c) Social Inclusion/Equity and the Environment (Cluster C).

i) **Enhance the weight of the components of this cluster.** The CPIA gives less weight to the components of this cluster than to the components of any other cluster.

ii) **Embrace the IEG recommendations,** including the one advising the Bank to include an assessment of “equity and equality of opportunity to disadvantaged groups” in the CPIA. However, retain “Gender Equity” as a separate criterion. Alternatively, gender equity considerations should be added to each of the CPIA criteria.

iii) **Stop violence against women.** The aid allocation system withholds resources from countries where there is violence against women (including female genital mutilation and sex trafficking) rather than providing funding to address these matters.

iv) **Re-orient the indicators to foster achievement of the MDGs.** As it is, poor performance by governments on the “Building Human Resources” criterion can result in a lower allocation. Poor performance is characterized by the lack of the policies, programs and implementation capacity for meeting some human development goals, including MDG targets.

v) **Encourage active support of all core labor standards.** While the “Social Protection and Labor” criterion calls for legal conformity with the four core labor standards (i.e., those relating to child labor; forced labor; discrimination; and freedom of association/collective bargaining), the criterion only calls for government policy to reduce child labor. This could be understood as implicitly discouraging government policies relating to the other three core labor standards.

vi) **Revise the “environmental sustainability” criterion** to take into account a broad array of environmental sectors (e.g., including biodiversity, energy, mitigation and adaptation to climate change) and give this criterion more weight.

#### **d) Governance (Cluster D).**

##### **i) Explore the reasons for stagnation in ratings of performance by African countries.**

Commission research to explain why, according to IDA ratings, performance relative to “economic management” has improved over five years; whereas average scores on the other dimensions—structural policies, equity and social inclusion, and public management—have stagnated.<sup>32</sup> Such research should ascertain whether the AfDB finds the same average level of stagnation in performance relative to these clusters. In addition, test the hypothesis that declining government performance can be attributed, in part, to the failure of the PBA formula to take into account economic vulnerability and lack of human capital. It could be that these factors play a larger role in fostering aid effectiveness and poverty reduction than the “governance cluster.”

ii) **Reduce the weight of this cluster** from 68% to 50% (the weight in the AfDB CPIA) or less of the CPIA score. The current weighting punishes African countries and creates volatility in aid allocations. Reducing the weight would allow IDA to consider other factors for lagging governance performance, such as the need to achieve stronger human development.

iii) **Commission a study** to determine how the AfDB arrives at higher scores for almost all CPIA criteria than IDA does.

iv) **Eliminate prejudicial policies.** Many of these policies are prejudicial against low-income countries. For instance, the “ideal” policy of the “Quality of Budgetary and Financial Management” criterion calls for funds to ministries and agencies to be “highly predictable in the budget year.” However, shocks together with unpredictable aid flows may make it impossible to predictably finance the operations of government.

v) **Stop Collusion.** Design and implement criteria relating to the level of collusion between the public and private sectors.

vi) **Revise the criterion relating to “Efficiency of Revenue Mobilization,”** to clarify the tax treatment of foreign direct investors; justify why all corporations should receive the same tax treatment and why the corporate tax rate cannot exceed the maximum personal tax rate.

vii) **Question the absence of a criterion on effectiveness of parliaments** (or comparable bodies) in recipient countries, since about a fifth of all budget support conditions make aid disbursement conditional on passage of laws recommended by IDA.<sup>33</sup> In effect, performance against grant/credit

<sup>32</sup> “How Have Policies and Institutions in Low-Income African Countries Fared?” (June 2009), *Africa Can...End Poverty Blog* of Shanta Devarajan, Chief Economist, African Region, World Bank.

<sup>33</sup> Alexander, N. (2008) “The New Approach To Policy Conditionality.”

conditionalities represents a *de facto* rating of these elected bodies. Even though such rating would be intrusive, highly political and controversial, other criteria are equally so.

**In addition, the CPIA should:**

e) **Include Outcome Indicators** in the CPIA in order to: i) significantly expand policy space; ii) respond to the evidence that there is no one correct definition of “good” policies; and iii) counter the fact that the CPIA lacks country-specificity. iv) In addition, commission research to determine the indicators most conducive to the outcome-based approach and to design the indicators.

New Outcome-Based Criteria should reward progress toward achieving the MDGs, expanding employment; heightening agricultural and manufacturing productivity; improving food security; and fostering mitigation of, and adaptation to, the changes of a warming climate. See pp. 26-27 for details.

**3. Change Allocation Parameters for Small, Fragile and Post-Conflict States**

a) **PCPIs.** Advise the World Bank about the proposed content and weighting of the Post-Conflict Performance Indicators.

b) **Support for Post-Conflict Countries.** Augment the support for post-conflict countries (those that are not donor darlings) -- to at least 5 years with a 10 year phase out (rather than the current proposal of 4 years of special allocations and 8 years for phase-out).

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**5: Rights to Participation in and Ownership of the CPIA**

a) **Participation.** Government authorities and civil society should routinely participate in the assessment of their country performance before the CPIA ratings are finalized. After finalization of ratings, there should be a local debate and discussion of the extent to which local knowledge is reflected in the ratings.

b) **Ownership.** Ensure that a country-owned strategy sets the priorities for assistance from IDA, not the CPIA.

**6. Enhance Transparency.**

a) **Disclose the CPIA ratings of IBRD countries.**

b) **Disclose Data and Methodology.** Make the CPIA data and methodology public so that the ratings can be replicated by others, thus enhancing its credibility. If this information is not disclosed, then a third party should carry out the CPIA ratings.

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## **The CPIA Indicators and the Post-Conflict Performance Indicators (PCPI)**

*The PCPIs expands the CPIA rating system between scores 2.2 and 3.2 for post-conflict countries. Proposals to change the PCPI would add several criteria: The Business Regulatory Environment, Financial Sector; Rule of law/crime; Accountability (elections and voice); Natural Resources Management and Corruption; Gender, Ethnic and Regional Discrimination; Infrastructure; and Education & Health. In other words, the ISAI would look more like the CPIA with the exception of the “Security and Reconciliation” cluster and the “Reintegration of Displaced Populations” Indicator.*

### **The CPIA**

#### **Cluster A. Economic Management**

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

#### **Cluster B. Structural Policies**

4. Trade
5. Financial Sector
6. Business Regulatory Environment

#### **Cluster C. Policies for Social Inclusion/Equity**

7. Gender Equality
8. Equity of Public Resource Use
9. Building Human Resources
10. Social Protection & Labor
11. Policies and Institutions for Environmental Sustainability

#### **Cluster D. Public Sector Management & Institutions**

12. Property Rights & Rule-Based Governance
13. Quality of Budgetary and Financial Management
14. Efficiency of Revenue Mobilization
15. Quality of Public Administration
16. Transparency, Accountability & Corruption

### **The Post-Conflict Performance Indicators (PCPI) or IDA Special Allocation Index**

#### **Cluster A: Security and Reconciliation**

1. Security
2. Reconciliation
3. Disarmament, Demobilization and Reintegration

#### **Cluster B: Economic Recovery**

4. Fiscal and Monetary Policies, Debt, and Inflation
5. Trade and Foreign Exchange Policies and Private Sector Environment
6. Management and Sustainability of National Recovery Program

#### **Cluster C: Social Inclusion and Social Sector Development**

7. Reintegration of Displaced Populations
8. Building Human Resources
9. Social Cohesion, Non-Discrimination and Human Rights

#### **Cluster D: Public Sector Management and Institutions**

10. Fiscal and Budgetary Management and Efficiency of Revenue Mobilization
11. Reestablishing Public Administration and Rule-Based Governance
12. Transparency, Accountability, and Corruption in the Public Sector

## FY09 IDA Commitments and Disbursements by Country

|                                    | Commitments  |                     |              |                     | Disbursements |                     |
|------------------------------------|--------------|---------------------|--------------|---------------------|---------------|---------------------|
|                                    | (USD m)      | Per Capita<br>(USD) | (SDR m)      | Per Capita<br>(SDR) | (USD m)       | Per Capita<br>(USD) |
| <b>Africa</b>                      |              |                     |              |                     |               |                     |
| Africa Regional Projects <i>c/</i> | 602          | NA                  | 394          | NA                  | 122           | NA                  |
| Angola                             | 87           | 5.1                 | 54           | 3.1                 | 29            | 1.7                 |
| Benin                              | 100          | 11.1                | 68           | 7.5                 | 78            | 8.7                 |
| Burkina Faso                       | 280          | 18.9                | 180          | 12.2                | 157           | 10.6                |
| Burundi                            | 115          | 13.5                | 76           | 8.9                 | 67            | 7.9                 |
| Cameroon                           | 100          | 5.4                 | 67           | 3.6                 | 28            | 1.5                 |
| Cape Verde                         | 10           | 18.9                | 6            | 11.7                | 19            | 35.3                |
| Central African Republic           | 21           | 4.8                 | 14           | 3.2                 | 25            | 5.9                 |
| Chad                               | 0            | 0.0                 | 0            | 0.0                 | 16            | 1.4                 |
| Comoros                            | 0            | 0.0                 | 0            | 0.0                 | 1             | 2.4                 |
| Congo, Democratic Republic         | 354          | 5.8                 | 236          | 3.9                 | 317           | 5.2                 |
| Congo, Republic                    | 20           | 5.3                 | 14           | 3.6                 | 19            | 4.9                 |
| Côte d'Ivoire                      | 200          | 10.4                | 130          | 6.7                 | 190           | 9.8                 |
| Eritrea                            | 0            | 0.0                 | 0            | 0.0                 | 24            | 5.0                 |
| Ethiopia                           | 1,145        | 14.5                | 769          | 9.7                 | 915           | 11.6                |
| Gambia, The                        | 7            | 4.1                 | 5            | 2.6                 | 7             | 4.1                 |
| Ghana                              | 550          | 23.4                | 361          | 15.4                | 129           | 5.5                 |
| Guinea                             | 10           | 1.1                 | 6            | 0.7                 | 18            | 1.9                 |
| Guinea-Bissau                      | 8            | 4.8                 | 5            | 3.2                 | 13            | 8.0                 |
| Kenya                              | 465          | 12.4                | 313          | 8.3                 | 146           | 3.9                 |
| Lesotho                            | 25           | 12.5                | 17           | 8.4                 | 32            | 15.9                |
| Liberia                            | 72           | 19.2                | 48           | 12.8                | 36            | 9.6                 |
| Madagascar                         | 70           | 3.6                 | 45           | 2.3                 | 149           | 7.6                 |
| Malawi                             | 30           | 2.2                 | 20           | 1.4                 | 71            | 5.1                 |
| Mali                               | 226          | 18.3                | 150          | 12.2                | 59            | 4.8                 |
| Mauritania                         | 5            | 1.4                 | 3            | 0.9                 | 9             | 2.9                 |
| Mozambique                         | 160          | 7.5                 | 104          | 4.9                 | 207           | 9.7                 |
| Niger                              | 110          | 7.7                 | 72           | 5.0                 | 29            | 2.0                 |
| Nigeria                            | 1,360        | 9.2                 | 880          | 5.9                 | 348           | 2.3                 |
| Rwanda                             | 86           | 8.8                 | 57           | 5.9                 | 114           | 11.7                |
| Sao Tome and Principe              | 0            | 0.0                 | 0            | 0.0                 | 7             | 47.1                |
| Senegal                            | 179          | 14.4                | 121          | 9.7                 | 107           | 8.6                 |
| Sierra Leone                       | 14           | 2.4                 | 9            | 1.6                 | 35            | 6.0                 |
| Tanzania                           | 620          | 15.8                | 411          | 10.5                | 419           | 10.7                |
| Togo                               | 57           | 8.7                 | 38           | 5.8                 | 2             | 0.3                 |
| Uganda                             | 345          | 11.2                | 228          | 7.4                 | 301           | 9.7                 |
| Zambia                             | 10           | 0.8                 | 7            | 0.5                 | 55            | 4.6                 |
| <b>Total</b>                       | <b>7,441</b> |                     | <b>4,906</b> |                     | <b>4,302</b>  |                     |

### Examples of “Ideal” CPIA Policies\*

#### CPIA’s “Ideal” Macroeconomic, Fiscal, and Debt Policies

- a) Macroeconomic: For 3 years or more aggregate demand policies have maintained external and internal balance and built adequate safeguards against external/internal shocks. Monetary/exchange rate policies have maintained price stability and public spending has not crowded out private investment.
- b) Fiscal: Fiscal policy has been supporting, for 3 years or more, macroeconomic stability. The primary surplus has been management to maintain a stable and low ratio of public debt to GDP; public expenditure and revenues have adjusted to shocks without jeopardizing the quality and quantity of public goods produced; provision of public goods has been adequate to support medium-term growth.
- c) Debt: Debt burden indicators do not signal the possibility of debt servicing difficulties even under reasonable shock scenarios. Terms of new borrowing are conducive to long-term debt sustainability. There is good coordination between debt management and macroeconomic policies, and debt management is implemented separately from monetary policy....

#### CPIA’s “Ideal” Trade Policy

- a) Average tariff rate less than 7 percent; maximum tariff rate 15 percent. No internal tax discrimination. Little or no use of protectionist NTBs. Tariff rates rarely change other than through negotiated trade agreements.
- b) Customs has sound reputation for professionalism and integrity. Risk management extensively used. Very low level of physical examinations. Approaching paperless trading environment.
- c) Laws, regulations, and guidelines are published, simplified, and rationalized. Speedy resolution of appeals against customs decisions; rapid processing of duties, taxes, and refunds.

#### CPIA’s “Ideal” Finance Policy

- a) Banking sector highly resilient to shocks. The share of NPLs and the level of capital at risk are very low. There is consistent adherence to Basel Core Principles following best practice. The quality of risk management in financial institutions and of supervision is good.
- b) Size and reach of financial markets very good. Strong capital markets. Interest rate spreads low, and very high ratio of private sector credit to GDP. Very efficient microfinance.
- c) Payment and clearance systems and credit reporting systems demonstrate best practice. Vast majority of the population has access to formal sector financial services. SMEs have very good access to finance. Legal and regulatory framework supports access to finance.

#### CPIA’s “Ideal” Business Regulatory Environment

- a) Almost no bans or investment licensing requirements. Regulations facilitate efficient entry and exit of business. Good legal framework to address anti-competitive conduct by firms exists, and is consistently enforced. All public sector entities are free to procure from any source.
- b) Streamlined industry licensing, permits, and inspections requirements facilitate business activity. State intervention in the goods market is limited to regulation and/or legislation to smooth out market imperfections. Corporate governance laws encourage disclosure and protect shareholder rights and are enforced effectively.
- c) Other labor market institutions facilitate doing business. State intervention in the labor and land markets is limited to regulation and/or legislation to smooth out market imperfections. Procedures to register property are simple, low cost, and fast.

### **CPIA's "Ideal" Revenue Mobilization Policy**

- a) The bulk of revenues are generated by low-distortion taxes such as sales/VAT, property, etc. Import tariffs are low and relatively uniform, and export rebate or duty drawback are functional. There is a single statutory corporate rate comparable to the maximum personal tax rate. Tax base for major taxes is broad and free of arbitrary exemptions.
- b) Tax administration is effective and entirely rule-based. Administrative and compliance costs are low. A taxpayer service and information program and an efficient and effective appeals mechanism have been established. There are no warning signs of possible deterioration, and there is widespread expectation of continued strong or improving performance.

**\*Source: 2009 CPIA Questionnaire**

### A Comparison of World Bank and African Development Bank CPIA Ratings

**Note 1:** In comparing 2007 CPIA ratings by the AfDB and IDA, the Bank’s evaluators found that the ratings by the AfDB are “higher than those by the Bank for all 16 criteria. For 12 of the 16 criteria, the ratings were statistically significantly higher at the 5 percent level.” (IEG Evaluation, p. 116) One of the big differences between the ratings of the two institutions is that the governance cluster (D) represents **68%** of the IDA CPIA score and **50%** of the AfDB score.

**Note 2:** The heavy horizontal line marks the division between fragile states (score of 3.2 or lower) and non-fragile states (score higher than 3.2).

|              | A                   |      | B                   |      | C                        |      | D          |      |   |                                    |                                    |                                  |   |      |     |     |     |     |     |     | IDA Resource Allocation Index (IRAI) |     | Portfolio Performance Rating |      | Country Performance Rating (CPR) |      |
|--------------|---------------------|------|---------------------|------|--------------------------|------|------------|------|---|------------------------------------|------------------------------------|----------------------------------|---|------|-----|-----|-----|-----|-----|-----|--------------------------------------|-----|------------------------------|------|----------------------------------|------|
|              | Economic Management |      | Structural Policies |      | Social & Enviro Policies |      | Governance |      |   |                                    |                                    |                                  |   |      |     |     |     |     |     |     |                                      |     |                              |      |                                  |      |
|              |                     |      |                     |      |                          |      | Ave.       |      | Property Rights, Rules-Based Governance | Quality of Budget & Financial Mgmt | Efficiency of Revenue Mobilization | Quality of Public Administration | Transp., Account., Corrup. In Pub. Sector | Ave. |     |     |     |     |     |     |                                      |     |                              |      |                                  |      |
|              | WB                  | ADB  | WB                  | ADB  | WB                       | ADB  | WB         | ADB  | WB                                      | ADB                                | WB                                 | ADB                              | WB  | ADB  | WB  | ADB | WB  | ADB | WB  | ADB | WB                                   | ADB | WB                           | ADB  | WB                               | ADB  |
| Cape Verde   | 4.5                 | 4.83 | 3.8                 | 4.0  | 4.3                      | 4.4  | 4.21       | 4.41 | 4.0                                     | 4.5                                | 4.0                                | 4.5                              | 3.5                                       | 4.5  | 4.0 | 4.0 | 4.5 | 5.0 | 4.0 | 4.5 | 4.2                                  | N/A | 4.0                          | 4.50 | 4.09                             | 4.48 |
| Uganda       | 4.5                 | 4.5  | 3.8                 | 4.33 | 3.8                      | 3.90 | 4.04       | 4.24 | 3.5                                     | 4.0                                | 4.0                                | 4.0                              | 3.5                                       | 3.5  | 3.0 | 3.0 | 2.5 | 3.0 | 3.3 | 3.5 | 3.9                                  |     | 3.5                          | 5.0  | 3.49                             | 3.93 |
| Ghana        | 3.7                 | 3.83 | 4.0                 | 4.50 | 3.9                      | 4.10 | 3.86       | 4.14 | 3.5                                     | 4.5                                | 3.5                                | 4.5                              | 4.5                                       | 4.5  | 3.5 | 4.0 | 4.0 | 4.5 | 3.8 | 4.4 | 3.8                                  |     | 2.5                          | 4.5  | 3.71                             | 4.35 |
| Tanzania     | 4.3                 | 4.50 | 3.8                 | 3.83 | 3.7                      | 3.70 | 3.96       | 4.01 | 3.5                                     | 3.5                                | 3.5                                | 4.0                              | 4.0                                       | 4.0  | 3.5 | 4.0 | 3.0 | 3.5 | 3.5 | 3.8 | 3.8                                  |     | 3.5                          | 4.5  | 3.61                             | 3.97 |
| Burkina Faso | 4.3                 | 3.50 | 3.5                 | 2.67 | 3.6                      | 3.10 | 3.81       | 4.22 | 3.5                                     | 4.5                                | 4.5                                | 4.5                              | 3.5                                       | 4.0  | 3.5 | 3.5 | 3.5 | 4.5 | 3.7 | 4.2 | 3.8                                  |     | 4.0                          | 4.5  | 3.75                             | 4.25 |
| Rwanda       | 3.8                 | 4.59 | 3.8                 | 4.00 | 3.9                      | 4.30 | 3.86       | 4.27 | 3.0                                     | 4.0                                | 4.0                                | 4.0                              | 3.5                                       | 4.0  | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.8 | 3.8                                  |     | 3.5                          | 5.0  | 3.59                             | 4.11 |
| Kenya        | 4.2                 | 4.17 | 4.0                 | 4.33 | 3.5                      | 4.10 | 3.89       | 4.20 | 2.5                                     | 3.0                                | 3.5                                | 3.5                              | 4.0                                       | 4.5  | 3.5 | 3.5 | 3.0 | 3.0 | 3.3 | 3.5 | 3.7                                  |     | 3.5                          | 5.0  | 3.46                             | 3.92 |

|  | A<br>Economic Management |     | B<br>Structural Policies |     | C<br>Social & Enviro Policies |     | Ave. |     | Property Rights, Rules-Based Governance |     | Quality of Budget & Financial Mgmt |     | Efficiency of Revenue Mobilization |     | Quality of Public Administration |     | Transp., Account., Corrup. In Pub. Sector |     | Ave. |     | IDA Resource Allocation Index (IRAI) |     | Portfolio Performance Rating |     | Country Performance Rating (CPR) |     |
|--|--------------------------|-----|--------------------------|-----|-------------------------------|-----|------|-----|---|-----|------------------------------------|-----|------------------------------------|-----|----------------------------------|-----|---|-----|------|-----|--------------------------------------|-----|------------------------------|-----|----------------------------------|-----|
|  | WB                       | ADB | WB                       | ADB | WB                            | ADB | WB   | ADB | WB                                      | ADB | WB                                 | ADB | WB                                 | ADB | WB                               | ADB | WB  | ADB | WB   | ADB | WB                                   | ADB | WB                           | ADB | WB                               | ADB |

|              |     |      |     |      |     |      |      |      |     |     |     |     |     |     |     |     |     |     |     |     |     |  |     |      |      |      |
|--------------|-----|------|-----|------|-----|------|------|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|--|-----|------|------|------|
| Mozambique   | 4.5 | 4.00 | 3.7 | 3.47 | 3.3 | 3.70 | 3.82 | 3.72 | 3.0 | 3.0 | 4.0 | 3.5 | 4.0 | 4.0 | 3.0 | 3.5 | 3.0 | 2.5 | 3.4 | 3.3 | 3.7 |  | 3.5 | 5.0  | 3.51 | 3.68 |
| Senegal      | 4.0 | 4.17 | 3.8 | 4.00 | 3.4 | 4.00 | 3.74 | 4.06 | 3.5 | 4.0 | 3.0 | 3.5 | 4.0 | 4.5 | 3.5 | 4.0 | 3.0 | 3.5 | 3.4 | 3.9 | 3.7 |  | 3.5 | 4.5  | 3.49 | 4.04 |
| Mali         | 4.3 | 4.67 | 3.5 | 4.33 | 3.4 | 3.80 | 3.74 | 4.27 | 3.5 | 4.0 | 3.5 | 4.5 | 3.5 | 4.5 | 3.0 | 3.5 | 3.5 | 3.5 | 3.4 | 4.0 | 3.7 |  | 3.5 | 5.0  | 3.49 | 4.23 |
| Madagascar   | 3.7 | 3.67 | 3.5 | 3.67 | 3.6 | 3.50 | 3.59 | 3.61 | 3.5 | 3.0 | 3.0 | 3.0 | 4.0 | 3.5 | 3.5 | 3.5 | 2.5 | 2.5 | 3.3 | 3.1 | 3.5 |  | 2.5 | 4.00 | 3.31 | 3.38 |
| Lesotho      | 4.0 | 4.17 | 3.3 | 3.67 | 3.3 | 3.70 | 3.54 | 3.84 | 3.5 | 3.0 | 3.0 | 4.0 | 4.0 | 4.0 | 3.0 | 3.0 | 3.5 | 3.5 | 3.4 | 3.5 | 3.5 |  | 3.5 | 4.5  | 3.44 | 3.75 |
| Benin        | 3.7 | 4.50 | 3.7 | 3.67 | 3.3 | 4.00 | 3.54 | 4.06 | 3.0 | 4.0 | 3.5 | 4.5 | 3.5 | 4.5 | 3.0 | 4.0 | 3.5 | 4.0 | 3.3 | 4.2 | 3.5 |  | 3.5 | 4.5  | 3.37 | 4.21 |
| Nigeria      | 4.3 | 4.50 | 3.5 | 3.33 | 3.2 | 3.20 | 3.68 | 3.68 | 2.5 | 3.5 | 3.0 | 3.5 | 3.0 | 3.5 | 3.0 | 3.0 | 3.0 | 3.0 | 2.9 | 3.3 | 3.5 |  | 4.0 | 4.0  | 3.17 | 3.51 |
| Zambia       | 3.5 | 4.50 | 3.5 | 4.00 | 3.5 | 4.00 | 3.50 | 3.97 | 3.0 | 4.0 | 3.5 | 4.0 | 3.5 | 4.0 | 3.0 | 3.5 | 3.0 | 4.0 | 3.2 | 3.9 | 3.4 |  | 3.5 | 4.5  | 3.30 | 4.01 |
| Ethiopia     | 3.7 | 4.00 | 3.2 | 3.17 | 3.6 | 3.70 | 3.48 | 3.62 | 3.0 | 3.0 | 3.5 | 4.0 | 3.5 | 3.5 | 2.5 | 3.5 | 2.5 | 3.0 | 3.2 | 3.4 | 3.4 |  | 3.5 | 4.0  | 3.29 | 3.55 |
| Malawi       | 3.2 | 3.40 | 3.5 | 3.33 | 3.5 | 3.80 | 3.39 | 3.54 | 3.5 | 3.5 | 3.0 | 3.5 | 4.0 | 4.0 | 3.5 | 3.5 | 3.0 | 3.5 | 3.4 | 3.6 | 3.4 |  | 3.0 | 4.5  | 3.37 | 3.73 |
| Niger        | 3.8 | 3.83 | 3.3 | 3.67 | 3.1 | 3.50 | 3.42 | 3.67 | 3.0 | 3.0 | 3.5 | 4.0 | 3.5 | 3.5 | 3.0 | 3.0 | 2.5 | 3.0 | 3.1 | 3.3 | 3.3 |  | 3.0 | 4.5  | 3.17 | 3.59 |
| Gambia, The  | 3.5 | 3.67 | 3.3 | 3.50 | 3.3 | 3.20 | 3.38 | 3.46 | 3.0 | 3.0 | 3.0 | 3.0 | 3.5 | 3.5 | 3.0 | 3.0 | 2.0 | 2.0 | 2.9 | 2.9 | 3.3 |  | 3.0 | 4.5  | 3.02 | 3.30 |
| Mauritania   | 3.2 | 3.67 | 3.3 | 3.33 | 3.4 | 3.80 | 3.30 | 3.60 | 3.0 | 2.5 | 3.0 | 3.0 | 3.5 | 4.0 | 3.0 | 3.0 | 2.5 | 2.5 | 3.0 | 3.0 | 3.2 |  | 2.5 | 4.0  | 3.03 | 3.32 |
| Cameroon     | 3.7 | 4.00 | 3.2 | 3.67 | 3.1 | 3.50 | 3.31 | 3.72 | 2.5 | 3.0 | 3.0 | 4.0 | 3.5 | 4.0 | 3.0 | 3.5 | 2.5 | 3.5 | 2.9 | 3.6 | 3.2 |  | 2.5 | 4.5  | 2.97 | 3.78 |
| Sierra Leone | 3.7 | 3.83 | 3.2 | 3.33 | 3.1 | 3.20 | 3.31 | 3.46 | 2.5 | 3.0 | 3.5 | 4.0 | 2.5 | 2.5 | 3.0 | 3.0 | 3.0 | 3.0 | 2.9 | 3.1 | 3.2 |  | 2.5 | 4.0  | 2.97 | 3.34 |
| Burundi      | 3.3 | 3.5  | 3.0 | 2.67 | 3.3 | 3.10 | 3.21 | 3.09 | 2.5 | 2.5 | 3.0 | 4.0 | 3.0 | 3.0 | 2.5 | 2.5 | 2.0 | 2.0 | 2.6 | 2.8 | 3.1 |  | 3.5 | 4.0  | 2.82 | 3.07 |

|  | A<br>Economic Management |     | B<br>Structural Policies |     | C<br>Social & Enviro Policies |     | Ave. |     | Property Rights, Rules-Based Governance |     | Quality of Budget & Financial Mgmt |     | Efficiency of Revenue Mobilization |     | Quality of Public Administration |     | Transp., Account., Corrup. In Pub. Sector |     | Ave. |     | IDA Resource Allocation Index (IRAI) |     | Portfolio Performance Rating |     | Country Performance Rating (CPR) |     |
|--|--------------------------|-----|--------------------------|-----|-------------------------------|-----|------|-----|---|-----|------------------------------------|-----|------------------------------------|-----|----------------------------------|-----|---|-----|------|-----|--------------------------------------|-----|------------------------------|-----|----------------------------------|-----|
|  | WB                       | ADB | WB                       | ADB | WB                            | ADB | WB   | ADB | WB                                      | ADB | WB                                 | ADB | WB                                 | ADB | WB                               | ADB | WB  | ADB | WB   | ADB | WB                                   | ADB | WB                           | ADB | WB                               | ADB |

|                      |     |      |     |      |     |      |      |      |     |     |     |     |     |     |     |     |     |      |     |      |     |  |     |     |      |      |
|----------------------|-----|------|-----|------|-----|------|------|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|------|-----|------|-----|--|-----|-----|------|------|
| Sao Tome & Principe  | 2.8 | 3.50 | 3.0 | 3.50 | 2.8 | 3.30 | 2.88 | 3.43 | 3.0 | 3.0 | 3.5 | 3.0 | 3.0 | 3.5 | 3.0 | 3.0 | 3.5 | 3.5  | 3.1 | 3.2  | 2.9 |  | 4.5 | 4.5 | 3.16 | 3.47 |
| Liberia              | 3.2 | 4.17 | 2.8 | 3.33 | 2.5 | 3.40 | 2.83 | 3.63 | 2.5 | 3.0 | 2.5 | 4.0 | 3.5 | 4.0 | 2.5 | 3.0 | 3.0 | 4.25 | 2.8 | 3.65 | 2.8 |  | 3.0 | 4.5 | 2.82 | 3.78 |
| Congo, Rep.          | 3.0 | 3.33 | 3.0 | 3.00 | 2.7 | 3.20 | 2.90 | 3.18 | 2.5 | 3.5 | 2.5 | 3.5 | 3.0 | 3.0 | 2.5 | 3.5 | 2.5 | 3.0  | 2.6 | 3.3  | 2.8 |  | 3.0 | 4.5 | 2.70 | 3.46 |
| Guinea               | 2.3 | 3.33 | 3.3 | 3.33 | 3.0 | 2.90 | 2.89 | 3.19 | 2.0 | 2.5 | 3.0 | 3.0 | 3.0 | 3.5 | 3.0 | 3.0 | 2.0 | 3.0  | 2.6 | 3.0  | 2.8 |  | 2.5 | 5.0 | 2.66 | 3.37 |
| Cote D'Ivoire        | 2.8 | 3.0  | 3.3 | 3.17 | 2.4 | 2.60 | 2.86 | 2.92 | 2.0 | 2.5 | 2.5 | 3.0 | 4.0 | 3.5 | 2.0 | 3.0 | 2.5 | 3.0  | 2.6 | 3.0  | 2.8 |  | 3.5 | 4.0 | 2.73 | 3.14 |
| Angola               | 3.0 | 3.50 | 2.8 | 3.50 | 2.9 | 3.00 | 2.91 | 3.33 | 2.0 | 2.5 | 2.5 | 3.0 | 2.5 | 3.5 | 2.5 | 2.5 | 2.5 | 2.0  | 2.4 | 2.7  | 2.8 |  | 3.0 | 4.0 | 2.57 | 3.07 |
| Togo                 | 2.8 | 3.50 | 3.2 | 3.00 | 2.7 | 2.70 | 2.90 | 3.07 | 2.5 | 3.0 | 2.5 | 3.5 | 3.0 | 3.5 | 2.0 | 2.0 | 2.0 | 3.0  | 2.4 | 3.0  | 2.8 |  | 3.0 | 4.5 | 2.57 | 3.26 |
| Congo, Dem. Rep.     | 3.2 | 3.00 | 2.5 | 2.00 | 2.8 | 2.70 | 2.82 | 2.90 | 2.0 | 2.5 | 2.5 | 3.0 | 2.5 | 3.0 | 2.0 | 2.0 | 2.0 | 3.0  | 2.2 | 2.7  | 2.7 |  | 3.0 | 4.0 | 2.41 | 2.96 |
| Central African Rep. | 3.0 | 3.50 | 2.7 | 2.83 | 2.5 | 2.50 | 2.72 | 2.94 | 2.0 | 2.5 | 2.5 | 3.5 | 2.5 | 3.0 | 2.5 | 2.0 | 2.5 | 3.0  | 2.4 | 2.8  | 2.6 |  | 4.0 | 4.5 | 2.61 | 3.11 |
| Guinea-Bissau        | 2.2 | 3.17 | 3.2 | 3.00 | 2.5 | 3.20 | 2.61 | 3.12 | 2.5 | 2.5 | 2.5 | 3.5 | 3.0 | 4.0 | 2.5 | 2.5 | 2.5 | 2.5  | 2.6 | 3.0  | 2.6 |  | 2.5 | 4.0 | 2.59 | 3.19 |
| Comoros              | 2.3 | 2.67 | 2.7 | 2.50 | 2.6 | 2.70 | 2.53 | 2.62 | 2.5 | 2.0 | 2.0 | 2.0 | 2.5 | 2.5 | 2.5 | 2.0 | 2.5 | 2.0  | 2.4 | 2.1  | 2.5 |  | 2.5 | 4.5 | 2.44 | 2.62 |
| Chad                 | 2.5 | 3.17 | 2.8 | 3.33 | 2.4 | 3.10 | 2.58 | 3.20 | 2.0 | 2.5 | 2.0 | 3.5 | 2.5 | 3.5 | 2.5 | 2.5 | 2.0 | 2.0  | 2.2 | 2.8  | 2.5 |  | 2.5 | 4.0 | 2.31 | 3.10 |
| Sudan                | 2.7 | 3.17 | 2.7 | 2.50 | 2.3 | 2.30 | 2.54 | 2.66 | 2.0 | 2.0 | 2.0 | 2.5 | 3.0 | 3.0 | 2.5 | 2.0 | 1.5 | 2.0  | 2.2 | 2.3  | 2.5 |  | N/A | 4.5 | N/A  | 2.74 |
| Eritrea              | 1.8 | 1.83 | 1.5 | 2.00 | 2.8 | 3.30 | 2.04 | 2.38 | 2.5 | 3.0 | 2.5 | 2.0 | 3.5 | 2.0 | 3.0 | 2.5 | 2.0 | 2.0  | 2.7 | 2.3  | 2.2 |  | 2.5 | 4.5 | 2.53 | 2.67 |
| Zimbabwe             | 1.7 | 1.33 | 2.2 | 2.17 | 1.6 | 1.90 | 1.81 | 1.80 | 1.5 | 2.0 | 2.0 | 2.0 | 3.5 | 2.5 | 1.5 | 2.0 | 1.5 | 1.5  | 2.0 | 2.0  | 1.9 |  | N/A | N/A | N/A  | 1.92 |