Economic Development and Employment

DISCUSSION PAPER

Adaptation and Refinement of the World Bank's "Country Policy and Institutional Assessment" (CPIA)

gtz

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Executive Summary

The CPIA – an instrument to enhance aid effectiveness

Identifying the conditions for effective development aid is a major concern among development agencies. Donors are spending billions of dollars every year on development, often without achieving the desired effects. To strengthen the impact of their contributions, donors are starting to form a clearer understanding of the drivers of development and to link their allocations to them.

The World Bank is at the forefront of this movement. It assumes that aid is most effective in a positive policy and institutional environment. Based upon this assumption, it allocates a greater share of its concessional funds to countries with good policies and institutions. The World Bank uses the Country Policy and Institutional Assessment (CPIA) to evaluate the quality of those policies and institutions.

The CPIA is compiled annually by World Bank country teams rating 'their' countries according to 16 criteria covering economic management, structural policies, policies for social inclusion and equity, as well as public sector management and institutions. A rigorous internal review process is designed to ensure that the criteria are applied consistently across countries and regions.

The CPIA and the World Bank's Performance-Based Allocation (PBA) formula are regularly reviewed and updated. To inform its position on CPIA reform, the German Federal Ministry for Economic Cooperation and Development (BMZ) and the German Association for Technical Assistance (GTZ) commissioned the Global Public Policy Institute (GPPi) to carry out this study on the CPIA.

Persistent critique of the CPIA

Since the beginning of the assessment exercise in the late 1970s, the World Bank has substantially revised the CPIA criteria, the rating process and its allocation formula. Despite these amendments criticism continues. In the broadest terms, critics argue that:

- the rating process is not sufficiently robust and lacks internal consistency;
- the criteria do not adequately capture the factors relevant to development;
- the ratings and allocation decisions are not sufficiently fair.

This study starts from the premise that performance-based allocation is a legitimate approach for assigning scarce development aid resources. It explains the details of the assessment and allocation processes and analyzes them with respect to the aforementioned criticisms. It proposes incremental reforms to render rating results more robust, increase the relevance of the criteria to development and to enhance the fairness of the rating and allocation processes.

Enhancing the robustness of rating results

CPIA ratings are based on a sophisticated assessment process. They build on the World Bank's country, regional and sector expertise and balance the professional judgment of World Bank country officials with a strict review process. Nevertheless, the estimated standard error involved in the ratings remains high and the current lack of transparency undermines the credibility of results. We therefore propose the following reforms:

- Acknowledge the margin of error and enhance data triangulation. To provide assessment teams with additional information, increase the number of external data sources used ('guideposts') and solicit inputs from host governments, other donor agencies and experts of different backgrounds from academia, think tanks and civil society.

- Increase external scrutiny by broadening consultations with external actors and by publishing a list of factors considered in the rating exercise alongside the numerical results.
- Reduce the significance of the margin of error by adapting indicators to allow for greater differentiation around the median grade.

Increasing the development relevance of the criteria

Whether the CPIA criteria capture the right factors has been a matter of dispute. The World Bank argues that they do and uses a study showing a close correlation between country scores and their subsequent development as evidence. The World Bank study, however, is built on confidential data and cannot be verified. Our analysis of publicly available data contradicts its results.

We find that the correlation between CPIA results and development outcomes is tenuous at best. Top CPIA performers, for instance, are almost as likely to achieve extraordinary growth rates as countries at the bottom of the list. The country score to development correlation is even weaker if a broader measure of development, such as the Human Development Index, is used. Increasing the development relevance of the CPIA criteria should therefore be at the core of the reform effort.

In a first step, we analyze whether the CPIA reflects the current state of the art of economic growth theories. Current economic theories exhibit a considerable degree of uncertainty about which factors are most important for growth under which circumstances. Yet, there is relatively broad agreement on the policies and institutions that contribute to a favorable environment. To adjust the CPIA to the latest economic thinking, we propose the following reform steps:

- Give greater weight to infrastructure and education, including tertiary education, in the assessment and allocation processes.
- Reduce the overwhelming preeminence of the cluster on public sector management and institutions (D) in the PBA allocation formula.

In a second step, we examine whether the CPIA corresponds to the reigning international consensus on development. Over the past decades, the international community has reached formal agreement on a set of development goals. The World Bank subscribes to these goals for example by integrating the Millennium Development Goals into its mission statement. Yet, important discrepancies remain. To achieve a better fit between the CPIA and internationally agreed development goals, we propose the following reforms:

- Create a new criterion or cluster on poverty reduction policies. This would include the existing criterion relating to equity of public resource use, as well as rural and agricultural development, the creation of sustainable human settlements and the provision of basic services, including water, sanitation and energy.
- Increase the importance of social and environmental criteria in the CPIA and the PBA allocation formula, for example by devoting two clusters to these issues.
- Expand the criterion on environmental sustainability to include policies encouraging more sustainable patterns of consumption, enhancing the efficiency of energy and natural resource use, protecting biological diversity and preventing or fostering adaptation to climate change.
- Amend the cluster on public sector management and institutions (D) to reduce the current focus on economic governance and strengthen its concentration on general aspects of good governance,

including respect for human rights, protection of minorities, government responsiveness, opportunities for participation, the empowerment of communities and government capacity to develop integrated development policies. Despite the World Bank's apolitical mandate, this broader focus is necessary to better align its policies with internationally agreed development goals.

Strengthening fairness

The CPIA guides IDA's aid allocation decisions. While maximizing aid effectiveness, the allocation process should also be fair. In this study, we focus on three key elements of fairness: How do the rating and allocation processes deal with external factors? How do they react to country-specific circumstances? And how do they respond to dynamic developments in partner countries?

Firstly, we analyze whether the rating and allocation processes adequately take into account external factors that are not under the control of a country's government. External factors exert a limited influence on CPIA ratings because the CPIA primarily rates the quality of country policies and institutions, i.e. factors that are under government control. Only some criteria, including 5, 7 and 12, also assess outcomes. Rather than adapting CPIA ratings for external influences on these outcomes, we therefore recommend to:

- Consistently focus the CPIA on policies and institutions.

External events can create special needs for assistance. The World Bank has several possibilities for granting exceptional allocations of IDA funds. These apply for instance to countries emerging from conflicts and affected by severe natural disasters. To date, the natural disaster exception is not well defined and it is not clear why similar exceptions should not apply to countries affected by other externally caused humanitarian crises as well. To increase the World Bank's capacity to draw on existing funds to react to external influences, we therefore propose to:

- Define clear conditions for using IDA funds for exceptional, non-performance based allocations. The same conditions should apply for all humanitarian disasters caused by exogenous factors, such as natural disasters, refugee influx, epidemics or external economic shocks.

Secondly, we examine whether the CPIA has sufficient flexibility to react to country-specific circumstances. Fragile states, for instance, face particular conditions. IDA resources are allocated to very poor states, which are often fragile, and the allocation system contains strong special provisions for post-conflict situations. The CPIA criteria, however, do not sufficiently emphasize factors that are important for reducing the risk of conflict. To strengthen the CPIA's relevance for fragile states, we therefore recommend to:

- Add factors important for reducing the risk of conflict, such as respect for human rights, protection of minority rights, opportunities for participation and empowerment of communities.

More generally, commentators have argued that donors should not penalize countries for adopting development policies of their choice. The CPIA, however, by its very nature is prescriptive. It defines what qualifies as 'good' policies and institutions and therefore allows no general openness for alternative development strategies. We find that there is no need to change the basic nature of the CPIA. Firstly, there is broad agreement on what constitutes a positive policy environment. Secondly, we find it legitimate for donors to support specific policy choices, such as respect for human rights, low incidence of corruption and a focus on development outcomes. Thirdly, only an outcome-based assessment would create genuine openness for alternative policy choices. This, however, would also be problematic in terms of fairness because it would reward or penalize governments for the actions of their predecessors due to the problem of time-lag, as well as for influences they cannot control.

While we thus believe that the CPIA's basic approach can be maintained, parts of it still reflect the priorities of the Washington Consensus. Even when retaining the CPIA's prescriptive nature, it is important to reduce this remaining bias. To achieve this, we recommend to:

- Increase the weight of social and environmental criteria (cluster C) relative to economic and structural criteria (clusters A, B and partly D) in the CPIA as well as the PBA allocation formula.
- Review regularly the CPIA based on multi-stakeholder consultations to ensure it incorporates current economic wisdom.

Finally, we explore whether the CPIA reacts adequately to dynamic developments in recipient countries. The assessment is carried out annually and has an appropriate focus on policies and institutions, rather than government intentions or development outcomes. Moreover, a range of case examples show that CPIA scores react clearly and in a differentiated way to major changes. Adapting the indicators to allow for greater differentiation around the median grade as recommended above would further increase the susceptibility of the CPIA to smaller changes.

In sum, we believe that it is legitimate to allocate aid based on an assessment of the quality of country policies and institutions. The CPIA rates a number of important factors in that regard, but its development relevance needs further to be increased. Moreover, while the assessment process is relatively sophisticated, it does not yield sufficiently robust results. Therefore, the World Bank should open the assessment process and increase its transparency. A reformed CPIA would increase the effectiveness and fairness of IDA allocations. It would also be more legitimate, encouraging greater usage of its results and generating synergies in the international aid system.

1 Introduction and Background

There are many ways to give international development aid. Donors and academics have long debated the conditions that make aid most effective. The decision of who gets how much development aid is inherently political. Many bilateral donors, for example, prioritize former colonies or strategically important countries. As a result, resources do not always achieve as much development impact as they could.

To make development aid more effective, donors have been attempting to base aid allocation decisions on objective criteria. The World Bank has spearheaded this movement. Its Performance-Based Allocation system (PBA) allocates aid resources to countries with a policy and institutional environment deemed supportive to development.

To rate and compare the quality of country policies and institutions, the World Bank developed an instrument called the Country Policy and Institutional Assessment (CPIA). Each year, countries receive a grade between 1 (the lowest) and 6 (the highest) based on 16 criteria. The results of the rating exercise are an important factor determining the maximum share of resources available for any given recipient country. The system only applies to very poor countries that are eligible for concessional resources administered by the International Development Association (IDA).

Beyond influencing IDA resource distribution, the CPIA also serves other purposes. The World Bank uses CPIA results as an input for its Country Assistance Strategies (CAS), in evaluations and research projects, as a definition for 'fragile' states and to inform country policy dialogues, as well as assessments of country portfolio risk and debt sustainability. The African and the Asian Development Bank use an almost identical set of criteria as part of their PBA systems. Moreover, since CPIA results have been made public, an increasing number of other donors and actors use them for their purposes.[1]

The CPIA is thus an important instrument for international development assistance. It is also a highly controversial tool. Since its inception in the late 1970s, the World Bank has taken repeated and significant steps to reform the CPIA.[2] The criteria were substantially expanded and adapted to include not only economic and structural policies, but also social, environmental and governance aspects.[3] Detailed rating specifications were defined for each grade and each criterion. The process was made more transparent through the publication of CPIA results – at first in quintile format, later with full numerical details. Making the process more inclusive, most World Bank country teams now consult with their host governments before and after the rating exercise.

Despite these reforms, significant criticisms of the CPIA remain. On a first level, critics question the technical properties of the assessment system. They voice concerns that assessment results are not

1 Thus, for example, criterion 13 (budgetary and financial management) is used as an input to assess progress on the implementation of the Paris Declaration on Aid Effectiveness; the CPIA results are increasingly used in development research; and other donors use CPIA results to cross-check their own assessments.

2 The most important recent amendment took place in 2004, following the review of the CPIA by an external panel. Cf. World Bank (2004).

3 The World Bank defines 'governance' as: "the manner in which power is exercised in the management of a country's economic and social resources for development." World Bank (1994), p. XIV.

sufficiently robust and reliable and that the catalogue of criteria lacks internal consistency.[4] A second and more fundamental level of critique doubts whether the CPIA measures the right factors. Does the CPIA really capture elements relevant to development?[5] On a third level, critics are concerned about the consequences of the assessment process and have argued that the current system lacks fairness.[6]

The CPIA and the PBA system are regularly reviewed and amended. As one of the most important World Bank donors, Germany could be one of the driving forces behind a possible reform.[7] To achieve a deeper understanding of the CPIA and inform the German government's opinion, the German Ministry for Economic Cooperation and Development (BMZ), in conjunction with the German Association for Technical Assistance (GTZ), has commissioned a study on the CPIA from the Global Public Policy Institute (GPPi), an independent policy think tank.

The study starts from the premise that performance-based allocation is generally a legitimate approach for deciding the use of scarce development aid resources. It aims at contributing to a better understanding of the CPIA and the PBA system. Following the different levels of critique, the study develops concrete and incremental recommendations for reform and adaptation. They aim to render the process more robust and internally consistent, increase the development relevance of the criteria and enhance the fairness of the assessment and allocation process.

4 Elisa van Waeyenberge (2006), for example, emphasizes that the evolution of the CPIA criteria and changes to its catalogue appears not to follow a coherent logic or even contradict each other. According to her, such flaws could have been avoided had the CPIA and its methodology of assessment been fully transparent and open to public scrutiny and eventual improvement.
Nancy Alexander of the Citizens' Network on Essential Services focuses her criticism on the expertise of the World Bank and claims that "the Bank is the wrong institution to rate performance in areas where it has a weak record and little applied knowledge (institutional development, gender equality, and labor-intensive growth). Moreover, the United Nations has a stronger mandate to work in the political arena and assess governance than does the World Bank." Equally, Alexander bemoans that "the Bank's methodology for evaluating a country's governance, e.g., its accountability to its citizens, is wildly unreliable." The lack of transparency of the process allows "too little debate about the legitimacy of a rating system that encompasses such a broad range of political, social and economic performance criteria." Alexander (2004), pp. 2-3.
Robustness of the assessment methodology is also the main theme of Barry Herman's criticism of the CPIA. He points out that the CPIA has developed over time and criteria have changed due to donors' priorities. He regrets the lack of a logical concept behind the adaptation of criteria and sees as "the main constant that there be 20 items, and that they be weighted equally in the CPIA average." Additionally, Herman reminds that "some of the 20 items in the CPIA are policy indicators and others focus on institutions. However, not only are the two dimensions mixed in calculating each country's overall CPIA index number, but individual clusters also contain both institutional and policy dimensions." This leads, in his view, to an incoherent assessment and therefore does not enable a fair assessment. Furthermore, the robustness of the process suffers as the assessment reflects only "the views of the Bank staff members who make the individual country assessments and assign the scores" not allowing for sufficient external review. Herman (2004), pp. 6-8.

5 Rick Rowden and Jane Ocaya Irama, for example, question the relevance of the CPIA criteria to achieve poverty reduction and growth in developing countries. They argue that the CPIA does not sufficiently take into account the current lack consensus in the development community on the factors that create a climate for growth and poverty reduction, but promotes structural adjustment policies. Yet they find that "structural adjustment policies have failed to deliver". Rowden and Ocaya Irama (2004), p. 21. They advocate that the CPIA criteria should be adapted towards a concept of development that enjoys greater acceptance and is less influenced by a neo-liberal approach.
Similar positions were also raised during a Policy Dialogue on the CPIA and Aid Allocation hosted by the Columbia University. "Many participants disputed that the CPIA formula has captured a robust model of growth." Minson (2007), p. 2. Participants argued that the assessment should focus on outcomes and take into account more relevant factors for development and growth, such as infrastructure.

6 Fairness is another major concern for critics. Ravi Kanbur of Cornell University is the most prominent proponent of the argument that a catalogue of policy and institutional criteria cannot do justice to different country specific circumstances. Instead of measuring performance in terms of policy and institutional quality, he therefore argues "for an aid allocation formula that depends solely on outcomes for the very poor." Kanbur (2005), p. 20.
Rick Rowden and Jane Ocaya Irama focus more strongly on problems of fairness created through the assessment process. They quote Jennifer Kalafut of the Washington DC-based Bank Information Center (BIC): "Despite their significance, ratings are not disclosed, leaving the public and critical decision-makers in countries unable to determine if their borrowing eligibility has been fairly and appropriately assessed." Rowden and Ocaya Irama (2004), p. 18. A full public disclosure of the rating process and its methodology is therefore advocated for to enhance the CPIA's robustness and at the same time render the process more legitimate and fair.

7 In IDA 15 (2008-2011), Germany is the fourth largest donor and holds 5.43% of voting rights. Cf. International Development Association (2008), p. 63

Chapter 2 describes the current CPIA and PBA system. Chapter 3 analyzes the robustness and internal consistency of the CPIA and puts forward recommendations for enhancing them. Chapter 4 asks whether the current criteria capture the most important factors for development and proposes changes to enhance the development relevance of the CPIA. Chapter 5 focuses on the fairness of the current system and turns the spotlight on how the CPIA deals with external influences, how it adapts to country-specific circumstances and how it reacts to dynamic developments in countries. Chapter 6 concludes by summarizing and prioritizing the recommendations and pointing to areas in need of further research.

2 Understanding the CPIA Criteria and Process

The World Bank introduced the CPIA rating exercise in the late 1970s to guide the allocation of IDA resources. Based on in-country and sectoral World Bank expertise, the CPIA is designed to measure how conducive country policies and institutions are to economic growth and poverty reduction. Accordingly, the objective of the CPIA exercise is:

"*to assess the quality of borrowers' policy and institutional framework[s] to foster sustainable growth and poverty reduction, to effectively use development assistance.*" (CPIA External Panel Review 2004, p. 1)

This chapter provides an overview over the current set of criteria, the rating process, the rating specifications, the written justifications and the role of the CPIA in the IDA allocation formula. It also analyses the CPIA results to determine their numerical spread, their geographical distribution and highlights some potentially problematic aspects of the current system.

2.1 The CPIA Criteria

The current CPIA Questionnaire contains 16 criteria, organized in four clusters: Economic Management (A), Structural Policies (B), Policies for Social Inclusion/Equity (C) and Public Sector Management and Institutions (D).[8] Each of the four clusters accounts for 25% of a country's CPIA score, also called IRAI (IDA Resource Allocation Index).

It is, however, not the CPIA score itself that is used to determine IDA allocations. As explained in greater detail below in section 2.5, the ratings, together with a measure of how successful World Bank projects are in the country, generate the Country Performance Rating (CPR). As a result of the formula used to determine the CPR, individual CPIA criteria carry different weights. Table 1 contains a list of the 16 criteria and indicates their respective weights in the CPIA score as well as in the CPR.[9] It shows that criteria relating to public sector management and institutions (cluster D) are by far the most influential in the allocation process.

8 Until the beginning of the 1990s, the CPIA ratings included three components: short-term economic management, long-term economic management and poverty alleviation policies and until 1998, the CPIA and the CPR scores were identical. In 1998, the CPIA was reconfigured to provide a set of criteria for promoting growth and poverty reduction, including the governance criteria contained in cluster D. The latest major revision of the criteria took place in 2004, when the number of criteria was cut back from 20 to 16. Rating results in quintile format have been publicly available from 1999 onwards and detailed rating results have been published since 2005. Cf. International Development Association and Office of the Chief Economist (DECVP) Development Economics (2007), pp. 5-6.

9 Many of the 16 criteria are further split into several sub-criteria. For example, 'building human resources' contains health and nutrition, education and training, as well as HIV/AIDS, tuberculosis and malaria policies. The CPIA Questionnaire indicates exactly how sub-scores have to be combined to arrive at the overall rating. For example, the consistency of government spending with the poverty reduction strategy accounts for two thirds of the rating for 'equity of public resource use', while revenue collection only accounts for one third. The differentiation between several sub-criteria thus allows the World Bank to determine more precisely which factors have to be assessed and which factors carry special weight. A full list of all sub-criteria and their weights in the CPIA score as well as in the CPR is contained in Annex I.

Table 1: Weights of CPIA criteria

Cluster	CPIA Criteria	Weight in CPIA	Weight in CPR
A	1. Macroeconomic Management	8.33 %	2.67%
	2. Fiscal Policy	8.33 %	2.67%
	3. Debt Policy	8.33 %	2.67%
B	4. Trade	8.33 %	2.67%
	5. Financial Sector	8.33 %	2.67%
	6. Business Regulatory Environment	8.33 %	2.67%
C	7. Gender Equality	5%	1.6%
	8. Equity of Public Resource Use	5%	1.6%
	9. Building Human Resources	5%	1.6%
	10. Social Protection and Labor	5%	1.6%
	11. Environmental Sustainability	5%	1.6%
D	12. Property Rights/Rule-based Governance	5%	13.6%
	13. Budgetary and Financial Management	5%	13.6%
	14. Revenue Mobilization	5%	13.6%
	15. Quality of Public Administration	5%	13.6%
	16. Transparency, Accountability, Corruption	5%	13.6%

Data sources: CPIA Questionnaire 2007 and IDA (2008)

The criteria cover a broad range of relevant factors. Critics lament, however, that gender equality, environmental sustainability, as well as health and education are only of marginal importance in the allocation process and that issue areas like infrastructure, human rights or democracy are not covered explicitly.[10] These questions are taken up in chapter 4.

2.2 The Rating Process

The World Bank follows an elaborate process to determine CPIA ratings for individual countries, involving a benchmarking exercise, ratings by country offices, an internal review process and external consultations.

Benchmarking exercise

Each year, the World Bank begins by rating a set of benchmark countries. The countries are chosen to include countries from all regions, IDA and IBRD borrowers, strong and poor performers and to reflect the distribution of CPIA scores.[11] Benchmark ratings are set in a joint meeting involving the regional chief economists, World Bank networks and other central departments. The numerical results as well as written justifications are provided to country staff for their assessments.

Country-based assessment

Once the benchmarking process is finished, World Bank country officials propose ratings for 'their'

10 Cf. e.g. Alexander (2004), Hermann (2007).

11 In 2007, 19 countries were rated as benchmarks. In Africa, they included for example the Central African Republic, Gambia, Madagascar and Tanzania.

countries. In most cases and depending on team size, staff members with different sectoral expertise contribute to the rating process, drawing on internal as well as some external data sources. Over recent years, country teams in IDA-eligible countries have started to consult country authorities to discuss progress and gather additional information.[12] Beyond this, however, the assessment process remains internal to the World Bank.

Country teams include a written justification with each grade in their initial assessment. The justifications explain for example which data were available at the time of the assessment and which other considerations, such as the credibility of reform legislation, the state of its implementation or the effects of external influences, affected rating decisions. The write-ups are a key element in the World Bank's internal review process. They are kept confidential to preserve their frank and candid nature and to enable an effective review.

Review process

The proposed ratings are reviewed by the relevant Regional Chief Economist and regional sector specialists to ensure that ratings are consistent within a region. According to World Bank officials, initial ratings are adapted very frequently as a result of discussions between the chief economist, sector specialists and country teams.

Amended ratings are then forwarded to World Bank networks and other central departments, where they are checked for consistency across regions. This process also regularly uncovers anomalies.[13] In those cases, networks and other central departments propose alternative ratings and relay them back to the country teams and their responsible regional chief economists, who have a right to react. In some rare cases, disputes remain unsolved. If that happens, an arbitration committee is convened which is chaired by the World Bank's Vice-President for Operations and includes two regional chief economists from other regions in addition to the relevant network and country officials.

Consultations

After the rating has been concluded, the results for IDA-eligible countries are communicated to and discussed with the relevant country officials. Subsequently, World Bank officials frequently use them when preparing specific Country Assistance Strategies and to guide country policy dialogues.

This rigorous process strengthens the comparability of results, yet many World Bank officials comment that it is also cumbersome. The benchmarking exercise is perceived by some to take a long time (partially leading to out-dated results for benchmark countries). It is also perceived to be of limited value for country assessment teams because they lack the detailed knowledge necessary for using benchmark results for comparison. External critics of the World Bank most frequently lament that the process involves mostly World Bank officials and remains in-transparent to outsiders. Chapter 3.1 deals with these questions in greater detail.

2.3 The Rating Specifications

The rating specifications are another essential component of the CPIA. They translate abstract and often broad criteria into specific, measurable indicators and thus determine the details of what is being measured.

12 Cf. Question 14 of the World Bank's frequently asked questions, available at http://go.worldbank.org/74EDY81YU0 (last accessed August 2008).

13 Cf. also Gelb, Ngo and Ye (2004), p. 5.

Full rating specifications for all grades have only been provided since the last major revision of the CPIA in 2004. They are now listed in the CPIA Questionnaire and describe which criteria a country has to fulfill to achieve each grade between 1 and 6. For instance, Mozambique had to lower its maximum tariff rate to 20% and reduce its average tariff to 12% to improve its rating for trade from 4 to 4.5.[14] Annex II provides a complete list of the CPIA criteria and sub-criteria and their respective rating specifications.

The rating specifications vary in nature. Some rating specifications contain clear, quantified thresholds for moving from one grade to the next. This includes the rating specifications for trade restrictiveness quoted above, as well as specifications for rating the quality of budgetary and financial management. Most rating specifications, however, are formulated in a less precise way. Thus, for example, the rating specifications do not define quantitative thresholds for determining when coordination mechanisms between different government departments are “non-existent or ineffectual”, “weak”, “inadequate to overcome parochial bureaucratic interests”, “function effectively” or “ensure a high degree of policy consistency”.

In their current formulation, particularly the rating specifications for the social, environmental and governance-related criteria leave important room for interpretation by World Bank staff members. This flexibility is important as it allows staff members to take into account the specific situations of countries and other relevant factors when determining their results. At the same time, the review process provides important checks and balances for ensuring that the results are consistent across countries and regions. Nevertheless, critics have challenged the robustness of CPIA data and the comparability of CPIA results.[15]

Rating specifications also differ in what they assess. Most rating specifications address government policies, their implementation and country institutions. Yet others focus on outcomes, such as gender differences in education, adolescent fertility rates or the resilience of the banking sector to shocks. These issues are discussed in chapter 3.

2.4 The Guideposts

In addition to the rating specifications, the CPIA Questionnaire contains so-called guideposts. They are intended to support World Bank staff in the assessment process and inform their judgment. Currently, there are two kinds of guideposts. The first group of guideposts contains more detailed instructions of how to assess a given criterion going beyond the rating specifications. For example, the guideposts for assessing the business regulatory environment include a detailed “Checklist for Business Regulatory Environment”. Similarly, specific indicators and questionnaires are provided to facilitate the rating of a country’s gender equality and environmental sustainability. Box 1 provides a complete list of those guideposts containing more detailed rating instructions. Annexes B and C are for World Bank internal use only and have not been made available to the public.

The second group of guideposts points to sources of data that can be used in the assessment exercise. They range from relatively objective data, like IMF statistics on tariff rates, to more subjective assessments such as Transparency International’s Corruption Perceptions Index. Importantly, the CPIA process does generally not contain clear instructions on how guidepost data translate into CPIA ratings. Instead, the process emphasizes the importance of the professional judgment of World Bank staff.

14 See Annex IX for more details on Mozambique’s policy and its CPIA rating.

15 Cf. e.g. Hermann (2007).

Box 1: Guideposts containing more detailed rating instructions

- Doing Business Indicators
- Checklist for Business Regulatory Environment (Annex A)
- Outcome indicators and questionnaire for assessing gender equality (Annex B)
- Environment Score Survey (Annex C)
- PEFA Performance Measurement Framework
- Public Expenditure Management Handbook (Annex D)
- IMF Code of Good Practices on Fiscal Transparency

Data sources: CPIA Questionnaire 2007

Most frequently, the guideposts refer to data generated by the World Bank. Of the 38 guideposts listed explicitly in the CPIA Questionnaire, only 10 include data from outside the World Bank or the IMF.[16] External sources include for example the WTO, the Heritage Foundation, Political Risk Services, UN Agencies, Transparency International, Global Integrity, the Open Budget Initiative and Reporters without Borders. Annex III provides a full list of all guideposts and their sources.

The selection serves to ensure that World Bank officials rely on trusted data sources. Critics, however, claim that the scarcity of external data sources undermines the reliability of rating results and that some of the sources are ideologically biased.[17] These issues are taken up in chapters 3.1 and 5.2.

2.5 The Role of the CPIA in the IDA Allocation Process

To accurately gauge the importance of the CPIA, it is crucial to understand how the CPIA ratings affect allocation outcomes. The IDA allocation formula was adjusted and simplified during the 2007 replenishment negotiations to address transparency concerns. Nevertheless, the allocation process remains complex and it is difficult for outsiders to establish a clear link between CPIA results and actual IDA allocations.

The first step for determining a country's maximum allocation is to calculate the Country Performance Rating (CPR).[18] It combines the ratings for the four CPIA clusters with a measure assessing the success of World Bank projects in the country, drawn from the World Bank's Annual Report on Portfolio Performance (ARPP). The CPR gives a clear priority to the governance criteria contained in cluster D.[19]

In a second step, the CPR is combined with two needs measures – country size and income level – to calculate country allocation numbers.[20] This number, in relation to the results for all other IDA-eligible countries, determines what share of the IDA envelope for performance-based allocations

16 Some guideposts are used for the assessment of several criteria. Some contain various data sources. In both cases, the guideposts were only counted once to arrive at the overall number of 38.

17 Cf. e.g. Berg (2007).

18 The current formula for calculating the CPR is: CPR = (0.24*CPIAA-C + 0.68*CPIAD + 0.08*Portfolio).

19 The new formula no longer contains an explicit "governance factor". Instead, it provides the governance criteria contained in cluster D with a stronger weight by multiplying their ratings with a larger factor than other criteria. As a result, the relative weights of individual criteria are no longer fluctuating. Prior to the reform, the "Quality of Public Administration" weighed for example between approximately four to six times as much as "Fiscal Policy" and seven to nine times as much as "Gender Equality". Following the reform, cluster D (criteria 12-16) accounts for 68% of the PBA allocation formula. This means that a criterion from cluster D always carries 5.1 times the weight of an economic management or structural policies criterion (criteria 1-6) and 8.5 times the weight of a criterion from the social inclusion and equity cluster (criteria 7-11).

20 The formula was also amended in 2007 and currently reads: IDA country allocation = f (CPR 5.0, Population 1.0, GNI/capita -0.125).

a country can receive. In addition, each country gets a fixed base allocation of 1.5 million Special Drawing Rights (SDR).[21] Performance-based allocations are reduced for countries receiving grants or benefiting from debt relief and per-capita allocations are capped at 19.8 SDR per person. So-called blend countries, which also have access to IBRD resources, also receive a smaller allocation. The reductions are then redistributed to the other countries.

Moreover, IDA can allocate resources outside the performance-based allocation process. Countries re-emerging from acute conflict, countries re-engaging with IDA after a period of absence (usually due to acute conflict) are rated by a special instrument, the Post Conflict Performance Indicators (PCPI), and receive significantly higher allocations. In exceptional cases, IDA also provides countries affected by severe natural disasters with additional allocations. Furthermore, IDA provides extra resources for regional integration projects and countries can get advances on future allocations ("front-loading"). In 2007, exceptional allocations amounted to 16% of IDA resources.[22] All in all, the actual amount of money disbursed to any particular country depends on a variety of factors. Box 2 lists the factors affecting an actual allocation.

Box 2: Factors influencing IDA allocations

- CPIA scores
- World Bank portfolio performance rating
- Country size
- Country income level
- Size of IDA envelope for performance based allocations
- Performance, size and income levels of other IDA countries
- Discounts for grants, debt cancellation and blend countries, as well as caps on maximum per-capita allocations
- Possible exceptions for post-conflict, re-engagement, natural disasters, regional integration
- Advances on future allocations and project cycles

Data sources: World Bank publications and interviews

Given that so many factors play a role, what effects do changes in CPIA scores have on actual IDA allocations? Take a hypothetical, average country X whose CPIA ratings increase by 0.1 points in all clusters, whereas all other things remain the same.[23] This country would see an increase in its maximum allocation of around 21 million dollars, which corresponds to a per capita increase of 42 cents or almost 14%. In theory, the CPIA rating does thus have a strong impact on IDA allocations.

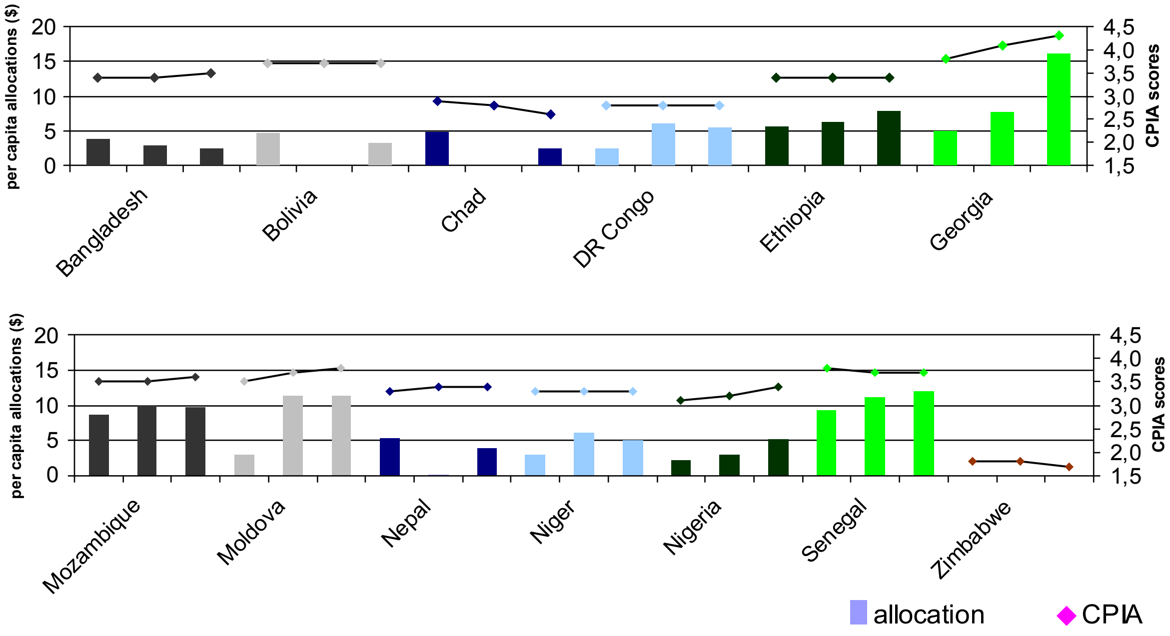
In practice, of course, ceteris paribus conditions rarely hold. Actual IDA disbursements in any given year depend strongly on project cycles. Moreover, not all countries use all allocations for which they are theoretically eligible. The World Bank does not publish theoretical maximum allocation numbers since it does not want countries to understand these as entitlements. Graph I shows CPIA scores and actual per capita allocations in 2005, 2006 and 2007 for a range of country examples.

21 On July 7th, 2008, the exchange rate for one SDR was $1.62. The base allocation for each country thus amounts to almost $2.5 million.

22 During IDA 14, an estimated 62% of resources were distributed based on the CPIA. 22% of resources were allocated to capped countries, 9% to post-conflict countries and 7% to other exceptions. Cf. IDA "fragile states", p. 27.

23 For the sake of this sample calculation this average country rates 3.5 in all CPIA clusters, has a portfolio rating of 3.5, a population of 50 million and a per capita GNI of $1,000. The calculations assumes that the IDA envelope for performance-based allocations for the year is $11 billion, that a total of 78 countries are eligible for performance-based loans, that the remaining countries have the same initial country allocations as country X and that there are no discounts, exceptions or advances.

Graph 1: CPIA Scores and IDA Allocations (2005-2007)



Data sources: World Bank IRAI scores (available at http://go.worldbank.org/S2THWI1X60, last accessed November 2008) and IDA annual reports (available at http://go.worldbank.org/0FE42DQ8Q0, last accessed November 2008, data for projects approved for IDA assistance in fiscal years 2005, 2006 and 2007).

For the few years that data are publicly available, country examples do not show a clear link between changes in CPIA scores and actual allocations. Thus, despite similar CPIA scores, Mozambique receives significantly higher per capita allocations than Bangladesh. Similarly, Moldova receives much higher per capita allocations than Bolivia at similar CPIA ratings. Moreover, changes in CPIA ratings are not consistently reflected in allocation changes. While Georgia's strong rating increases have triggered an upward jump in allocations, Nigeria's advances have only led to small increases. Bangladesh and Nepal experienced allocation reductions despite CPIA increases and conversely, Senegal saw its allocations rise despite a fall in CPIA ratings.[24]

2.6 CPIA Results

What are the results of the CPIA rating exercise? For a long time, CPIA scores were confidential. In 2000, the World Bank started to release CPIA results for IDA-eligible countries in quintile format.[25] Since this drew continued criticism about a lack of transparency, the World Bank is now publishing the full details of the numerical rating results, including individual grades for each of the CPIA criteria.

In theory, countries can be rated on a scale ranging from 1 (worst result) to 6 (best result). In practice, most countries score around the median result of 3.5. The following graph shows the distribution of grades for the 2007 assessment. Two thirds of the 75 countries[26] included in the assessment exercise received grades between 3 and 4. Some, but not many outliers exist and no country received a grade worse than 1.7 or better than 4.4 during the three years for which data are available.

24 See Annex IX for details on the political developments and CPIA changes in Bangladesh, Bolivia, Chad, Ethiopia, Georgia, Mozambique, Nepal and Zimbabwe.

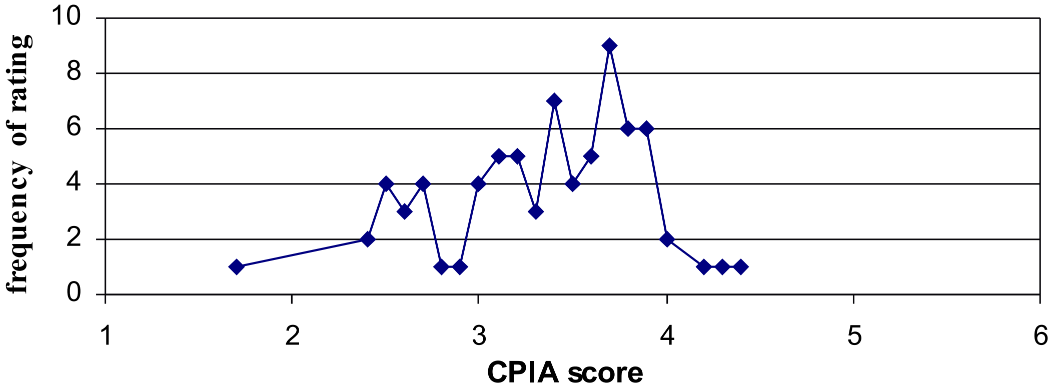
25 To do so, the Bank defined score thresholds in such a way that approximately one fifth of all IDA countries fell into the 'best-scoring group', one fifth into the second best group and so on. It then made public which countries belonged to which group.

26 In 2007, no rating exercise was conducted for Libya, Myanmar and Somalia. Ratings are rounded to one decimal.

One reason for the current distribution of results is that most IDA countries have reached neutral to moderate levels of policy and institutional quality and this is accurately reflected by grades between 3 and 4. This is particularly the case because the interval between 3 and 4 tends to be large.[27] Thus, a 3 rating is generally seen as marginally negative, whereas a 3.5 rating already counts as marginally positive. In interviews, World Bank country officials repeatedly stressed that countries faced difficulties progressing from 3 to 4 because the step between those two grades was so large.

Another reason for the current distribution of results is that the CPIA criteria and their rating specifications remain at least in part ambiguous. When it is difficult to assign clear scores, assessment teams tend to opt for the middle ground.[28]

Graph 2: Distribution of CPIA Scores (2007)



Data sources: World Bank IRAI scores 2007 (available at http://go.worldbank.org/S2THWI1X60, last accessed November 2008).

In terms of their geographical distribution, good performers are concentrated in Europe and the Caucasus, but can also be found on the Indian subcontinent, in Latin America, in East and to a more limited degree in West Africa. Current CPIA top performers are Armenia (4.4), Georgia (4.3), Cape Verde (4.2), Ghana (4.0) and St. Lucia (4.0). Bad performers are largely concentrated in Africa, particularly in a central belt stretching from Chad, Sudan and Eritrea in the North to Angola and Zimbabwe in the South. The worst CPIA performers currently are Zimbabwe (1.7), Eritrea (2.4), Comoros (2.4) and Togo, Central African Republic, Sudan and Afghanistan (all 2.5). Annex IV contains a color-coded world map displaying the 2007 CPIA scores for all IDA eligible countries except for some small island nations.

Countries at the bottom of the CPIA list, however, do not have to remain locked in a vicious cycle of bad performance. Generally, changes in CPIA rates tend to be slow and incremental. On average, IDA eligible countries experienced a year-on-year change of just 0.055 points in their overall rating

27 This is partially due to the evolution of the CPIA Questionnaire. Historically, a '1' rating was defined a three consecutive years of a '2' rating, just as a country receiving a '5' for three consecutive years would automatically be promoted to a '6'. The current version of the Questionnaire provides full rating specifications for all grades. Regardless, the differences between grades '1' and '2' and '5' and '6' tend to remain smaller than those between '3' and '4'.

An example may serve to illustrate this. The rating specifications for fiscal policy are: (1) For a prolonged period of time fiscal policy has contributed to macroeconomic imbalances. (2) Fiscal balance will likely lead (or is already leading) to macroeconomic imbalances. (3) Sporadic efforts to address macroeconomic imbalances through fiscal policy. (4) Fiscal policy consistent with macroeconomic stability and debt sustainability, but there are occasional slippages. (5) Fiscal policies are consistent with macroeconomic stability. (6) Fiscal policy has been supporting, for an extended period of time, macroeconomic stability.

28 Gelb, Ngo and Ye, for example found that: "It can be difficult to assign a clear CPIA score in some cases, and ambiguity can lead to a tendency to bunch around the middle ratings of 3 to 3.5" (Gelb, Ngo and Ye, 2004, p. 5).

in the years for which data are available.[29] Yet, cumulative changes can be substantial. Thus, for example, between 2005 and 2007, Georgia improved its rating by 0.5 points, Moldova and Nigeria achieved an increase of 0.3. Importantly, some bad performers like Nigeria and Angola were able to achieve significant improvements and neighbors to rapidly deteriorating Zimbabwe could maintain positive change rates. Annex V includes a color-coded world map displaying the cumulative changes in CPIA scores between 2005 and 2007.

29 Detailed data for earlier years are confidential. A World Bank study analyzing data for 1996 – 2002, however, found change rates of a similar order of magnitude. Non-African IDA-eligible countries had an average yearly CPIA change of 0.028 points and African IDA-eligible countries experiences changes of 0.042 points. Cf. Gelb, Ngo and Ye (2004), p. 10.

3 Enhancing Robustness and Consistency

Despite significant reforms over recent years, the World Bank's Performance-Based Allocation system (PBA) continues to attract strong criticism. This chapter starts to deal with this critique and to propose concrete reform options by assessing the CPIA on its own merits. Does the rating exercise create reliable results? Is the CPIA Questionnaire internally consistent?

3.1 How Robust and Reliable are CPIA Rating Results?

The CPIA is designed to create an objective basis for deciding the allocation of IDA resources. A fundamental question is therefore whether the assessment process generates results sufficiently robust for that purpose.[30]

The World Bank has created a sophisticated process for deciding the allocation of its concessional resources, especially when compared to other aid allocation mechanisms. As described above, it has defined a number of important steps for ensuring that the CPIA generates credible and comparable results, including:

- The process relies on the specific in-country expertise of World Bank staff, as well as the sectoral expertise of World Bank regional and central departments.
- While building strongly on their professional judgment, the World Bank provides staff members with materials and instructions to guide the assessment process. This includes the CPIA Questionnaire, which defines a detailed list of criteria and sub-criteria and provides full rating specifications; the guideposts, which provide additional data and information drawn from trusted sources; and the benchmarking results, which can be used as a basis for comparison.
- Initial assessments are subject to a strict internal review process, involving regional and sectoral experts. Reviews are based on numerical rating results as well as written justifications.

How reliable, then, are the CPIA results? Providing a precise answer to this question is difficult. To date, only one study has estimated the standard error for CPIA ratings. In 2004, a research team compared the results of the World Bank's assessment process to those generated by the African Development Bank, which uses the same assessment questionnaire. Their estimate was that CPIA ratings are subject to a standard error of 0.24, meaning that CPIA ratings for any given country routinely deviate from that country's 'true' grade by up to 0.24 points.[31] This margin of error is very significant, considering that most countries receive relatively similar grades between 3 and 4 and that country ratings on average only change by 0.055 points every year.[32]

Acknowledging the margin of error and triangulating data

What are the reasons for this large standard error and what could be done to reduce it or otherwise deal with it? A first problem is that many CPIA criteria rely on a subjective assessment of policy and institutional quality. A recent World Bank study, for example, found that "only about one third

30 Critics addressing the question of robustness and reliability include for example Herman (2004), Gelb, Ngo and Ye (2004), Powell (2004) and Alexander (2004).

31 Gelb, Ngo and Ye (2004), p. 14. The same result is also quoted in the Global Monitoring Report (2005) and the World Bank currently refers to it in its frequently asked questions, which can be accessed at http://go.worldbank.org/74EDY81YU0 (last accessed August 2008).

32 Arguably, the standard error is smaller today than it was in 2004. Since 2005, the World Bank has been publishing detailed numerical rating results. This has led to increased external scrutiny and, according to World Bank officials, to greater rigor in the assessment process. Even if the current standard error is only half of what it was estimated to be in 2004, however, it would still be significant.

of the 16 CPIA criteria can be assessed largely using quantifiable policy indicators." (International Development Association and Office of the Chief Economist Development Economics, 2007, p. 5) Thus, for example, it is notoriously difficult to arrive at objective measures of factors central to the CPIA such as transparency, accountability, corruption or the quality of public administration.

This, however, does not mean that we should not try to measure these important factors. Rather, as a first step, Kaufmann and Kraay have argued that the margin of error should be transparently acknowledged to strengthen the credibility of results (Kaufmann and Kraay, 2008).

Another important measure for strengthening results is to include and compare data and information from different sources. Triangulation occurs for example when World Bank officials have access to different data sets and can compare their results. Currently, the CPIA Questionnaire contains a limited number of largely World Bank internal data sources. To strengthen triangulation, the CPIA Questionnaire could include a greater number of external guideposts, such as for example UNDP's Gender Empowerment Measure; UNU's World Governance Assessment; the ILO's GAPS in Workers Rights assessment; the Bertelsmann Transformation Index; IMD's World Competitiveness Yearbook; country reports of the Economist Intelligence Unit; as well as several private risk assessment services (e.g. Business Environment Risk Intelligence; Global Insight's Global Risk Services).

Guidepost documents, however, often contain data that are not entirely up to date. It is therefore critical that World Bank officials solicit additional information from their host governments, other donor agencies operating in the country, as well as external experts of different disciplinary backgrounds from academia, think tanks and civil society. Currently, a consultation process of varying intensity takes place between World Bank teams in IDA-eligible countries and country authorities. This process should be strengthened and opened up to include other donor agencies and external experts.

External scrutiny

A second problem stems from the fact that the CPIA assessment is largely an internal World Bank process. Consultations are currently limited to host governments, guideposts refer predominantly to data generated by the World Bank and the review process is entirely internal. Moreover, possibilities for external scrutiny of the results are limited since critical components of the process remain confidential. This includes the initial rating proposals, the written justifications, the comments made during the review process and, in the case of non-IDA-eligible countries, even the rating results.

External scrutiny is crucial to making results more reliable as it can help uncover mistakes or omissions and is likely to induce a more rigorous internal handling of the assessment process by World Bank staff members. The increased involvement of external actors proposed above would be one important measure to strengthen scrutiny. For this purpose, however, external actors should not only be invited to submit information, but should also be involved in a discussion of rating results (without, however, turning the rating exercise into a negotiation process).[33]

Another crucial measure would be to further increase the transparency of the rating exercise. In addition to publishing numerical rating results, the World Bank should make public which factors were taken into account when determining the ratings. When the World Bank cut Ethiopia's rating for macroeconomic management, for example, this explanatory note should point to the rise in infla-

33 The broadening of the consultation processes would make the assessments more cumbersome and time-consuming. To balance this extra burden, the benchmarking process could be adapted. Country teams report that they rarely use benchmarking results. They could more easily use the ratings and write-ups of previous years as an orientation. The rating process for benchmark countries could thus be conducted in parallel to the main rating exercise. Actors involved in the review process would implement the review for benchmark countries first and use the intensive discussion process to establish a common framework for interpreting data necessary for creating comparable results.

tion as a critical factor. Similarly, when Ethiopia's grade for building human resources was increased, the note should mention the changes in enrollment and completion rates on which this decision was based. The relevant information could be drawn from existing written justifications so that the publication of these notes would not create an inordinate amount of extra work. At the same time, however, the full write-ups would remain confidential so that their frank and candid nature is preserved.

Differentiating rating results

Finally, the current margin of error is particularly problematic because most countries receive relatively similar grades between 3 and 4. As discussed above in section 2.6, this is partially due to the fact that the differences between individual ratings tend to be smaller at the extremes of the CPIA scale than in its middle. To arrive at a broader distribution of rating results, rating specifications could be shifted. As a result, they would allow for greater differentiation around the median score, while increasing the intervals between extreme grades.

Recommendations

- **Acknowledge the margin of error and enhance data triangulation. To increase the information available to assessment teams and enable them to triangulate data, provide a greater number of external guideposts and solicit additional information from host governments, other donor agencies and external experts from academia, think tanks and civil society.**
- **Increase external scrutiny by broadening consultations with external actors and by publishing a list of factors considered in the rating exercise alongside the numerical results.**
- **Reduce the significance of the margin of error by adapting rating specifications to allow for greater differentiation around the median value.**

3.2 Is the CPIA Questionnaire Internally Consistent?

The CPIA Questionnaire has been adapted significantly over time, reflecting evolving economic wisdom as well as political pressures. Due to its evolution, the CPIA is likely to contain internal inconsistencies.

An analysis of the CPIA criteria and their rating specifications uncovers that there are no direct contradictions. It raises some questions concerning the grouping of criteria, as well as the demarcations between them and points to a number of overlaps. Yet, these problems are not significant enough to justify proposals for change. Annex VI contains a more detailed analysis of these aspects.

A more critical consideration is whether the CPIA is consistent in terms of what it measures. As argued below in chapter 5.1, it is important that the CPIA consistently measure policies and institutions as opposed to development outcomes to ensure a fair assessment of country performance.

The CPIA officially serves to rate government policies and institutions. The Questionnaire explicitly addresses the question of what is being measured and states:

"The criteria focus on policies and institutional arrangements, the key elements that are within the country's control, rather than on actual outcomes (for example, growth rates) that are influenced by elements outside the country's control." (2007 Assessment Questionnaire, p. 4)

Contrary to this statement, however, some rating specifications do refer to outcomes or other features that are not or only partially under countries' control. For example, the adolescent fertility rate may be affected by government policies, but is certainly also subject to other influences. Similarly, access levels to financial services can be influenced by government regulation and public banking facilities, but can also depend on the policies of private banks or non-profit micro-lending institutions. Box 3 contains examples for outcome or results-oriented rating specifications that are not or only partially under the control of governments.

Box 3: Results-oriented rating specifications

- (5a) banking sector is resilient to shocks
- (5b) financial markets are strong and have broad reach
- (5c) there is broad access to financial services
- (7a) no gender differences in enrollment in secondary institutions exist
- (7a) the adolescent fertility rate is low
- (7c) the level of violence against women is low
- (12c) a high level of trust in the police exists

Data source: CPIA Questionnaire 2007

To allow for a fair assessment of country performance, the CPIA should consistently focus all of its criteria and rating instructions on policies and institutions. This would entail for example rating whether policies and regulations encourage efficient microfinance systems, rather than whether efficient microfinance systems exist. It would also entail assessing the quality of policies and programs seeking to reduce the adolescent fertility rate, rather than the adolescent fertility rate itself.

Recommendation

Ensure that all rating specifications, especially for criteria 5, 7 and 12, focus on country policies and institutions, rather than outcomes.

4 Increasing Development Relevance

The CPIA was built with the intention of identifying countries that are likely to use development aid effectively. Does the CPIA adequately capture factors relevant to development? This chapter begins the enquiry into this question by analyzing how CPIA results relate to development outcomes. The limited set of data that are publicly available suggests that the correlation is only tenuous. This chapter therefore continues by asking: Does the CPIA contain the latest economic thinking on growth factors? Does it adequately reflect the elements relevant to a broader definition of development? Do all factors receive adequate weight within the PBA?

4.1 How Do CPIA Results Relate to Development Outcomes?

Some countries face tougher development challenges than others. Certain good policies and institutions also only lead to positive development outcomes in the medium- to long-term. If the CPIA captures relevant factors, however, we would on the whole expect countries with higher CPIA scores to achieve better development results than countries rated poorly by the CPIA.

Following a request by donors, IDA published a study examining the relationship between CPIA results and development outcomes in 2007.[34] The study uses average CPIA and CPR ratings over 20 years and finds that countries with high CPIA ratings achieve faster development, measured in terms of the Human Development Index (HDI), the under 5 mortality rate, GDP growth and the immunization rate. It also finds that countries in Africa face a much tougher development challenge and grow more slowly than other countries.[35]

The results of this study are very important and are used by the World Bank to support its argument in favor of performance-based aid allocation in general and the usefulness of the CPIA assessment in particular. The study is, however, also problematic in a number of respects. Firstly, the CPIA changed drastically since its inception in terms of its composition and method. The governance factor which enjoys such overwhelming importance in the current system, for example, was only included in the late 1990s. Even if early CPIA results can be associated with faster development, we can therefore not conclude from this that the same is true for the current CPIA.

Another problem is that the study is built on confidential data. This makes it impossible for outsiders to verify the results. Yet, in other cases, verification has proven critical. In a well-known study underpinning the argument for performance-based aid allocation, for example, Burnside and Dollar found that aid has a positive effect on growth only in a good policy environment.[36] Using the same data and introducing changes to the model, by contrast, Hansen and Tarp found that the policy environment had no significant impact.[37] The impossibility to verify the results of the World Bank study undermines the credibility of its results.

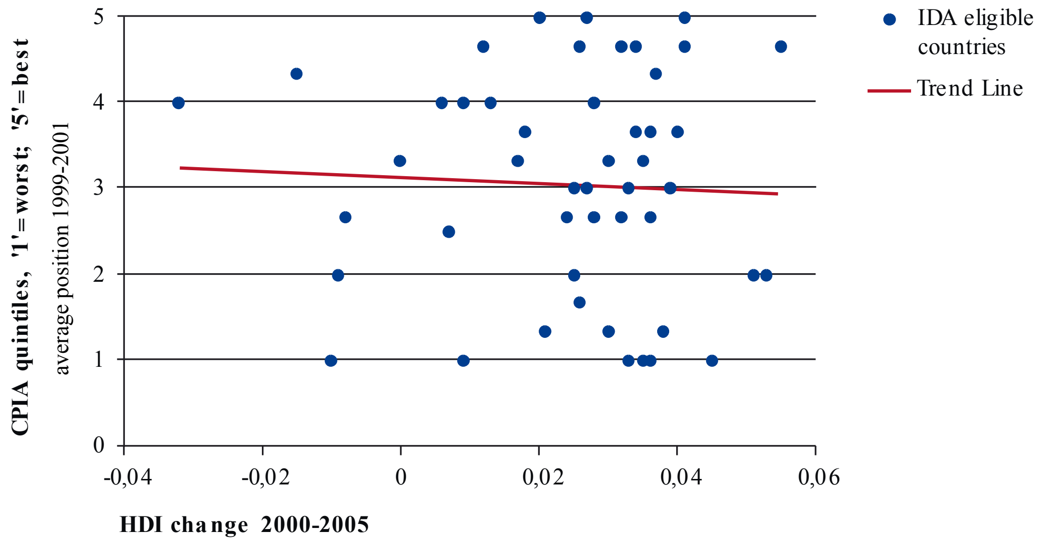
34 International Development Association and Office of the Chief Economist Development Economics (2007).

35 An earlier World Bank study focusing on average growth rates and CPIA ratings between 1996 and 2001 also found that performance as measured by the CPIA is strongly related to growth. Gelb, Ngo and Ye (2004), p. 12.

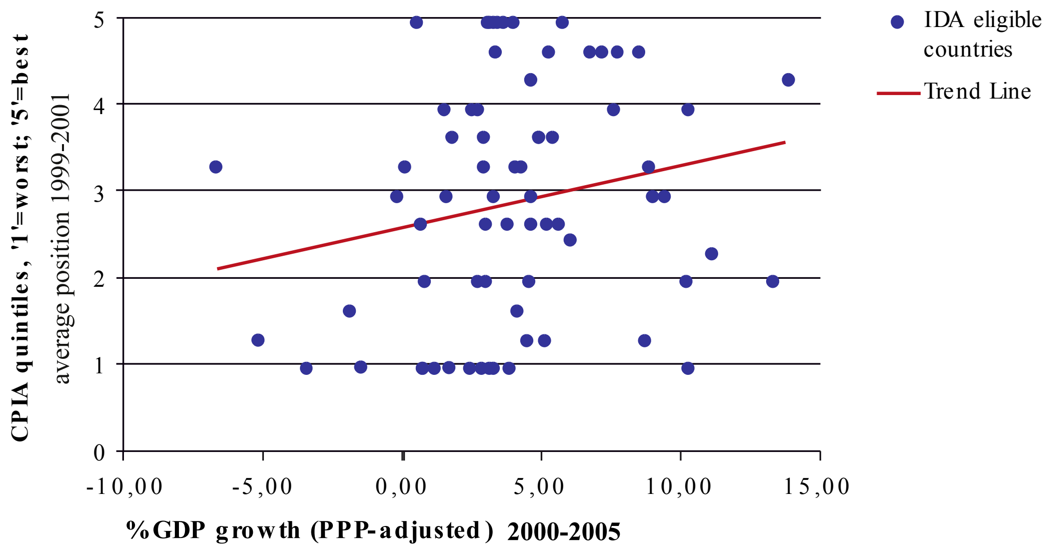
36 Burnside and Dollar (1998); Cf. World Bank (1998).

37 Hansen and Tarp (2000). Cf. Choritz (2002).

Graph 3: Relationship between CPIA and changes in HDI scores



Graph 4: Relationship between CPIA and GDP per capita growth



Data sources: UNDP Human Development Reports 2002-2007/08 (available at http://hdr.undp.org/en/, last accessed November 2008), IDA (2000), IDA (2001) and IDA (2002)

While it is impossible to either prove or disprove the findings of the World Bank study, a simple snapshot analysis of accessible data yields interesting insights. Graph 3 and 4 show how countries' CPIA results relate to their subsequent development. For earlier years, CPIA data were only published in quintile format. The graphs indicate the average position of IDA eligible countries in the CPIA quintiles between 1999 and 2001.[38] In the graph, "1" denotes the worst performing group and "5" the best performing group.[39] The CPIA position is plotted against changes in the country's HDI score between 2000 and 2005 in the first graph[40] and against average annual growth rates of PPP

38 Some countries were not rated in all three years. For them, the average of the remaining years is used. Quintiles average of 1999 and 2001 only: Cameroon, Congo, Dem. Rep., Sudan. Quintile 2001 only: Uzbekistan.

39 This differs from the typical World Bank definition of the quintiles, in which the top quintile is usually named "1" and the bottom one "5".

40 Data are only included for countries for which adjusted HDI scores for the year 2000 exist. The HDI includes the PPP-adjusted per capita GDP, life expectancy, and education (measured in terms of adult literacy and school enrolment). The HDI itself has been criticized as an only partially reliable indicator. It is used here because the internal World Bank study also relied on it.

adjusted per capita income between 2000 and 2005 in the second graph. Since the CPIA score can differ significantly from the CPR score, annex VII contains the same graphs for CPR scores.

Not adapting for any other factors, the graphs provide two main insights. Firstly, the correlation between CPIA rankings and development outcomes is positive for GDP per capita growth, but slightly negative for advances in the Human Development Index. Secondly, the spread of results is vast. Countries achieving 'normal' per capita GDP growth rates of between 0 and 5% per year are almost as likely to be in the worst CPIA group as in the best. Moreover, countries with very bad CPIA performance just as often achieve extremely good growth rates as countries with very good CPIA performance. The same is true if progress in development is measured in terms of the HDI indicators. When using the CPR scores, the relationship between country performance ratings and actual progress in terms of development is positive for both GDP growth and HDI indicators and also slightly stronger.

A simple correlation can of course not replace rigorous multi-variable regression analyses based on a more complete set of data. Yet, the weak correlation with changes in the human development index and especially the extremely broad spread of results indicate that the CPIA may be less useful in predicting development outcomes than the World Bank study suggests.[41]

How relevant, then, are the CPIA criteria to development? The remainder of this chapter focuses first on the factors considered important to economic growth and then on the elements of a broader definition of development.

4.2 Are the CPIA Criteria Relevant to Economic Growth?

Which policies and institutions foster economic growth? This is a very controversial question. Despite decades of economic research, of heated debate and a variety of practical 'experiments', we still lack certainty about the determinants of growth. In 2008, the Commission on Growth and Development published a report describing the current consensus view among economists on that topic. It concludes that:

"We do not know the sufficient conditions for growth. We can characterize the successful economies of the postwar period, but we cannot name with certainty the factors that sealed their success, or the factors they could have succeeded without." (Spence, 2008, p. 33)

The common trend among economists and development experts seems to be that there is no consensus and that it is no longer possible to create "laundry-lists" of promising reforms.[42] Despite this apparent new era of economic agnosticism, most economists do actually agree that a number of policy and institutional features create positive framework conditions for growth. In most cases, however, economists have been unable to provide quantitative evidence on the relative importance of these factors. The factors include:[43]

- Macroeconomic stability, including a stable exchange rate and current account, a reasonable level

41 In a much noted argument, Ravi Kanbur, a former World Bank official, comes to similar conclusions: "My contention is that the evidentiary basis for imposing across countries this implicit common model of the development process that supposedly leads to improvement in final outcomes is weak. It is weak for growth, and it is weak for development outcomes." Kanbur (2005 II), p. 17. Cf. also Kanbur (2004).

42 Cf. Rodrik (2008).

43 Obviously, this is only a tentative list. It does not claim comprehensiveness, nor are the criteria listed in any particular order of relevance. This section draws heavily on Spence (2008), Barro (1991), Easterly and Levine (1997), Dominese (2007), Ianchovichina and Kacker (2005), Acemoglu and Robinson (2008), Rodrik (2004), Aidt and Dutta (2008).

of inflation, an adequate interest rate, stable tax rates and a sustainable debt burden.[44]

- Sufficient public investments in education (including tertiary education), health and infrastructure.[45]
- Openness to trade, allowing for export promotion and industrial policies.[46]
- Existence of a financial sector promoting household savings, providing broad access to affordable credit and including protections against shocks.
- Openness to and a positive environment for foreign direct investment, leading to technology transfer.[47] This includes the creation of an attractive regulatory environment, as well as economic and political stability. It does not, however, have to entail uncontrolled capital flows.
- Strong property rights and contract enforcement.[48]
- Market flexibility enabling private sector development. Some economists suggest that it is also important for medium- and long-term growth to maintain social cohesion and solidarity through policies supporting social safety nets, equity and equality of opportunity.[49]
- Absence of rampant corruption.[50] Some economists point to the importance of effective public institutions more generally to sustain long-term economic growth and poverty reduction.[51]
- Most economists would probably also agree that a certain degree of environmental protection is positive for long-term sustainable growth.

The catalogue of criteria used in the CPIA has been evolving over 30 years. The CPIA is "not an instrumental growth model, but rather a product of both economic wisdom and more political considerations, especially the priorities of major donor nations." (Minson, 2007, p. 2) As such, the CPIA and the PBA allocation formula do not fully reflect the current 'non-consensus' among economists and development experts. While most CPIA criteria seem to be roughly in line with the factors broadly believed to be important for growth, the most obvious discrepancies include the following:

- The criterion on fiscal policy (2) includes as one of three rating specifications that the provision of public goods, which includes infrastructure, should be adequate to support medium-term growth. In other words, infrastructure is only of marginal relevance in the current CPIA. Most economists, by contrast, refer to infrastructure investments as a key ingredient for growth.
- The criterion on education (9b) refers mainly to basic and "post-basic" education. In the current economic literature, emphasis is also placed on tertiary education. The current CPIA does not reflect this priority.
- Few economists would argue that factors such as gender equality, health, education, social protection, environmental protection, a high quality of public administration and a low incidence of corruption will not support long-term, sustainable economic growth and poverty reduction. Yet, there is little quantitative evidence on how important each of these factors is and particularly the importance of most of the social and governance criteria is controversial. In the current formula used to determine IDA allocations, the quality of public administration (criterion 15), for example, counts over 25 times as much as education and training (criterion 9b). The available

44 Cf. e.g. Rodrik (2004).

45 Cf. e.g. Spence (2008), Bloom and Canning (2007), Estache and Fay (2007).

46 Cf. e.g. Sachs and Warner (1997).

47 Cf. e.g. Dominese (2007).

48 Cf. e.g. Acemoglu, Johnson and Robinson (2001).

49 Cf. e.g. Spence (2008).

50 Cf. e.g. Aidt and Dutta (2008).

51 Cf. e.g. Acemoglu and Robinson (2008).

quantitative evidence is insufficient to justify the current prioritization of governance criteria.

The current economic 'non-consensus' on factors important for growth thus only very rarely contradicts the current set-up of the CPIA and PBA. While a 'non-consensus' provides a shaky basis for determining positively which factors should be included how prominently in the CPIA and the PBA, it does give some indications that certain factors are under-represented (especially infrastructure investment and education), while others are over-represented (especially the governance criteria contained in cluster D).

Recommendations

- **Adjust the relative importance of the criteria in the CPIA and PBA to give greater weight to infrastructure and education, including tertiary education**
- **Reduce the weight of the governance criteria in cluster D in the PBA allocation formula.**

4.3 Are the CPIA Criteria Relevant to a More Differentiated Definition of Development?

Growth is not an end in itself. Important development institutions like the World Bank focus on growth because it enables countries to combat poverty, to improve health and education, to create equal opportunities and to achieve many other desirable goals. Even after decades of research and debate, growth theories fail to define clearly which factors are important for growth and how important they are. Building a tool like the CPIA on the basis of growth theories is therefore a difficult and necessarily controversial endeavor. An alternative strategy would be to focus directly on the more specific goals of development.

What are those goals? This question has also been debated very controversially. Yet, over the past 20 to 30 years, the international community has been working towards an agreement in this area. Elements of this emerging political consensus are enshrined in international documents and declarations, including the Agenda 21, the Monterrey Consensus, the Johannesburg Plan of Implementation, the Millennium Development Declaration, the Millennium +5 Declaration and the Paris Declaration on Aid Effectiveness.

Many of these documents address what is expected of both, developing countries and the international community. The CPIA as a resource allocation instrument has to focus exclusively on the policies and institutions of recipient countries. From that perspective, the documents outline agreement on the following goals:[52]

- Economic growth. Economic growth is seen as crucial mechanism for generating the necessary resources for reducing poverty and financing development policies. The documents outline several factors that are regarded as important for fostering growth. These factors correspond roughly to the criteria identified by economists:
  - Sound economic policies, including monetary and fiscal discipline to promote price stability and external balance; realistic exchange rates; sustainable debt burdens; effective tax systems to mobilize domestic resources; and generally market-oriented policies.

52 The following list summarizes the themes running through these documents that are most important for understanding the definition of development proposed by them. Different documents give varying priorities to different issue areas. The various themes can also be structured in different ways. An important alternative to the categories of factors proposed here, for example, is the classical sub-division of goals into economic, social and environmental dimensions that underlies the definition of sustainable development.

- Efficient planning and utilization of resources resulting in adequate investment, including in infrastructure.
- A liberal trade regime, encouraging exports and phasing out import substitution policies.
- Effective financial markets, encouraging domestic savings and providing broad access to credit, including to the poor.
- Encouragement of foreign direct investment, technology transfer and greater domestic investment.
- Creation of an enabling environment for private sector development and employment generation. This includes facilitating market entry, creating a competitive environment and reducing barriers caused by bureaucratic inefficiencies.

• Poverty reduction. A concern recurring in the international consensus documents is that available resources be spent effectively to reduce poverty. Factors seen as important to poverty reduction include: adoption and implementation of integrated national development plans based on needs assessments, focusing on vulnerable groups and including environmental concerns; access to credit for the poor; adoption of policies for rural and agricultural development to ensure food security and combat rural poverty; creation of sustainable human settlements with adequate energy and transportation systems; as well as provision of basic services, including water, sanitation and energy.

• Health. Improving the health of developing countries' populations is one of the most important internationally agreed development goals. It includes commitments to increase access to primary or basic health care; to target health services to those most in need; to focus on the control of communicable diseases including HIV/AIDS, tuberculosis, malaria, measles, polio and similar diseases; reducing the health risks from environmental pollution; reducing child mortality; and improving maternal and reproductive health. To many, the provision of access to safe water and sanitation, as well as health education, are also important factors for improving health.

• Education. Broad and equal access to education is seen as a crucial ingredient for growth and poverty reduction, as well as a key strategy for creating equal opportunities for vulnerable groups, including women, the poor and indigenous communities. Special emphasis is put on the provision of universal basic education, as well as to broad access to all levels of education and training.

• Environmental sustainability. International agreements strongly emphasize the need to ensure environmental sustainability. They stress the importance of integrated national policies; of promoting sustainable patterns of consumption; of increasing efficiency in the use of energy and other resources; of providing effective legal and regulatory frameworks for preserving the natural resource base and protecting biological diversity; and of adopting policies for preventing or adapting to climate change.

• Gender equality and empowerment of indigenous and local communities. International agreements also repeatedly stress the importance of enhancing gender equality and protecting vulnerable groups, including indigenous people, as a development goal. This includes the political and economic empowerment of women and indigenous groups; the promotion of maternal health and access to family planning services; access to land resources and land ownership for women; and equal access to services and opportunities, especially by increasing equality in access to education.

- Good governance.[53] Finally, many international agreements mention the necessity of good governance, both to achieve other development goals and as an end in itself. The following elements of good governance are included explicitly in the international consensus documents mentioned above: Transparency and accountability of public institutions; the rule of law and respect for human rights; protection of minorities; responsive public institutions that allow for and encourage the participation of all social groups and empower communities, particularly through decentralization; adequate planning and operational capacity of public institutions to develop and implement integrated national development policies based on needs assessments and including environmental considerations.

Many elements of this emerging international political consensus on development goals and the steps needed to achieve them are reflected in one way or another in the current CPIA Questionnaire. Yet, the documents also point to a range of issues that have been neglected by the CPIA. This includes firstly an explicit and strong focus on poverty reduction. Currently, the CPIA includes a criterion on the equity of public resource use (criterion 8). Beyond this, the emerging international consensus suggests that special attention should be paid to pro-poor policies such as rural and agricultural development, the creation of sustainable human settlements and the provision of basic services (water, sanitation and energy).

Secondly, international agreements, particularly the Agenda 21, go into great detail concerning the ingredients for a sustainable environmental policy. Beyond the factors included in annex C to the CPIA Questionnaire, these documents emphasize the importance of encouraging more sustainable patterns of consumption, of increasing the efficiency of energy and natural resource use, of protecting biological diversity and of adopting policies to prevent or adapt to climate change.

Thirdly, the international community has defined partially different priorities concerning governance. Next to transparency, accountability and the general quality of public administration, it stresses the importance of respect for human rights, government responsiveness, opportunities for participation and the empowerment of communities and civil society. It also places particular emphasis on the need to develop integrated policies covering the economic, social and environmental dimensions of development.

The main difference to a set of criteria derived from theories of growth, however, is that poverty reduction, education, gender equality and environmental sustainability are regarded as direct goals of development. This suggests these factors should enjoy greater weight in the CPIA, as well as the PBA formula. Good governance is also considered as a development goal. As such, the weight given to governance in the CPIA seems appropriate, yet there is little to suggest why governance criteria should enjoy such overwhelming importance in the PBA allocation formula.

Reorienting the CPIA to focus directly on a more differentiated set of development goals would create distinct advantages.

Firstly, the goals enumerated above reflect a broad international consensus and therefore carry

53 If the term 'governance' describes the manner in which power is exercised, 'good governance' adds a prescriptive element to this notion. Different institutions emphasize different aspects of good governance. A relatively comprehensive definition has been put forward by the United Nations: "Good governance has 8 major characteristics. It is participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law. It assures that corruption is minimized, the views of minorities are taken into account and that the voices of the most vulnerable in society are heard in decision-making. It is also responsive to the present and future needs of society." Cf. http://www.unescap.org/pdd/prs/ProjectActivities/Ongoing/gg/governance.asp (last accessed August 26, 2008).

considerable legitimacy. The World Bank subscribes to the Millennium Development Goals[54] and an adapted CPIA would express this focus more clearly. The World Bank's mandate is traditionally apolitical. The World Bank must therefore focus its work on aspects directly relevant to development. If development is understood narrowly as economic growth and poverty reduction, adding certain good governance criteria to the CPIA may seem problematic. The international community has, however, defined good governance as an integral part of development. The consideration of a broader set of good governance criteria in the CPIA can thus be reconciled with the Bank's development mandate.

Secondly, an adapted CPIA would concentrate attention on the development goals that really matter. It remains controversial which policies and institutions spur growth, but it is comparatively easier to assess whether or not a country has appropriate health and education policies in place. As a result, the CPIA should then be better suited to assess which countries will use development aid most effectively.

Finally, a focus on more differentiated development goals could accommodate greater flexibility for countries to determine development strategies fitting their special needs and circumstances. Thus, the policy focus would be prescribed (on poverty reduction, health, education, gender equality, environmental sustainability and good governance), but countries could be relatively free in determining which policy options are best suited for promoting these goals.

Recommendations

- **Replace criterion 8 (equity of public resource use) with a criterion or cluster on poverty reduction policies. This would include equity of public resource use, rural and agricultural development, the creation of sustainable human settlements and the provision of basic services, including water, sanitation and energy.**
- **Adjust the CPIA and PBA to increase the importance of social and environmental criteria, for example by dealing with these issues in two separate clusters.**
- **Amend criterion 11 (environmental sustainability) to include policies encouraging more sustainable patterns of consumption, greater efficiency of energy and natural resource use, protecting biological diversity and preventing or fostering adaptation to climate change.**
- **Amend cluster D to replace its current focus on economic governance with a concentration on general aspects of good governance, including respect for human rights, protection of minorities, government responsiveness, opportunities for participation, the empowerment of communities and government capacity to develop integrated development policies.**

54 The Millennium Development Goals are part of the World Bank's mission statement: "At the World Bank we have made the world's challenge—to reduce global poverty—our challenge. Our work focuses on achievement of the Millennium Development Goals that call for the elimination of poverty and sustained development. The goals provide us with targets and yardsticks for measuring results." (http://go.worldbank.org/DM4A38OWJ0, last accessed July 28, 2008).

5 Strengthening Fairness

The CPIA guides IDA's aid allocation decisions. A central concern is whether the current assessment and allocation systems are fair. This chapter deals with three core elements of fairness: Does the CPIA adequately take into account the influence of external factors that are not under the control of country governments? Do the CPIA and the PBA react appropriately to country-specific circumstances? And does the CPIA react adequately to dynamic developments in partner countries, thus creating effective incentives for reform?

5.1 How Does the CPIA Deal with External Influences?

Critics have bemoaned the fact that CPIA ratings are not sufficiently adapted for factors beyond the control of governments.[55] This section analyzes whether the CPIA and PBA should be amended to better take into account the effects of external influences.

Adapting rating results for external factors

One option for including the effects of external influences in a rating exercise like the CPIA is to formally adapt rating results for external factors. Thus, for example, countries would receive a bonus if they are in a particularly difficult geographical position (land-locked countries, small island nations or countries subject to frequent natural disasters) or if they are subject to external economic shocks (recession or unrest in neighboring countries, global price shocks).

Currently, the CPIA does not include any formal adaptation mechanism of that nature. Yet, it does include a more informal way of adapting ratings for exogenous influences. The CPIA rates the quality of country policies and institutions. World Bank staff members rely among others on outcome data to indicate how successful and how good policies and institutions are.[56] Officials enjoy a significant degree of flexibility for translating outcome data into rating results. This allows them to adapt rating results for external factors. Cursory evidence from the written justifications accompanying rating decisions shows that World Bank officials do indeed take into account external factors such as the rise in commodity prices like oil and food, regional conflicts and the like.[57]

The introduction of a more formal mechanism for adapting rating results does not seem necessary. Firstly, external factors only have a limited effect on the quality of policies and institutions. As evidenced by the map on CPIA changes in Annex V, there is, for example, little evidence of regional contagion and countries can see improvements in their CPIA scores even if their immediate neighbors are rapidly deteriorating.[58] Secondly, even if external shocks make it harder for countries to maintain sound policies as suggested by Beynon (2001), the PBA aims at maximizing the development efficiency of aid allocations. What matters for that purpose is which policies and institutions are in place, not how much effort governments invest in creating these policies and institutions.

Moreover, the current system of informal adaptation holds an important advantage. The external factors that influence a country's development (or its policies and institutions) vary widely from country to country. Under the current system, World Bank officials can include all factors they deem

55 Cf. e.g. Alexander (2004), p. 6.

56 For example, World Bank officials include data on educational attainment to assess whether educational policies are adequate.

57 The written justifications provided for rating decisions are confidential. The GPPi research team was, however, given visual access to a few write-ups. Interviews with World Bank officials involved in creating the ratings confirmed this impression.

58 Between 2005 and 2007, for example, Chad and Zimbabwe experienced very rapidly deteriorating CPIA scores, whereas Nigeria, Central African Republic, Angola, Zambia and Mozambique saw steady improvements in their ratings.

important to a specific case. Such a level of flexibility and country-specificity would not be possible under a more formalized model of adaptation. As mentioned earlier, the rigorous internal review process at the same time creates checks and balances that ensure consistency and comparability.

Defining exceptions to the performance-based allocation system

Another option for taking into account exogenous factors is to define exceptions to the rating exercise. This follows a different rationale. Rather than trying to avoid undue negative impacts of external factors on rating results, exceptions define instances in which countries should have access to more resources irrespective of their policy and institutional performance. Currently, the World Bank allocates additional resources to post-conflict and re-engagement countries based on an alternative catalogue of performance criteria, the PCPI. It can also provide exceptional resources drawing on IDA funds in the case of a major natural disaster when other aid allocations are not sufficient to allow for an adequate response.

This latter exception is neither clearly defined, nor frequently used. Yet, there is no reason why it should only apply to natural disasters and not to other exogenous humanitarian crises with similar effects. The World Bank should more clearly define the conditions for exceptional allocations of IDA funds and enjoy the same flexibility for reacting to all exogenous humanitarian crises, be they natural disasters, a large influx of refugees, an acute outbreak of a large epidemic or a major economic shock for an economy extremely dependent on a specific good.

Recommendation

Define clear conditions for exceptional, non-performance based allocations of IDA funds and create the same conditions for all humanitarian disasters caused by exogenous factors, such as natural disasters, refugee influx, epidemics or external economic shocks.

5.2 How Do the CPIA and the PBA React to Country Specific Circumstances?

Another important critique of the CPIA is that it pursues a "one-size fits all"-approach that is blind to country-specific circumstances.[59] This criticism includes two related concerns. Firstly, does the Performance-Based Allocation system of the World Bank sufficiently take into account the needs of very poor and fragile states? Secondly, does the CPIA include sufficient flexibility for countries to pursue different development strategies or is it biased in favor of a particular development paradigm such as the Washington Consensus?[60]

5.2.1 The needs of very poor and fragile states

Very poor and fragile states are in particular need of external assistance. Most commonly, 'fragile states' are defined as countries that have weak governance (due to lack of political will and/or lack of capacity) and are vulnerable to conflict.[61] Despite their putative need, fragile states receive a disproportionately low share of global aid resources.[62]

59 Cf. e.g. Alexander and Kappagoda (2004).

60 Eberlei (2007), for example, accuses the CPIA of bias in favour of the Washington Consensus.

61 This follows the OECD's characterization of fragile states. Cf. e.g. International Development Association (2007 I), p. 2. The World Bank focuses strongly on the governance aspect and categorizes all countries with a CPIA score of 3.2 or below as fragile.

62 Cf. e.g. Dollar and Levin (2005).

IDA allocates the bulk of its resources based on country performance as determined by the CPIA. The weaker a country's policies and institutions are, the more fragile it is, therefore, the fewer resources it receives. Nevertheless, there are several ways in which the current IDA allocation process takes into account the special needs of poor and fragile countries:

- All IDA resources are targeted to low-income countries. For 2009, for example, the operational cut-off for IDA eligibility is an annual GNI per capita of $1.095 (based on 2007 data and down from the historical ceiling of $1.415). An increasing concentration on very poor countries combined with a rising IDA budget has led to an increase of resources going to very poor and fragile countries.
- IDA distributes its resources based not just on country performance, but also on need. Next to the Country Performance Rating, the IDA allocation formula includes population size and level of poverty.
- According to the current allocation formula, each country receives a base allocation of 1.5 million SDR. This benefits often vulnerable small countries as they receive a higher per capita allocation than population-rich countries.[63]
- IDA has capped maximum per capita allocations.[64] As a result, very well-performing countries receive fewer resources. This concerns most prominently large Asian countries, resulting in a re-distribution of IDA resources to Africa. Studies have found that African countries face particularly difficult development challenges[65] and this relatively higher contribution goes to address this need.
- IDA provides fragile states with different forms of assistance. They more frequently receive grants, rather than loans, and often benefit from debt relief initiatives.[66]
- For some criteria, the instructions for preparing CPIA ratings demand that the specific country conditions and the level of development be taken into account when determining a rating.[67]
- IDA has defined exceptions to the performance-based allocation system. Countries emerging from conflict are treated under a different system and exceptional allocations are sometimes granted to countries affected by severe natural disasters.[68]

As a result, very poor and fragile countries receive relatively more aid from IDA than from bilateral donors. Yet, the guiding principle behind IDA's resource allocation policy remains that resources should be allocated on the basis of country policy and institutional performance. Therefore, fragile countries on average receive only 70% of good performers' per capita allocations.[69] Recent studies argue that the share of aid resources going to fragile countries remains too low and is often highly volatile.[70]

63 The World Bank describes the special challenges for small states as follows: "Small states face a number of well-known obstacles – because their economies tend to be undiversified and highly dependent on external trade, they are more vulnerable to economic shocks and have significantly more volatile growth rates than larger countries. […] Many small states […] are also prone to natural disasters (such as tropical storms and rise in sea level)." International Development Association (2004 II), p. 2.

64 This concerns 22% of IDA resources. Cf. International Development Association (2007 I), p. 27.

65 A recent World Bank report, for example, finds that "African countries face a much more difficult development challenge than others. Adjusting for policies and institutions as well as for the prevalence of HIV/AIDS, they have progressed at half the speed of other countries over the last two decades in terms of the HDI, or even less, and their gains in reducing under-5 mortality are also smaller." International Development Association and Office of the Chief Economist Development Economics (2007), p. ii.

66 Of the IDA 14 resources committed until June 2007, for example, fragile states received 57% in the form of grants, whereas non-fragile states received only 8.5% of their resources as grants. Cf. International Development Association (2007 I), p. 25.

67 Criterion 5, for example, demands that "The size of the economy and its degree of sophistication should be appropriately taken into account in interpreting the guidelines", and criterion 10 urges assessment teams that "careful attention should [be] paid to specific country conditions and capacity constraints". CPIA Questionnaire (2007), pp. 13 and 27.

68 Post-conflict allocations amount to 9% of IDA's budget; other exceptions to 7%. Cf. International Development Association (2007 I), p. 27.

69 International Development Association (2007 I), p. 24.

70 Cf. e.g. McGillivray (2005), p. i.

Critics and analysts have proposed different options for enhancing the CPIA's responsiveness to the needs of very poor and fragile states. These proposals tend to fall into two groups: They either suggest giving more weight to needs as opposed to performance factors or they recommend adjusting the performance-based criteria to focus more strongly on factors relevant to fragile states.[71]

Increasing the focus on country needs

The current PBA formula includes two needs factors, country size and income level, yet the performance measure remains the most highly leveraged factor. What balance donors should strike between needs and performance is ultimately a political question that is beyond the scope of this paper. If, however, a stronger focus on country needs is politically desired, various options are available.

Firstly, the CPIA or PBA could include adjustment factors measuring the degree of country fragility and increase allocations to very fragile countries.[72] As discussed above, fragility is characterized by weak governance and proneness to conflict. The CPIA measures the quality of governance and rewards countries for improving their policies and institutions. An adjustment factor for weak governance would thus directly contradict the logic of the CPIA.

Alternatively, the CPIA could include an adjustment factor for proneness to conflict. Currently, the conflict dimension is dealt with outside the CPIA. Countries in acute conflict situations receive emergency, rather than development aid. Countries emerging from conflict and classified either as post-conflict or re-engaging countries receive significantly more resources, based on their post-conflict performance as measured by the PCPI. The World Bank could replace this system through a conflict adjustment factor integrated into the CPIA. This, however, would have several negative consequences: An integrated conflict factor could not focus as strongly on the special factors relevant in post-conflict situations. It would also be unlikely to achieve the same distribution effect as the current system for post-conflict and re-engagement countries. It could only result in higher allocations for countries with a high risk of conflict – which is not only very difficult to measure objectively, but would also create perverse incentives.

Another option would consist in strengthening the general needs factors in the PBA or in including new ones to increase the share of resources going to very poor and fragile states. As a very simple measure, the exponent for GNI per capita in the current formula could be increased. Alternatively, the formula could be expanded to include other needs factors like the number of people living on less than a dollar a day, child mortality rates or education levels. Where these measures are not correlated to GNI per capita, it means that some countries are more effective at combating poverty and achieving other development goals relative to their income level than others. The inclusion of other needs factors would penalize these countries for their efforts. If an increased focus on country needs is politically desired, the relatively best option would therefore be to increase the leverage of the existing GNI per capita factor.

71 For a list of proposals directed explicitly at the CPIA and the PBA, see Anderson, Christiansen and Putnam (2007).

72 The Bertelsmann Transformation Index, for example, works on this basis. It measures how developing and transition countries manage social change toward democracy and market economy. To rate the effort of governments fairly, the assessment tool gives countries a bonus depending on the level of difficulty they face. Thus, country ratings are increased if they face structural difficulties, a lack of civil society traditions, ethnic, religious or social conflicts, high poverty levels, low levels of education and a poorly developed governmental system. For more information, see http://www.bertelsmann-transformation-index.de (last accessed July 14, 2008).

The purpose of the CPIA is different, however. Its goal is to determine how aid resources can be allocated most efficiently. Therefore, it seeks to measure to what extent countries have the policies and institutions in place to foster development, rather than how much effort they make and how willing they are to adopt those policies.

Focusing performance-based criteria on factors relevant to fragile states

Remaining with a performance-based allocation system, the CPIA could be amended to focus more on criteria directly relevant to fragile states. As mentioned above, fragile states share two main characteristics: weak governance, due to lack of political will or lack of capacity, and proneness to conflict. The CPIA emphasizes critical governance aspects and rewards countries for strengthening the quality of their institutions and policies.

The conflict dimension is taken into account as countries emerging from conflict are assessed using a different set of criteria, the PCPI. The current system gives no special consideration to countries at high risk of conflict. Should these countries also be assessed under a separate system such as the PCPI?

Most relevant to these countries would be factors important for diffusing the risk of conflict outbreaks, such as strengthening respect for human rights and protecting minority rights, increasing possibilities for participation, empowering communities and increasing the transparency and accountability of public institutions. These elements, however, should not be used as part of a different assessment system for fragile countries at risk of conflict. A separation would hinge on an almost certainly problematic definition and would create incentive problems around the threshold value. Moreover, these policy elements are important for all governments (and some of them are already included in the CPIA), particularly as an increasing proportion of IDA clients are fragile states.

Rather than defining a separate set of criteria for countries at risk of conflict, the CPIA should generally be amended to include and give appropriate weight to factors important for lowering the risk of conflict outbreaks.[73]

Recommendation

Amend cluster D to strengthen factors relevant for reducing the risk of conflict, including for example respect for human rights, protection of minority rights, opportunities for participation and empowerment of communities.

5.2.2 Is the CPIA biased or does it allow for alternative development strategies?

Many experts argue that different development policies or strategies are suited to different stages of development or circumstances.[74] A fair aid allocation system should therefore allow countries to pursue those strategies that are best suited to their specific situation.

The CPIA rates country policies and institutions. By definition, it thus is a prescriptive tool. Yet, even within a prescriptive framework, countries can be given flexibility for selecting different policy options. The remainder of this section analyzes whether the CPIA reflects the "Washington Consensus" as it is frequently accused of doing. It also investigates whether or not it penalizes specific "alternative" development strategies that mainstream economists have come to accept as potentially beneficial and discusses the merits of introducing an alternative assessment system.

73 As argued above in chapter 4.3, a broader focus on good governance criteria despite the World Bank's apolitical development mandate is also necessary to better align World Bank policies with internationally agreed development goals.

74 The recent report of the Commission on Growth and Development ("Spence Report") emphasizes this point and argues for example that "Bad policies are often good policies applied for too long." Spence (2008), p. 5.

Bias towards the Washington Consensus?

World Bank critics frequently assert that the Bank's policies and instruments reflect the "Washington Consensus". The term "Washington Consensus" was coined by John Williamson in the late 1980s.[75] He used it to describe a set of policy recommendations promoted at that time by the World Bank, the IMF and the US government. The main elements of this reform package were, for example, reflected in the IMF's structural adjustment policies, which were widely blamed for exacerbating the human impact of economic crises. Today, most experts regard the Washington Consensus as outdated.

Box 4: The Washington Consensus and the CPIA

Washington Consensus		Similarity in CPIA	CPIA criteria going beyond the Washington Consensus
Fiscal discipline	→	Sustainable debt; low debt to GDP ratio (2;3)	Financial sector (5)
To achieve fiscal discipline, reduce expenditures rather than raise taxes	→	–	Gender equality (7)
Spending priorities: education, health and	→	Building human resources (9)	Social protection and labor (10)
Infrastructure	→	–	Equity of public resource use (8)
Tax policy: broad tax base, moderate marginal rates	→	Tax policy: broad tax base, low distortion taxes	Environmental sustainability (11)
Interest rates: market-determined with positive, moderate rates	→	–	Rule-based governance (12)
Competitive exchange rate, avoiding imbalances	→	[Exchange rate criterion focuses on price stability (1)]	Budgetary and financial management (13)
Liberal trade policy	→	Low trade restrictiveness and good customs and trade facilitation (4)	Tax administration (14b)
FDI permitted	→	Few bans or investment licensing requirements (6a)	Quality of public administration (15)
Privatization	→	–	Transparency, accountability, corruption (16)
Deregulation	→	Good business regulatory env. (6)	
Protection of property rights	→	Property rights (12)	

Data sources: Williamson (1989) and CPIA Questionnaire 2007

As Box 4 indicates, the CPIA does include key elements of the Washington Consensus. Yet, critical elements such as the admonition to cut back on public spending to restore fiscal balance and the demand to privatize state-owned enterprises are not rewarded in the CPIA assessment process. Moreover, the CPIA contains a number of additional criteria focusing on social inclusion, equity and governance that were not included in the original formulation of the Washington Consensus.

75 Williamson (1989)

What is noticeable, however, is that the criteria reflecting elements of the Washington Consensus enjoy a strong weight within the CPIA and the PBA allocation formula. Thus, criteria 1-6, which focus on economic and structural policies, are provided with twice the weight of the social and environmental criteria (7-11). Moreover, some of the economic factors are taken up again in cluster D, the political heavy-weight in the PBA system.

The CPIA and PBA could be rendered even less reflective of the Washington Consensus by increasing the weight of the social and environmental criteria in cluster C relative to the economic and structural criteria of clusters A and B, as well those contained in cluster D.

Other potential sources of bias

Apart from the criteria and their relative weights, some of the guideposts are perceived by critics as reflecting a neo-liberal agenda. One of the most wide-spread criticisms regards the Employing Works Index, which is part of the Doing Business Indicators.[76] It rewards countries for flexible employment regulations, allowing for example to dismiss workers for economic reasons. As a result, countries like Haiti and Afghanistan receive better marks than prosperous low-unemployment economies such as Finland and Korea. Similar criticism has been leveled against the Index of Economic Freedom of the Heritage Foundation. The index assumes that economic openness leads to stronger growth. Analyses of the empirical relationship between GDP growth and economic freedom ratings, however, have cast doubt on this assumption.[77] China, with is tremendous growth rates and low rate of economic freedom, is a frequently cited counterexample.

Finally, critics have accused World Bank staff members of having a professional bias. Within the CPIA system, the personal orientation of World Bank officials is very important because the assessment process relies so strongly on their judgment.

While it is difficult to prove accusations of bias, they could easily be addressed by including more independent data sources as guideposts and by including a greater number of external experts in the assessment process as suggested in chapter 3.1.

The CPIA and alternative development strategies

To what degree does the CPIA penalize countries for adopting "alternative" development strategies? As mentioned above, the CPIA by its very nature is a prescriptive tool. The answer to this question therefore depends on which alternative development strategies exactly one has in mind.

Over recent years, a number of policies deviating from the classical economic orthodoxy have come to be relatively broadly accepted. The report of the International Growth Commission ("Spence Report"), for instance, finds support for the protection of infant industries; the implementation of industrial policies focusing on export diversification; and the imposition of controls on foreign capital flows.[78] Policies focusing on equity and wealth redistribution also enjoy relatively broad support. Annex VIII describes these development strategies in greater detail and analyses how the CPIA relates to them.

76 A recent IEG study (Independent Evaluation Group, 2008) criticizes the quality and relevance of data generated by the Doing Business Indicators, as well as the specific indicators included in that assessment. External critics are more concerned with the ideological orientation of the index. Cf. e.g. Bretton Woods Project (2007), Berg and Cazes (2008) and Berg and Kucera (2008).

77 Sachs (2005), p. 320-321.

78 El-Erian and Spence (2008). Cf. Birdsall (2007).

A mixed picture emerges regarding these relatively broadly accepted alternatives. The current CPIA is able to accommodate and even rewards some of these strategies, such as a focus on equity or poverty reduction, the imposition of capital controls or the creation of export zones as part of an industrial policy. Yet, it penalizes others, such as infant industry protection, as well as industrial policies relying on currency devaluation or strong subsidies.

The example of Bolivia[79] illustrates how differentiated the reaction of the CPIA to alternative development strategies can be. Bolivia under the leadership of Evo Morales implemented an energy nationalization program, running counter to classical economic positions. The CPIA reacted by decreasing Bolivia's rating for business regulatory environment, yet it also registered the positive impact on Bolivia's budget and debt management. Overall, Bolivia's CPIA score did not change throughout this period.

The CPIA does, however, have a clearly market-oriented focus. More controversial and more radical alternative development strategies following a socialist model, for example, would be penalized.

Within existing reviews, the current model of the CPIA can be regularly updated to reflect the most current economic wisdom.[80] The reviews would enjoy greater legitimacy if they were based on multi-stakeholder consultations, including World Bank donors, recipient countries, experts and civil society representatives. As long as the CPIA remains a prescriptive tool, however, genuine openness for alternative approaches is impossible.

The merits of an outcome-based assessment system

A system rating countries based on their progress in reaching development outcomes instead of their policies and institutions would be able to accommodate any possible development strategy, as long as it was effective.[81] The new "Country Effectiveness in Reaching Development Outcomes Assessment" would evaluate among others how effective countries are in achieving growth, reducing poverty, improving health and education and ensuring environmental sustainability. It would provide more resources to countries successful in reaching development outcomes, irrespective of how they achieve them.

Tempting as this alternative may sound, it would create significant problems in terms of fairness. Firstly, to create a just basis for comparison, ratings would have to be adapted for external influences. This would include a long list of possible factors, ranging from developments on international markets to climate fluctuations, geographical conditions and regional crises. Creating a system that would take all those factors into account would at best be very complex and most likely impossible.

Secondly, the system would reward good development performance. Studies, however, have shown that certain groups of countries face a particularly tough development challenge, including landlocked countries, small countries and generally African countries. Rather than receiving additional aid, these countries would be penalized for not progressing quickly enough.

Thirdly, many reforms can take years, if not decades, to show results. Governments under the new system would be rewarded or penalized for the actions of their predecessors and the aid allocation system would give them few incentives to tackle reforms expected to generate positive results in the medium- to long-term.[82]

79 See Annex IX for country case examples.

80 See chapter 4.2 for an overview of the current state of the art on growth factors.

81 Most prominently, Ravi Kanbur has argued the case for a stronger outcome-orientation of the CPIA (Kanbur, 2005).

82 However, see section 5.3.2 on the limited ability of the current CPIA to provide incentives for reform.

Moreover, a prescriptive rating instrument is not as problematic as critics make out. While there are ongoing debates, there is relatively broad agreement on what constitutes a positive policy environment for development. Donors should also be able to support specific policy choices, such as respect for human rights, low incidence of corruption or a focus on development outcomes and a prescriptive instrument allows them to do so.

Rather than switching entirely to an outcome-based assessment system, some commentators have suggested to supplement the current CPIA with outcome-based criteria. This approach would eschew important advantages of a fully outcome-based system, as it would remain open to accusations of bias and as it would keep penalizing countries for pursuing certain alternative development strategies. Furthermore, a mixed approach would include many of the problematic features of an outcome-based approach, such as the difficulty of adapting for external factors or the problem of time-lag.

Neither a radical overhaul of the CPIA system, nor a mixed approach therefore seems desirable. While ensuring that it reflects the latest economic thinking, the best option remains to accept that the CPIA penalizes some and rewards other policies.

Recommendations

- **Increase the weight of social and environmental criteria (cluster C) relative to economic and structural criteria (clusters A, B and partly D) in the CPIA and PBA.**
- **Include additional external data sources as guideposts to inform the rating exercise, particularly where current guideposts are controversial, and increase the possibilities for including the opinions of independent external experts in the rating process as suggested in chapter 3.1.**
- **Review regularly the CPIA based on multi-stakeholder consultations to ensure it incorporates current economic wisdom.**

5.3 Is the CPIA Sufficiently Responsive and Does it Create Incentives for Reform?

Finally, for an assessment system to be fair, it needs to be responsive to changes implemented by partner countries. This section asks whether CPIA ratings react within an adequate time-frame and with appropriate magnitude to positive or negative policy and institutional changes in partner countries. Since this is closely related, it also analyzes whether the CPIA and the PBA provide effective incentives for reform.

5.3.1 The CPIA's reaction to dynamic developments

This section builds on an investigation of the overall changes in CPIA ratings over the last three years, as well as a more detailed analysis of several country examples.[83] The analysis shows that changes in CPIA ratings are generally slow, but can be substantial over time. Significant developments in partner countries tend to be reflected in CPIA changes, yet typical changes allow for relatively little differentiation.

In theory, the CPIA is well positioned for reflecting dynamic developments in partner countries. The rating exercise is carried out annually – an appropriate time-span for assessing policy and institutional changes, even though the assessment process itself is lengthy and often relies on slightly out-dated

83 See Annex IX for the details of all eight country examples. Country examples were selected to focus on cases that experienced significant domestic changes over recent years and include Bangladesh, Bolivia, Chad, Ethiopia, Georgia, Mozambique, Nepal and Zimbabwe.

data. Moreover, the CPIA has an appropriate focus on policies and institutions, rather than reform promises on the one hand and development results on the other. This design enables the CPIA to react to actual reform steps in a timely manner.

In practice, the case examples show that the CPIA does in most cases reflect major changes in recipient countries. In doing so, the instrument is able to reflect different aspects of complex reform packages. The nationalization and development policies introduced by Evo Morales in Bolivia, for instance, triggered an improvement in the country's score for debt policies, yet no change in the country's rating for fiscal policies and a decrease in the score for business regulatory environment. Nepal has been taking important steps since 2006 to ensure peace and security and focus on critical development goals. These steps are reflected in increases in clusters C and D.

In most cases, the actual changes made to individual criteria are increases or decreases by 0.5 points. As argued in section 2.5, the steps between rating specifications for '3' and '4' tend to be very large. This makes it difficult for World Bank staff to justify a change of a whole point and allows for little differentiation between the many countries achieving a score close to the median. While the ability of the CPIA to react to dynamic developments in partner countries is thus relatively good, it could be further improved by shifting rating specifications to create finer distinctions around the median value, particularly between grades '3' and '4'. This would also enable to CPIA to differentiate more finely between countries.

Recommendation

Shift rating specifications to create finer distinctions around the median value and particularly between grades '3' and '4'.

5.3.2 Incentives created by the CPIA

The CPIA responds relatively clearly, albeit not in a very differentiated manner, to policy and institutional changes in recipient countries. Does this mean that it creates effective incentives for recipient countries to tackle reforms? An analysis of the current characteristics of IDA's resource allocation policies reveals that the reform incentives generated by the CPIA and the PBA are not very strong.

When the World Bank initiated the CPIA, it was not intended to serve as an incentive for reform. Rather, the rating exercise was developed as a purely internal management tool guiding decisions on the allocation of scarce IDA resources. Yet, since the rating results have been made public, they may have started to act as incentives for countries for the following reasons:

Firstly, the CPIA enables a direct comparison between countries and is likely to engender competition between neighboring countries. Secondly, the CPIA provides a clear signal of the political preferences held by major donors. These preferences are explicitly linked to financial allocation decisions of a growing number of donors and may therefore influence country reform decisions. Thirdly, the CPIA plays an increasingly prominent role in consultations between the World Bank and recipient governments. This increases awareness of the instrument among host governments. Moreover, World Bank staff members have a tangible interest in increasing "their" country's performance rating and thus the resources available for World Bank projects and are therefore likely to prioritize projects with a likely impact on CPIA ratings. Since the CPIA focuses on policies and institutions, reform incentives apply equally to reforms expected to generate positive results in the short-term as to those generating positive results only in the medium- to long-term.

Yet, a number of other factors strongly restrict the effectiveness of reform incentives. Firstly, for many countries, the contributions made by IDA are too small to have a significant impact. Secondly, as discussed in section 2.5, a multitude of other factors next to the CPIA influence actual IDA allocations and it is difficult to see a clear correlation between changes in CPIA scores and actual allocations. This problem is compounded by the fact that the allocation system remains complex and intransparent to most. Thus, for example, countries are not informed about their theoretical maximum allocations because the World Bank fears that these numbers may be understood as entitlements. Thirdly and finally, many countries fall outside the performance-based allocation system based on the CPIA. This includes not only countries benefiting from post-conflict, re-engagement, regional integration or other exceptional allocations, but also countries subject to the cap on per-capita allocations (notably India and Pakistan).[84]

While the CPIA thus presents an important incentive for World Bank country officials to prioritize projects influencing CPIA scores, it is not likely to work as a significant reform incentive for recipient governments. This effect could be slightly increased by involving the governments of recipient countries more strongly in the rating process and by making the CPIA and PBA more transparent and more easily understandable. The World Bank could also increase country ownership over the CPIA by conducting multi-stakeholder consultations involving recipient governments when revising the criteria and process.

The incentive effect of the CPIA would also increase if a greater number of other donors used the rating results in their allocation decisions. Other donors are more likely to rely on the CPIA if they are involved in the assessment process as suggested in chapter 3.1 and if the legitimacy and transparency of the process are generally enhanced.

Recommendations

- **Increase country ownership by involving recipient government in the assessment process and in consultation processes when revising the CPIA and PBA.**
- **Encourage a greater number of other donors to use the CPIA in their allocation decisions by involving them in the assessment process and by generally increasing the legitimacy and transparency of the rating process.**

84 According to the World Bank, 22% of resources in 2007 went to countries subject to caps on per-capita allocations and 16% to post-conflict and re-engagement countries, as well as other exceptions. The CPIA was thus only relevant for guiding the allocation of 62% of IDA resources. International Development Association (2007 I), p. 27.

6 Conclusions and Recommendations

The discussion and analysis in the four preceding chapters shows that the World Bank's CPIA has many strong features. Generally, by drawing on both, country policy and institutional performance as well as country needs, the World Bank's Performance-Based Allocation formula integrates two crucial components into its resource allocation system.

Within the PBA system, the CPIA measures country performance. It relies on a sophisticated assessment process, particularly when compared to other available assessment mechanisms. The CPIA is based on a detailed catalogue of criteria which is broadly seen as relevant to development and includes only a few omissions. The CPIA Questionnaire also contains clear instructions on how to determine individual ratings. Most importantly, the assessment process capitalizes on the specialist knowledge and experience of a wide range of World Bank staff members, including country officials and sector specialists. A rigorous internal review process provides an important check on the rating decisions of individual staff members and significantly increases the robustness and comparability of results.

These features make the CPIA a valuable exercise for assessing country performance. Yet, scope for improvement remains. The previous chapters of this study have put forward proposals for the adaptation and reform of the CPIA to increase the system's robustness and internal consistency, to strengthen its relevance to development and to enhance its fairness.

6.1 Recommendations to Enhance Robustness

The strength of the current CPIA stems to an important degree from the process used to determine ratings. It builds on the specific expertise of World Bank country officials and sector specialists and includes a rigorous internal review process to ensure the comparability of results. Nevertheless, the estimated standard error involved in the ratings remains high. Moreover, the lack of transparency in the current process and the lack of involvement of other actors undermine the legitimacy of the process and the credibility of results. The following reform steps would help strengthen the robustness and credibility of CPIA results and foster the legitimacy of the process.

Firstly, the World Bank should transparently acknowledge the standard error involved in CPIA ratings. A new estimate of the standard error should be included in the published versions of the CPIA results. This is particularly important as the CPIA is increasingly used in development research.

Secondly, assessment teams should attempt to reduce the standard error by increasing data triangulation. As a very simple measure, the CPIA Questionnaire could be expanded to include additional guideposts, referring to a greater number of reliable external data sources. More importantly, World Bank country teams should intensify their consultations with host governments and broaden them to include other donor representatives, as well as local experts of different disciplinary backgrounds.

Thirdly, the World Bank should enable stronger external scrutiny of rating results. To achieve this, country teams should use consultations with recipient governments, other donor agencies and local experts not only to solicit additional information, but also to discuss rating results. It is also critical to further increase the transparency of the rating process. The publication of detailed rating results was an important step forward in this direction. In addition, the World Bank should publish a list of factors considered in the rating exercise. This list would be derived from existing write-ups accompanying ratings, but fall short of their full disclosure to preserve the frank and candid nature of write-ups.

6.2 Recommendations to Increase Development Relevance

The purpose of the CPIA is to identify countries with policies and institutions likely to foster development. A snapshot analysis of publicly available CPIA data indicates that CPIA results and CPR scores are not as closely correlated to development outcomes as expected. An attempt to increase the development relevance of the CPIA criteria should therefore be at the core of the reform effort.

Firstly, the World Bank should adapt the content of the CPIA criteria to reflect the current state of the art of economic growth theories and to focus on internationally agreed development goals. This would involve a number of changes to the criteria:

- Include a new criterion focusing on infrastructure and amend criterion 9 (building human resources) to include tertiary education.
- Expand criterion 8 (equity of public resource use) to focus more generally on poverty reduction policies. The criterion or cluster would then include the equity of public resource use, rural and agricultural development, the creation of sustainable human settlements and the provision of basic services, including water, sanitation and energy.
- Expand criterion 11 (environmental sustainability) to include policies encouraging more sustainable patterns of consumption, greater efficiency of energy and natural resource use, the protection of biological diversity and preventing or adapting to climate change.
- Expand cluster D to include elements of good governance, such as respect for human rights; the protection of minorities; government responsiveness; opportunities for participation; the empowerment of communities; and government capacity to develop integrated development policies. This broader focus is necessary despite the World Bank's apolitical mandate to better align World Bank policies with internationally agreed development goals.

Secondly, closer focus on internationally agreed development goals would require changes in the relative weights of the different criteria. Thus, the relative importance of poverty reduction policies, health, education, gender equality and environmental sustainability in the CPIA and PBA should be increased, for example by creating two clusters for these issues. At the same time, the current overwhelming weight of the governance cluster D in the allocation formula should be reduced.

6.3 Recommendations to Strengthen Fairness

The CPIA guides IDA's aid allocation decisions. To strengthen the legitimacy of this process, it is central to ensure that the assessment process and allocation formula are fair. The World Bank's Performance-Based Allocation system (PBA) was created to tie allocation decision to objective criteria, thereby rendering the process less arbitrary and fairer. A number of reforms would further support the CPIA and PBA in reaching this original objective.

Firstly, the World Bank should ensure that the CPIA and PBA adequately reflect external influences that are not under the control of a country's government. This requires focusing all criteria consistently on country policies and institutions, rather than outcomes. The World Bank should also define more clearly under what circumstances exceptions to the PBA are made to react to extraordinary country needs. Similar conditions should then apply to all externally caused disasters of comparable impact and include major natural disasters as well as acute outbreaks of epidemics, large refugee influxes or major economic shocks for very vulnerable countries.

Secondly, the World Bank should improve the CPIA's and the PBA's ability to accommodate different country-specific circumstances. As IDA concentrates increasingly on very poor and fragile states, it should focus more strongly on their needs. To achieve this, governance cluster D should emphasize factors likely to reduce conflict risk. This includes for example respect for human rights, the protection of minorities, public participation and the empowerment of communities.

The World Bank should also reduce the remaining bias of the CPIA in favor of the Washington Consensus and ensure that it does not penalize legitimate alternative development strategies. This would require increasing the weight of the social and environmental criteria (cluster C) in the assessment as well as allocation processes. The World Bank should also regularly review and amend the CPIA criteria based on multi-stakeholder consultations to ensure they reflect the latest economic and development wisdom.

Thirdly, the World Bank should further increase the ability of the CPIA to react in a timely fashion to dynamic developments in partner countries. The CPIA's consistent focus on country policies and institutions is an important precondition for an adequate reaction. Yet, the interval between grades 3 and 4 is large for most criteria, making it often difficult to justify rating increases. As a remedy, rating specifications should be adapted where possible so that the intervals between grades 3 and 4 become smaller, while the intervals between grade 1 and 2, as well as 5 and 6 increase. As a result, the CPIA would be in a better position to distinguish between average performers, developments in partner countries would be reflected more quickly and the impact of the standard error would not be as serious.

6.4 Conclusions and Outlook

The proposed reforms range from slight and easy-to-implement adaptations to relatively drastic measures of change. The single most important element of reform would involve opening up the assessment process and increasing its transparency. Local representatives of other donor agencies as well as local experts should be involved in initial consultations alongside the host government and should be included in the de-briefing process after the conclusion of the assessments. A list of factors considered in the rating exercise should be published to enable outsiders to better comprehend the assessment process.

These measures would require relatively few changes since they can build on existing consultation processes and internal written justifications for rating results. Yet, they have the potential to enhance significantly the robustness and reliability of data. At the same time, these measures would strengthen the legitimacy of the rating exercise and would likely increase the number of organizations using the CPIA.

The more robust and publicly scrutinized the CPIA results are, the more important it becomes to amend and fine-tune the criteria and their relative weights. The most important reform effort in this respect would be to focus the CPIA criteria more clearly on internationally agreed development goals. The CPIA would then better reflect the World Bank's stated objective of contributing to the achievement of the Millennium Development Goals and better link to the reigning international consensus. The CPIA would also powerfully signal the importance of sustainable development strategies, including appropriate poverty reduction strategies, health, education, gender and environmental policies, and good governance to recipient countries.

Focusing the CPIA on internationally agreed development goals would require a significant re-shaping of certain CPIA clusters and criteria. Cluster D would have to be expanded to include additional elements of good governance, such as respect for human rights, minority protection, participation and community empowerment. Criterion 8 (equity of public resource use) and 11 (environmental sustainability) would also have to be expanded and re-defined. Moreover, the relative weights of these clusters and criteria in the PBA formula would have to be amended to reduce the overwhelming predominance of the governance cluster D and to increase the importance of social and environmental policies. This adaptation, however, would also create important benefits by ensuring that scarce aid resources are allocated to countries with appropriate policies and institutions to achieve sustainable development outcomes.

The study also points to a number of areas that would require additional research and investigation to support the further fine-tuning of the CPIA and PBA. Key outstanding research tasks include: providing a better and more up-to date estimate of the CPIA's standard error; arriving at a better understanding of the perceptions of the CPIA among key stakeholders, including recipient governments and major donor nations; analyzing possibilities for adjusting IDA resource allocations depending on the level of funding provided by other donors;[85] and developing methods to better understand and communicate the impact of the CPIA on aid flows.

Strengthened through the proposed reforms and backed up by additional knowledge, the CPIA has a great potential to further increase the effectiveness and fairness of IDA allocations. The proposed reforms would also increase the legitimacy of the rating exercise. This could turn the CPIA into a more widely used tool, creating synergies in the international aid system and supporting recipient countries in their efforts to implement sustainable development policies.

85 Currently, the PBA makes a provision for so-called blend countries: Countries that are eligible for both IDA and IBRD funding receive relatively fewer IDA funds.

ANNEX I: Relative Weights of CPIA Criteria and Sub-Criteria

CPIA Criteria and Subcriteria	Weight in CPIA	Weight in CPR
1. Macroeconomic Management	8.33 %	2.67%
2. Fiscal Policy	8.33 %	2.67%
3. Debt Policy	8.33 %	2.67%
4. Trade	8.33 %	2.67%
a) trade restrictiveness	6.25%	2%
b) customs & trade facilitation	2.08%	0.67%
5. Financial Sector	8.33 %	2.67%
a) financial stability	2.78%	0.89%
b) sector's efficiency, depth, resource mobilization strength	2.78%	0.89%
c) access to financial services	2.78%	0.89%
6. Business Regulatory Environment	8.33 %	2.67%
a) regulations affecting entry, exit, competition	2.78%	0.89%
b) regulations of ongoing business operations	2.78%	0.89%
c) regulations of factor markets (labor and land)	2.78%	0.89%
7. Gender Equality	5%	1.6%
a) access to human capital development	1.67%	0.53%
b) access to productive and economic resources	1.67%	0.53%
c) equal status and protection under the law	1.67%	0.53%
8. Equity of Public Resource Use	5%	1.6%
a) consistency of government spending with PRS	3.33%	1.07%
b) revenue collection	1.67%	0.53%
9. Building Human Resources	5%	1.6%
a) health and nutrition	1.67%	0.53%
b) education and training	1.67%	0.53%
c) HIV/AIDS, tuberculosis and malaria	1.67%	0.53%
10. Social Protection and Labor	5%	1.6%
a) social safety nets	1%	0.32%
b) protection of basic labor standards	1%	0.32%
c) labor market regulations	1%	0.32%
d) community driven initiatives	1%	0.32%
e) pension and old age savings	1%	0.32%
11. Environmental Sustainability	5%	1.6%

12. Property Rights/Rule-based Governance	5%	13.6%
a) secure property and contract rights	1.67%	4.53%
b) predictability, transparency, impartiality of laws and their enforcement	1.67%	4.53%
c) crime and violence as an impediment to economic activity	1.67%	4.53%
13. Budgetary and Financial Management	5%	13.6%
a) comprehensive and credible budget linked to policy priorities	1.67%	4.53%
b) effective financial management systems	1.67%	4.53%
c) timely and accurate accounting, reporting, audits	1.67%	4.53%
14. Revenue Mobilization	5%	13.6%
a) tax policy	2.5%	6.8%
b) tax administration	2.5%	6.8%
15. Quality of Public Administration	5%	13.6%
a) policy coordination and responsiveness	1.25%	3.4%
b) service delivery and operational efficiency	1.25%	3.4%
c) merit and ethics	1.25%	3.4%
d) pay adequacy and management of wage bill	1.25%	3.4%
16. Transparency, Accountability, Corruption	5%	13.6%
a) accountability of executive to oversight institutions	1.67%	4.53%
b) access of information on public affairs	1.67%	4.53%
c) state capture by narrow vested interests	1.67%	4.53%

ANNEX II: Overview of CPIA Rating Specifications

CPIA Criteria and Subcriteria	Rating Specifications 86
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
	ratio of public debt to GDP is stable and low
	public expenditure 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 regular, comprehensive and accurate
	medium-term strategy for financing the government is defined annually
	legal framework for public borrowing is clearly defined and different agencies responsible for contracting debt share information
4. Trade a) trade restrictiveness	low average tariffs
	few tariff bands at low rates
	non-discriminatory internal taxes
	infrequent, transparent and non-discriminatory non-tariff barriers
	changes to tariffs predictable and transparent
	no export taxes
b) customs & trade facilitation	professional customs service with low corruption
	risk management standards guide treatment of consignments
	few physical examinations, extensive IT use
	easy collection of duties and taxes and payment of refunds
	laws, regulations and guidelines published, simplified and rationalized
	appeals against customs decisions speedy

86 The CPIA Questionnaire specifies the criteria a country has to meet to score "1", "2", "3", "4", "5", or "6" for any given sub-criterion. Accordingly, the formulations of these rating specifications vary between the grades. The table created here simplifies this information and states which factors countries have to meet to achieve high ratings ("5" or "6").

5. Financial Sector a) financial stability	banking sector resilient to shocks
	low share of non-performing loans and capital at risk
	adherence to Basel Core Principles
	good quality of risk management and supervision in financial institutions
b) sector's efficiency, depth, resource mobilization strength	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 systems
	broad access of population and SMEs to formal financial services
	legal and regulatory framework supports access to finance
6. Business Regulatory Environment a) regulations affecting entry, exit, competition	few bans or investment licensing requirements
	regulations facilitate efficient entry and exit 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) regulations 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
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
	active programs and institutions to promote gender equality exist
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 or institutions to promote gender quality 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 Resource Use a) consistency of government spending with PRS	public expenditures aligned with poverty reduction priorities
	strong poverty diagnosis
	strategy defined to assist those in need
	expenditures aligned with that strategy
	spending is tracked and benefit incidence analysis carried out
	feedback implemented in subsequent allocations
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 preventive 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 child 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, tuberculosis and malaria	strong policies for prevention and treatment of HIV/AIDS, tuberculosis and malaria with extensive coverage
	tracking systems show annual improvements in service 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 monitoring and evaluation guiding policy
b) protection of basic labor standards	laws reflect international core labor standards and are implemented
	government policy encourages the reduction of child labor
c) labor market regulations	labor market regulations and policies promote broad access to employment in the formal sector
d) community driven initiatives	government promotes community initiatives
	government systematically involves communities in planning
	government allocates significant resources to communities
e) pension and old age savings	pensions and old age savings programs generate income security for vulnerable groups
	programs are consistent with long-term financial sustainability
	programs minimally distort labor markets

11. Environmental Sustainability	comprehensive regulations and effective implementation for pollution and natural resource issues
	no harmful subsidies
	transparency and public consultations
	environmental assessment legislation is effective and findings are acted upon
	ministries have capacity to deal with environmental issues and inter-ministerial coordination takes place
12. Property Rights/Rule-based Governance a) secure property and contract rights	transparent and well protected property rights
	current and non-corrupt property registries
	routinely enforced contracts
b) predictability, transparency, impartiality of laws and their enforcement	transparent processes for determining laws and regulations; changes predictable
	application of laws predictable, transparent and impartial
	broad and easy access to courts for small claims and claims against the state
c) crime and violence as an impediment to economic activity	police protects citizens and property from crime and violence
	police is trusted/crimes are reported to the police and investigated
13. Budgetary and Financial Management a) comprehensive and credible budget linked to policy priorities	policies and priorities are linked to the budget
	multi-year planning
	budget formulated in consultations with spending ministries and parliament
	comprehensive budget classification system adhering to international standards
	minimal and transparent off-budget expenditures
b) effective financial management systems	budget implemented as planned with minor adjustments
	good budget monitoring
	no payment arrears
c) timely and accurate accounting, reporting, audits	comprehensive, timely and proper reconciliation of banking and fiscal details
	accurate and comprehensive quarterly fiscal reports
	appropriate audit and action following audit
14. Revenue Mobilization a) tax policy	most revenues generated by low-distortion taxes
	low and relatively uniform import taxes
	functional export rebate and duty drawbacks
	single corporate tax rate comparable to maximum personal income tax
	broad tax base free of arbitrary exemptions
b) tax administration	effective and rule-based tax administration
	low administrative and compliance costs
	good information and effective appeals mechanism

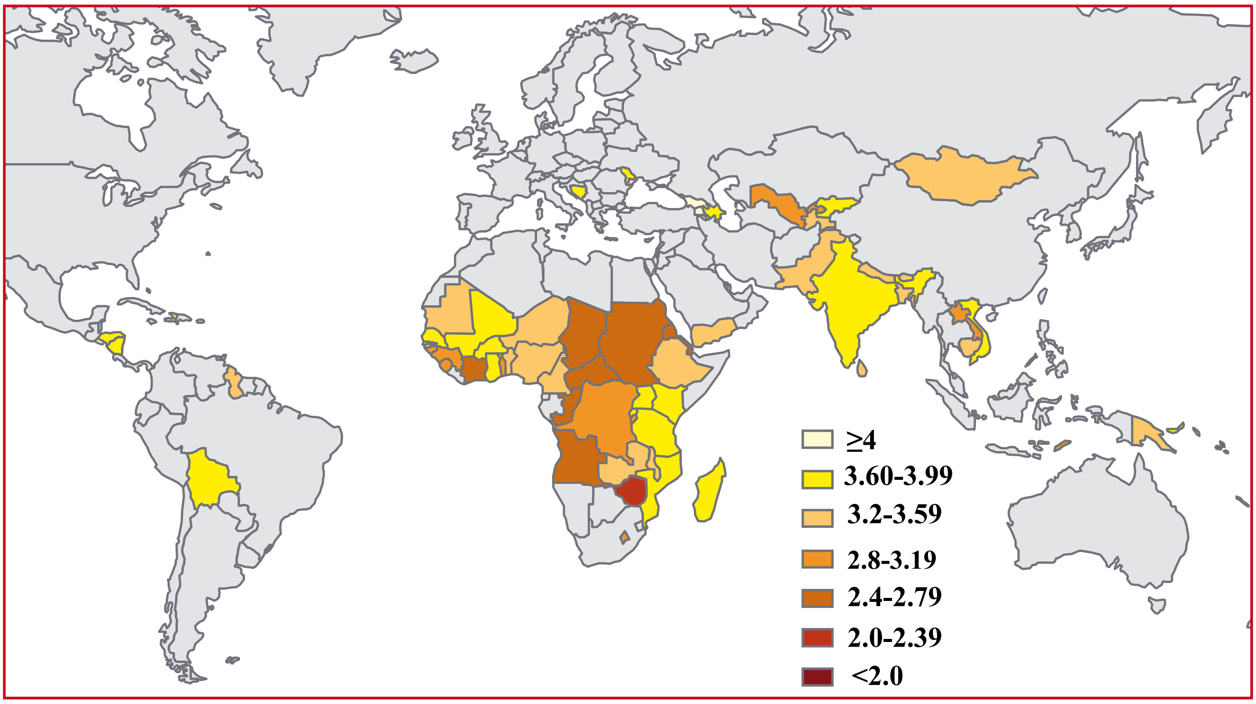
15. Quality of Public Administration a) policy coordination and responsiveness	effective coordination creates high degree of consistency across departments
b) service delivery and operational efficiency	functional organizational structures with little duplication
	regular review of business processes to improve efficiency
c) merit and ethics	hiring and promotion based on merit and performance
	ethical standards prevail
d) pay adequacy and management of wage bill	wage bill sustainable, does not crowd out spending for public services
	pay and benefits do not deter talented people
	some wage flexibility for difficult positions
16. Transparency, Accountability, Corruption a) accountability of executive to oversight institutions	strong public service ethics reinforced by audits, inspections, adverse publicity
	impartial and independent judiciary
	prevalence of corruption monitored and sanctions implemented
b) access of information on public affairs	reasons, results and costs of decisions clearly communicated
	government documents available at minimal cost
	independent media fulfill oversight role
c) state capture by narrow vested interests	conflict of interest and ethics rules observed and enforced
	top officials must disclose income and assets and are not immune from prosecution for malfeasance

ANNEX III: Overview of Guideposts and their Sources

Guideposts	Source
World Bank Database	World Bank
IMF Article IV Consultation	IMF
Reporting Status Ratings/Debt Reporting System	World Bank
Average Tariff Rates, Financial Statistics	IMF
Logistical Performance Index	World Bank
WITS tariff dispersion	World Bank, World Integrated Trade Solution (WITS) software
Diagnostic Trade and Integration Studies	World Bank
Investment Climate Assessments	World Bank
FIAS Administrative Barriers Report	IFC Foreign Investment Advisory Service (FIAS)
WTO Trade Policy Review	WTO
World Development Indicators	World Bank
World Business Environment Survey	World Bank
Data on Credit Reporting	World Bank
Microfinance Data from CGAP and Microfinance Bulletin	Consultative Group to Assist the Poor (CGAP; independent initiative housed by the World Bank); Microfinance Information eXchange (MIX; sponsored by CGAP and others like OSI, Soros Fund)
FSAP data	World Bank Financial Sector Assessment Program
Doing Business Indicators	World Bank
Checklist for Business Regulatory Environment	World Bank - CPIA Annex A (confidential)
Investment Climate Assessments	World Bank
Index of Economic Freedom	Heritage Foundation (conservative, promotes free enterprise, limited government, individual freedom)
International Country Risk Guide	Political Risk Services (PRS Group; commercial provider of risk analyses for business)
World Bank Institute Governance Indicators	World Bank Institute
Outcome indicators and questionnaires for rating gender equality	World Bank - CPIA Annex B (confidential)
National Development Strategies	recipient countries
Assessment of National Development Strategies	World Bank
Analytical work on poverty and economic strategy	World Bank, governments, other donors, development partners
Data on health, education and HIV/AIDS, tuberculosis, malaria	World Bank, UNICEF, WHO, UNAIDS, US Bureau of the Census

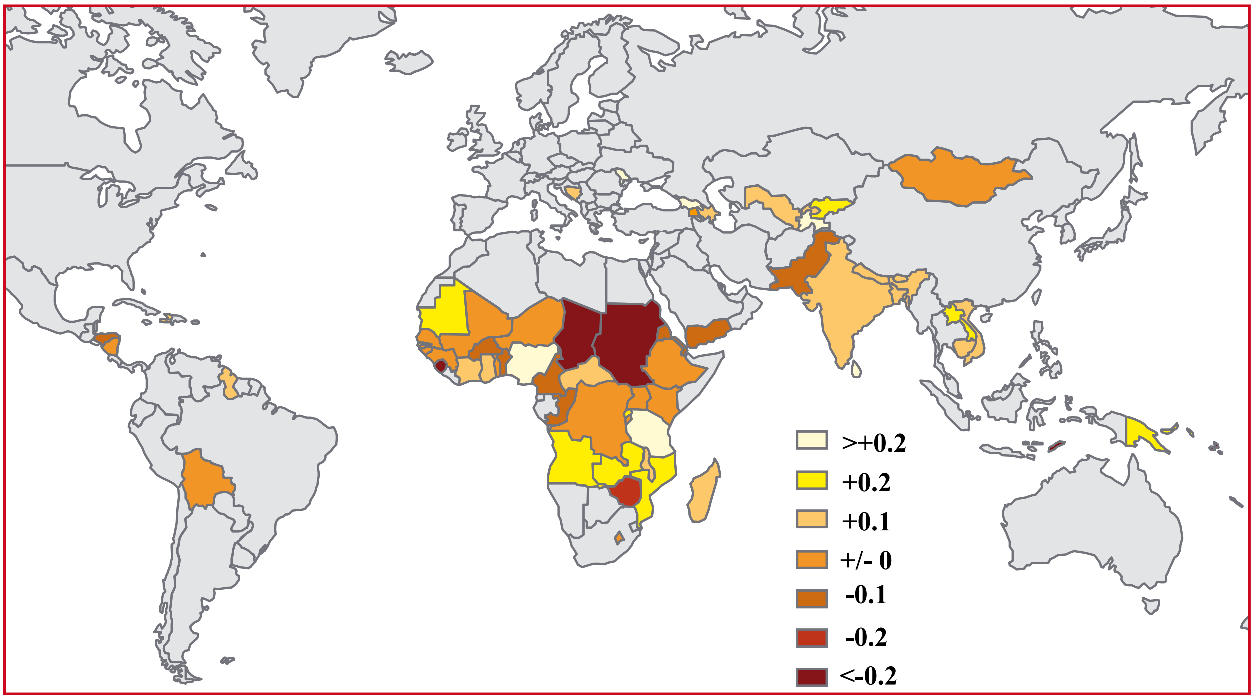
HDN Core Labor Standards Toolkit	World Bank Human Development Network (draws on data from ILO, trade unions, employers organizations and independent Human Rights reports)
Doing Business Database	World Bank
Pension Position Paper	World Bank
Local Development Strategy?	
HDNSP Safety Nets website	World Bank Human Development Network, Social Protection and Labor Unit
Environment Score Survey	World Bank – CPIA Annex C (confidential)
PRMPS Governance Indicators	TI Corruption Perceptions Index WBI Worldwide Governance Indicators World Bank Enterprise Surveys EBRD/World Bank BEEPS World Bank "Doing Business" Regulations and their Enforcement Global Integrity: Global Integrity Index Open Budget Index TI Global Corruption Barometer Reporters Without Borders Press Freedoms Index IADB /DFID Governance Indicators database Afrobarometer
PEFA Performance Measurement Framework	Public Expenditure & Financial Accountability (PEFA; partnership between World Bank, other donors, Strategic Partnership with Africa)
Public Expenditure Management Handbook	World Bank – Annex D (publicly available)
IMF Code of Good Practices on Fiscal Transparency	IMF
WDI Tables	World Bank, World Development Indicators (WDI)
Civil Service Wages and Employment Database	World Bank

ANNEX IV: Geographical Distribution of 2007 CPIA Scores



Source: World Bank and GPPi

ANNEX V: Geographical Distribution of Changes in CPIA Scores between 2005 and 2007



Source: World Bank and GPPi

ANNEX VI: Arguments on Consistency

Contradictions

The CPIA in its current set-up contains both, criteria supporting business-friendly regulations (especially criterion 6) and criteria promoting social policies (especially criterion 10). More specifically, the rating specifications for criterion 6c require that "employment law provides a high degree of flexibility to hire and fire at low cost." Criterion 10 specifies that countries should have "social protection programs provid[ing] income support to poor and vulnerable groups", "legislation that conforms with […] core labor standards", and that "labor market regulations and active labor market policies promote broad access to employment in the formal sector and reflects a balance between social protection and job creation objectives".

The two criteria reflect different political priorities. In practice, most countries with strong social protection policies also have stricter and less flexible labor market regulations. Conversely, countries with very flexible labor markets tend to put less emphasis on social protection. Does this mean that the CPIA criteria contradict themselves? As demonstrated for example by Denmark, flexible labor markets can be combined with regulations protecting labor standards, strong public safety nets and policies promoting job creation.

While a certain tension exists between criterion 6 and 10, the CPIA does not contain any direct contradictions.

Structure of CPIA criteria and clusters

How individual factors and sub-criteria are grouped together in the CPIA is not only a question of clarity. Rather, where any specific element is included is also a political question since it can significantly affect the factor's weight in the allocation process. In this regard, an analysis of the CPIA criteria highlights a number of issues.

Firstly, the boundaries between the first three criteria (macroeconomic management, fiscal policy and debt policy) are not very clearly demarcated. Thus, for example, government expenditures and tax policies are two key ingredients of fiscal policy. At the same time, they determine whether or not and to what degree a government has to issue new debt. Fiscal policy, in turn, is an instrument influencing aggregate demand and thus has a strong bearing on the aggregate demand policies included under macroeconomic management.

Secondly, criterion 9 (building human resources) includes two sub-criteria focusing on health: (9a) health and nutrition; and (9c) HIV/AIDS, tuberculosis and malaria. Logically, the latter is a component of the former. Yet political reasons could justify why HIV/AIDS, tuberculosis and malaria would be separated out and thus given extra weight.

Thirdly, the protection of property and contract rights included under criterion 12 would arguably fit better under criterion 6 since it concerns the legal and regulatory environment for business. Shifting this element out of the governance cluster would significantly reduce its weight. It would also have the effect of more clearly focusing criterion 12 on rule-based governance.

Finally, the inclusion of community-driven initiatives as a sub-criterion for social protection and labor seems odd. Similarly, it is not obvious why policy coordination is combined with responsiveness in criterion 15a. In this case, moreover, the rating specifications do not take up the issue of responsiveness at all. If, as will be discussed below, there are other arguments for introducing a new criterion in cluster D focusing on participation, it could include both community-driven initiatives and responsiveness.

An abstract analysis of how the various factors included in the CPIA are combined to form criteria and clusters cannot in itself justify strong reform demands. Rather, it underlines the fact that the CPIA has been repeatedly adapted over time and highlights areas that may be problematic.

Overlaps: Assessing policies vs. assessing institutions

Overlaps are a concrete expression of problems relating to the structural clarity of the CPIA criteria. They are more relevant than the issues discussed above because they result in double-counting and give individual factors additional hidden weight.

The last major revision of the CPIA following the External Panel Review in 2004 addressed a number of existing overlaps and streamlined the criteria. Nevertheless, as Box 5 illustrates, significant overlaps remain.

Apart from the overlaps between criteria 1, 2 and 3 already discussed above, all overlaps are related to the governance criteria contained in cluster D (criteria 12-16). This is due to an inconsistency in what is being measured where in the CPIA. The governance criteria focus mainly on the quality of institutions and public sector management. The other three clusters – economic management, structural policies and policies for social inclusion/equity – concentrate predominantly on the quality of policies. Yet, this separation between policies on the one hand and management and institutional questions on the other in the assessment process is incomplete.[87]

Some policy criteria assess the quality of institutions and administrative processes in their respective policy area. Others do not. The governance criteria at the same time mostly rate general areas of public management, but also refer to some specific policy areas.

87 Cf. for example the arguments and proposals made by Hermann (2004).

Box 4: The Washington Consensus and the CPIA

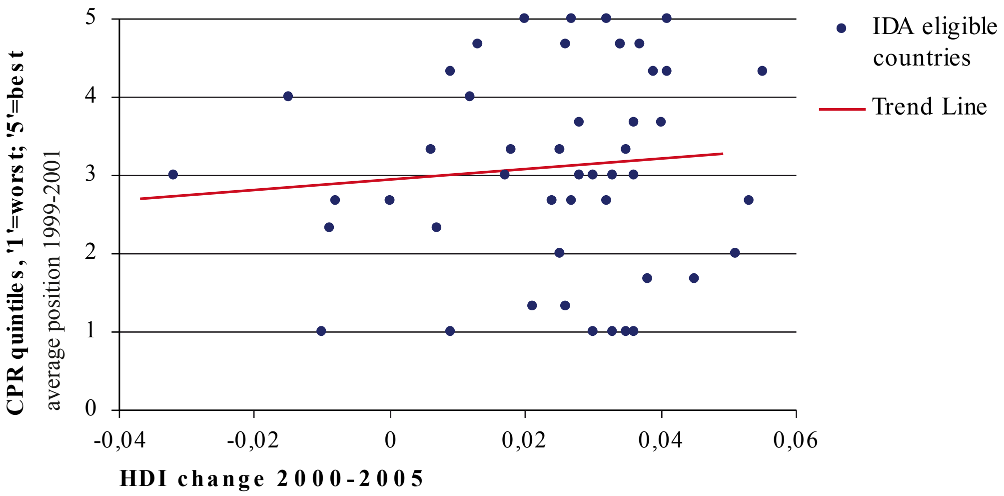
(1) aggregate demand policies maintain macroeconomic balance	→	(1) fiscal policy supports macroeconomic stability
(2) ratio of public debt to GDP is stable and low	→	(3) debt is sustainable
(12) property registries are transparent and non-corrupt	→	(6) procedures to register property are simply, low-cost and fast
(12) process for determining laws and regulations is transparent and changes are predictable	→	(4) process for changing tariffs is transparent and predictable
(13) policies and priorities are linked to the budget	→	(8) public expenditures are aligned with poverty reduction priorities
(14) import tariffs are low and relatively uniform	→	(4) average tariffs are low
(14) tax administration is rule-based	→	(12) "rule-based governance"
(15) coordination mechanisms between administrative units are effective	→	(11) inter-ministerial coordination on environmental issues is effective
(15) public business processes are regularly reviewed to ensure efficiency	→	(9) public resources are used cost-effectively and (10) include M&E procedures
(15) ethical standards prevail in public administration	→	(16) accountability is ensured through a strong public service ethic
(16) the judiciary is impartial and independent	→	(12) application of laws and regulations is impartial and predictable
(16) authorities monitor the prevalence of corruption and implement sanctions transparently	→	(14) low corruption among tax and customs officials (4) few instances of corruption among customs officials

Data sources: CPIA Questionnaire 2007

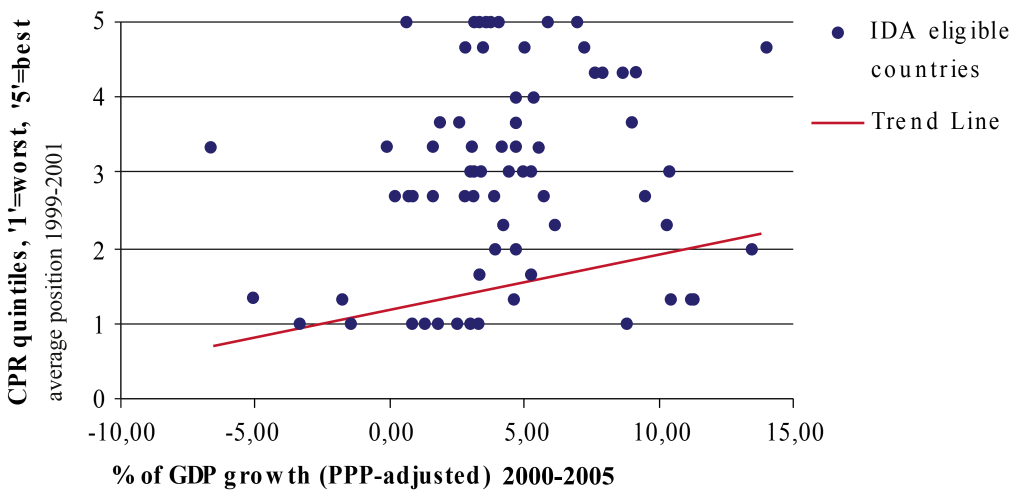
To remedy this inconsistency, the policy criteria (1-11) should include institutional and management issues only when they are specific to the policy area in question. Conversely, the governance criteria (12-16) should only address general issues related to the quality of institutions and public management and not repeat more specific issues. Criterion 14, for example, which relates to the efficiency of revenue mobilization, could be included in the cluster on economic management (A) and general elements relating to institutional quality would be excluded from criteria 1-11.

ANNEX VII: CPR Rankings and their Relationship to Development Outcomes

Graph 5: Relationship between CPR and changes in HDI scores



Graph 6: Relationship between CPR and GDP per capita growth



Data sources: UNDP Human Development Reports 2002-2007/08 (available at http://hdr.undp.org/en/, last accessed November 2008), IDA (2000), IDA (2001) and IDA (2002)

ANNEX VIII: Alternative Development Strategies

Infant industry protection

The protection of infant industries is a strategy that has proven successful with many now developed countries such as Japan and South Korea. It involves temporarily sheltering new industries until they are able to compete on international markets. To protect their new industries, countries impose high import tariffs, import licenses or quotas on international competitors. The CPIA criterion on trade (4) rewards countries for having low average and low maximum tariff rates, not using trade licenses or quotas and for changing tariff rates mainly through negotiated agreements. If the rating specifications of the CPIA are followed, countries pursuing infant industry protection policies should thus receive a lower CPIA grade. While many experts accept infant industry protection as a legitimate and promising policy option, it is penalized by the CPIA.

Industrial policies

An alternative strategy for helping certain sectors to grow is the adoption of industrial policies. Industrial policies have been adopted by all high growth countries examined in The Growth Report (Spence 2008) and are currently particularly popular for encouraging export diversification. Countries can use different mechanisms to implement export promoting industrial policies which also have different effects on the CPIA rating.

A first option is to manage exchange rates in order to increase the competitiveness of domestic products on international markets. Criterion 1 of the CPIA demands that exchange rate policies target price stability. Strong currency devaluations – which most economists would warn against – would therefore be rated negatively.

A second option is to provide subsidies for certain industries to encourage investment. Criterion 6 of the CPIA requires that state intervention in goods markets be minimal and only to smooth out market imperfections. It would penalize significant subsidies. Less controversial ingredients of industrial policies can involve tax incentives to attract foreign direct investment and the creation of export zones to facilitate trade. These policy options would be rated positively according to criteria 4 and 14 of the CPIA, particularly if they work through non-discriminatory tax incentives.

Restrictions on the movement of capital flows

Orthodox economists favor free international movement of capital. Yet countries like Chile and Malaysia have imposed constraints and taxes on capital flows to mitigate the effects of financial crises and stabilize their economies. Many economists today agree that capital controls can have positive effects, especially for countries with immature financial markets. Until 2003, the CPIA explicitly penalized capital controls, but this restriction was removed in the 2004 reforms. The imposition of capital controls could still have effects on CPIA ratings. It could render the banking sector more resilient to shocks, but at the same time weaken capital markets (both elements are rated in criterion 5).[88] On balance, the CPIA should therefore be largely neutral concerning capital controls in immature economies.

88 Another provision potentially affected is criterion 6. It demands few bans or investment licensing requirements. Yet, criterion 6 focuses on regulations affecting entry, exit and competition, and thus refers mainly to bans or licensing requirements concerning direct investments. General control on capital flows should therefore not be rated negatively here.

Policies prioritizing equity over growth

Finally, there is universal agreement that economic growth is necessary for achieving development. But, at least in their short-term policies, countries can choose to prioritize equity, income redistribution and the direct achievement of important development goals over growth or vice versa. Many developing countries in Africa, as well as countries like Bolivia, Brazil and China have experienced rapid rises in inequality over recent years. Other countries have sought to counter this trend by imposing higher and more strongly progressive taxes and by financing welfare, education and infrastructure programs targeted at the poor. The CPIA is agnostic regarding the overall level of taxes and would reward welfare, education and infrastructure programs.

ANNEX IX: Case Examples

A. Bangladesh

Background

Bangladesh split from Pakistan in 1972 after a civil war; after 15 years of military rule, the country became democratic in 1990. Since then, two parties have alternated in government, the Awami League and the Bangladesh Nationalist Party (BNP). They are distinguished less by policy differences than by a strong personal animosity between their leaders, Sheikh Hasina and Khaleda Zia, respectively.

Recent Political Events

After the BNP stepped down at the end of their term in October 2006, violent political clashes broke out because the caretaker government in place to assure impartial elections was accused of pro-BNP bias and planned election fraud. The opposition Awami League announced to boycott the elections, leading to increasingly violent clashes leaving more than 40 people dead. On 11 January 2007, in response to pressure from the international community, President Iajuddin Ahmed declared a state of emergency and cancelled the elections.

A new caretaker government, headed by military-backed Fakhruddin Ahmed, a former World Bank economist, was formed in early 2007. Elections are scheduled to take place at the end of 2008. In the meantime, the caretaker government has promised to restore political stability and fight corruption. The emergency regulations, including night curfews, limitations on freedom of assembly and media controls, were partly lifted in late 2007.

Sources vary in their interpretation of recent political events. On the one hand, the interim government has promised significant reforms, and has taken first steps by launching a major anti-corruption campaign, as part of which an Anti-Corruption Commission was formed and charges were brought against over 200 high-profile politicians. A road map to democratic elections was announced in June 2007, and significant steps were taken toward separating the judiciary from the executive.

On the other hand, military influence has increased dramatically since 2007, and human rights remain restricted. In August 2007, anti-military student protests that left several people dead led to the shutting-down of the internet and the closing of universities. The caretaker government has promised steps to address human rights abuses, and in December 2007 announced plans for setting up a human rights commission, but has not yet implemented any notable reforms. It remains to be seen whether peaceful democratic elections will be held in the near future.

Economic Development

The recent political events had no major effects on the economy. Reforms of the 1990s paved the way to positive economic growth. Average annual GDP growth rates since 1990 were around 5%. In 2008, GDP growth is estimated to be around 6%, while 2006 and 2007 annual growth rates were approximately 6.5%. Growth is facilitated by an uptrend in export manufacturing. In order to strengthen the export industries, the government has adopted a number of industrial policies, such as the creation of special export zones. This has resulted in export industry growth rates between 10-20% since the mid-1990s. The trade to GDP ratio increased since 2005, and simple average tariffs were 15%. Assuming these development trends continue, Bangladesh is projected to become a middle-income country by 2016.

The South Asia Free Trade Area (SAFTA) was implemented in 2006 and is expected to increase regional trade. However, the business regulatory environment has become more restrictive since 2006, especially concerning the opening of a business and labor regulations. Regulations are said to be frequently "chaotic", with severe corruption and weak property rights as additional obstacles to business.

Moreover, rising power shortages pose a challenge to development that has not yet been properly addressed by the government, and infrastructure building efforts are disrupted by frequent natural disasters.

Bangladesh CPIA Scores			
	2005	**2006**	**2007**
1. Macroecon. Mgt.	4	4	4
2. Fiscal Policy	3.5	3.5	3.5
3. Debt Policy	4.5	4.5	4.5
Avg. Economic Mgt.	**4**	**4**	**4**
4. Trade	3	3.5	3.5
5. Financial Sector	3	3	3
6. Business Regulatory Environ.	3.5	3.5	3.5
Avg. Structural Policies	**3.2**	**3.3**	**3.3**
7. Gender Equality	4	4	4
8. Equity of Public Resource Use	3.5	3.5	3.5
9. Building Human Resources	4	4	4
10. Social Protection & Labor	3.5	3.5	3.5
11. Environmental Sustainability	3	3	3
Avg. Social Inclusion/Equity	**3.6**	**3.6**	**3.6**
12. Property Rights and Rule-based Governance	3	2.5	3
13. Quality of Budget & Financial Mgt.	3	3	3
14. Efficiency of Revenue Mobilization	3	3	3
15. Quality of Public Admin.	3	3	3
16. Transparency, Account. & Corrupt. In Pub. Sec.	2.5	2.5	3
Avg. Public Sector Mgt. and Institutions	**2.9**	**2.8**	**3**
Total CPIA Rating	3.4	3.4	3.5
IDA Loans (million $)	600.00	461.50	379.00
Per Capita Loans ($)2	3.91	2.96	2.39

Economic growth has brought only modest improvements to the poorest part of the population. According to the Asian Development Report 2008, "poverty is declining by 1.8% a year compared with only 1% in the 1990s". However, the Bertelsmann Foundation argues that government anti-poverty programs have largely been ineffective. Since the focus of the caretaker government is on restoring political stability, there have not been any major new anti-poverty programs since 2006.

Analysis of CPIA ratings

There is a visible contrast between consistently high ratings in the economic management cluster and the generally weak governance cluster. Considering recent developments in Bangladesh, this difference is matched by a contrast between, on the one hand, consistently good economic growth since the 1990s, and on the other, rampant corruption and political instability.

As would be expected, average governance cluster ratings decreased in 2006 with the onset of violent political clashes, and improved again in 2007, when the new caretaker government began to restore order. In particular, criterion 16 ratings, for transparency, accountability and corruption, improved in 2007 due to the major anti-corruption measures introduced by the interim government.

Property rights and rule-based governance (criterion 12) ratings decreased from 3 to 2.5 in 2006, and increased again to 3.0 in 2007. This could be explained with a sharp increase in violence beginning in 2005 negatively affecting law and order. Political order began to be restored in 2007 after the state of emergency declaration, but property rights continue to be only weakly enforced.

Trade criterion ratings improved by 0.5 in 2006. This could be explained by the implementation of SAFTA and a decline of the maximum tariff rate to 25%, from 30% in the late 1990s.[89]

B. Bolivia

Background

As a country with large quantities of natural resources, but the lowest per capita GDP and highest indigenous population in South America, Bolivia faces special developmental challenges. The country is one of the most unequal on the continent, with a Gini coefficient of approximately 0.6 and about 63% of the population living below the national poverty line. These factors have contributed to political instability and violence. Recurring political crises over the exploitation of energy resources and the distribution of wealth derived from them have forced two presidents to resign since 2003.

Recent Political Events

In May 2005, congress passed the controversial Hydrocarbons Law, which returned legal ownership of gas resources to the state and raised taxes on gas profits to 32%. In June, President Mesa resigned after months of massive protests and blockades over the use of energy resources, which had brought the administrative capital La Paz to a near standstill. In December, Evo Morales' populist Movement Toward Socialism party (MAS) won the elections with an absolute majority, and Morales became the

89 Sources: Asian Development Outlook 2008: Bangladesh, BBC country profile: http://news.bbc.co.uk/1/hi/world/south_asia/country_profiles/1160598.stm, Bertelsmann Transformation Index 2008 country report, Doing Business 2008, World Bank country website: www.worldbank.org/bangladesh.

country's first indigenous president. During his campaign, he had described himself as the candidate of the poor and excluded indigenous majority.

The election outcome marked a sea change in Bolivian politics. The traditional parties lost most of their seats in parliament, and the new government shifted the political focus from the promotion of a market economy and the rule of law towards substantial socialist, anti-liberal and interventionist reform programs. In May 2006, Morales launched a hydrocarbon nationalization program. Energy companies were given six months to sell a minimum of 51% of their holdings to the state.

In June 2006, an assembly was formed with the purpose of rewriting the constitution to include the energy nationalization program and a land redistribution program. The goal of these reforms was to decrease poverty and secure more rights for the indigenous population. In December 2007, the new constitution was approved by the assembly; however, two referenda on the constitution have been postponed until the end of 2008.

The population is divided over the reforms. While the nationalization measures enjoy widespread support among the indigenous majority, they face opposition in the wealthier, main energy producing regions in the eastern parts of Bolivia.

Having nationalized most of the energy sector, President Morales has promised further radical measures to redistribute wealth. In June 2006, he launched a National Development Plan (PND), which proposes larger investments in infrastructure and education, and the establishment of a national development bank for providing microcredits. However, although the overall goals of the PND were clearly formulated, it is still unclear how the plan will be implemented. Finally, a Zero Malnutrition Program was started in 2006 in order to ensure sufficient nutrition for young children. This program is currently in an early stage of implementation.

Economic Development

Bolivia implemented liberal economic policies of privatization and deregulation from 1985 until 2003. Then, a gradual reversal of these policies began due to violent street protests concerning increasing poverty and inequality. In 2006, the Morales government began to implement the new economic program of increased state control and nationalization.

Due to revenues from the Hydrocarbons Law, the persistent budget deficit turned into a surplus for the first time in 2006 of about 5%. The government began reducing external public debt in 2006. The exchange rate appreciated about 3% from 2006 to 2007 thanks to foreign currency inflows from gas exports. However, inflation also accelerated to over 10% in 2007, compared to 5% in 2006.

Annual GDP growth rates have improved steadily since 2002, with a 2006 growth rate of 4.6%. Exports grew strongly, with a 40% increase in 2006. However, this positive development has not yet led to a significant increase in employment. Moreover, Bolivia's large informal sector, comprising nearly 80% of employment, poses a major obstacle to development and poverty reduction. The high degree of informal employment is partly due to a highly complex business regulatory environment, in particular, complex labor regulations providing insufficient motivation for workers to seek formal employment.

Analysis of CPIA Ratings

It is interesting to note that the Hydrocarbons Law and the Nationalization Decree did not lead to an overall change in CPIA ratings. The laws could be expected to have a positive impact on both the fiscal policy criterion (2) and the debt policy criterion (3), due to increased revenues and debt reduction. Debt policy ratings indeed increased by half a point in 2006. On the other hand, the new legislation could negatively affect the business regulatory environment (criterion 6) as well as trade (criterion 4). Trade ratings were consistently high and did not change between 2005 and 2007.

Criterion 6 ratings were low in 2005 and decreased further to 2.5 in 2006. This may be due to the overall complexity of regulations, which discourage workers to enter formal employment. A significant increase of the minimum wage introduced by the Morales government can be viewed as a further obstacle to formal employment. Combined with the nationalization of the oil and gas sector and increased subsidies/taxes, we can explain the decrease in criterion 6 ratings in 2006.

Overall, changes in ratings offset one another. The CPIA therefore reacted in a differentiated way to the recent changes in legislation.

Bolivia CPIA Scores			
	2005	**2006**	**2007**
1. Macroecon. Mgt.	4	4	4
2. Fiscal Policy	4	4	4
3. Debt Policy	4	4.5	4.5
Avg. Economic Mgt.	**4**	**4.2**	**4.2**
4. Trade	5	5	5
5. Financial Sector	3.5	3.5	3.5
6. Business Regulatory Environ.	3	2.5	2.5
Avg. Structural Policies	**3.8**	**3.7**	**3.7**
7. Gender Equality	3.5	4	4
8. Equity of Public Resource Use	4	4	4
9. Building Human Resources	4	4.5	4
10. Social Protection & Labor	3.5	3	3.5
11. Environmental Sustainability	3.5	3.5	3.5
Avg. Social Inclusion/Equity	**3.7**	**3.8**	**3.8**
12. Property Rights and Rule-based Governance	2.5	2.5	2.5
13. Quality of Budget & Financial Mgt.	3.5	3.5	3.5
14. Efficiency of Revenue Mobilization	4	4	4
15. Quality of Public Admin.	3.5	3	3
16. Transparency, Account. & Corrupt. In Pub. Sec.	3	3.5	3.5
Avg. Public Sector Mgt. and Institutions	**3.3**	**3.3**	**3.3**
Total CPIA Rating	3.7	3.7	3.7
IDA Loans (million $)	43.4	…	30.0
Per Capita Loans $3	4.72	…	3.16

Transparency, accountability and corruption ratings (criterion 16), increased in 2006. President Mesa implemented a number of anti-corruption measures in 2005. Although critics argue that they were insufficiently implemented, Bolivia's ranking in the TI Corruption Perception Index improved by several positions between 2005 and 2007.

Finally, the new government's National Development Plan and the Zero Malnutrition Program did not lead to notable improvements in the Policies for Social Inclusion/Equity Cluster C, except for an improvement in gender equality. Since past efforts at fighting extreme poverty in Bolivia were unsuccessful, and since the National Development Plan is rather unspecific concerning its implementation, the World Bank is likely to be hesitant in increasing CPIA ratings.[90]

C. Chad

Background

With ten million inhabitants, Chad is mostly desert, and is sometimes referred to as the "Dead Heart of Africa" given the climate and its landlocked geography. It is one of the ten poorest countries in the world. In the 2007/2008 Human Development Index, Chad ranked 170 out of 177 countries. Life expectancy is roughly 48 years, and the per capita annual income is under $250 a year. According to the World Bank, more than half of the population over the age of 15 is illiterate and there is only one doctor for every 28,170 inhabitants. Furthermore, only one percent of the population has access to electricity and there are only 1,100km of paved roads in a country roughly twice the size of the Ukraine. Chad has also suffered from insecurity and war. Receiving independence from France in 1960, Chad suffered from years of sporadic civil war and a Libyan invasion before a temporarily secure peace was established in 1990.

Recent Political Events

Flawed presidential elections in 1996 and 2001 were complicated by rebellions breaking out in the late 1990s in Northern and Eastern Chad, particularly along the border with Sudan's troubled Darfur region. Political instability in the neighboring Central African Republic (CAR) weakened Chad. Close to 300,000 refugees from CAR and Sudan are currently in Chad, and the country is also dealing with as many as 150,000 internally displaced people. Peace agreements have been broken as often as they have been signed, and rebels continue to threaten Chad's capital. A French-led, EU peacekeeping force was recently launched, but as of yet, peace is still elusive.

Economic Development

Despite these political instabilities and lack of security, Chad maintains high levels of growth. This is largely because of oil. In 2004, growth skyrocketed to thirty percent because of the recently completed Chad Cameron Oil Pipeline; in 2005 and 2006, however, growth was around five percent because of a slowdown in oil production and a downturn in the cotton industry. These economic downturns led Chad to break an agreement with the World Bank in December 2005 concerning the use of oil revenues.

Moreover, particularly since 2004, Chad has had serious and reoccurring financial management

90 BBC country profile, Bertelsmann Transformation Index 2008 country report, Doing Business 2008, Heritage Foundation 2008 Index of Economic Freedom, World Bank country website: www.worldbank.org/bolivia, IMF Data and Statistics, http://www.imf.org/external/data.htm#data, Transparency International Corruptions Perceptions Index 2007.

issues in its government. Corruption in Chad is endemic. In 2005, Transparency International's Corruptions Perception Index named Chad the most corrupt country in the world; since then, Chad has improved, but only marginally. Current strategies, plans and funding for poverty reduction have all stalled because of this financial mismanagement; the dire security situation has added to the difficulties.

Chad CPIA Scores			
	2005	**2006**	**2007**
1. Macroecon. Mgt.	4	3.5	3
2. Fiscal Policy	3	3	2.5
3. Debt Policy	3	2.5	2.5
Avg. Economic Mgt.	**3.3**	**3**	**2.7**
4. Trade	3	3	3
5. Financial Sector	3	3	3
6. Business Regulatory Environ.	3	3	2.5
Avg. Structural Policies	**3**	**3**	**2.8**
7. Gender Equality	2.5	2.5	2.5
8. Equity of Public Resource Use	3	3	3
9. Building Human Resources	3	2.5	2.5
10. Social Protection & Labor	3	2.5	2.5
11. Environmental Sustainability	2.5	2.5	2.5
Avg. Social Inclusion/Equity	**2.8**	**2.6**	**2.6**
12. Property Rights and Rule-based Governance	2	2	2
13. Quality of Budget & Financial Mgt.	3	2.5	2
14. Efficiency of Revenue Mobilization	2.5	2.5	2.5
15. Quality of Public Admin.	2.5	3	2.5
16. Transparency, Account. & Corrupt. In Pub. Sec.	2	2	2
Avg. Public Sector Mgt. and Institutions	**2.4**	**2.4**	**2.2**
Total CPIA Rating	2.9	2.8	2.6
IDA Loans (million $)	48.0	--	25.0
Per Capita Loans $	4.74	--	2.42

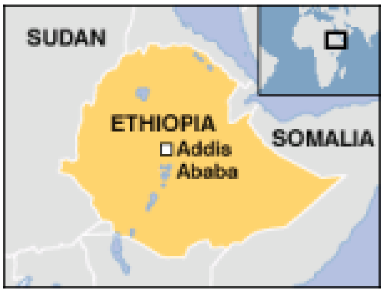
Analysis of CPIA Ratings

Between 2005 and 2007, Chad's CPIA ratings declined in all clusters, leading to an overall decline from 2.9 to 2.6. Cluster A declined most significantly from 3.3 to 2.7, whereas Clusters B, C and D all declined by 0.2 points.

Chad breached its agreement with the World Bank concerning revenue management for the Chad-

Oil pipeline, which most likely explains the precipitous decline of Cluster A for Economic Management. In Cluster B, Structural Policies, it is surprising that only criterion 6 (Business Regulatory Environment) declined, whereas the other two criteria 4 and 5 (Trade and Financial Sector) did not change, but these ratings are already comparably low. In Cluster C, Policies for Social Inclusion and Equity, it is noteworthy that criteria 7 and 8 (Gender and Equity of Public Resource Use) did not change, while Criteria 9, 10 and 11 declined. This could point to the fact that certain criteria simply respond more quickly than others, particularly in situations of low security such as Chad. As for Cluster D, Public Sector Management and Institutions, it is important to point out that Criterion 15 (Quality of Public Administration) actually increased 0.5 in 2006, only to fall again in 2007.

D. Ethiopia



Background

Africa's second most populous nation with more than eighty million inhabitants in an area roughly twice the size of France, Ethiopia is notorious for its famines, droughts, and occasional border war with Eritrea. It is also known for its largest export, coffee. Ethiopia is the continent's oldest independent country, and is one of the world's poorest countries with two-thirds of its citizens illiterate. The population survives mostly from agriculture and is therefore heavily dependent on rainfall. In 2006, the World Bank estimated the Gross National Income per capita at $160.

Recent Political Events

Some observers have called the 2005 election the most free and fair in Ethiopia's political history. Prime Minister Meles Zenawi's market reforms and pro-poor policies have won him great praise throughout the West. Nonetheless, the fallout from the 2005 elections looms large over the current political situation. While the incumbent Prime Minister and his party emerged victorious in the elections, the vote was disputed. Subsequent protests and boycotts advocated by the opposition led to the arrest and imprisonment of hundreds of civil society leaders as well as thousands and possibly tens of thousands of civilians. Even upon release from prison, government harassment and intimidation has led opposition parties to withdraw from recent local elections in April this year. The ruling party thus won approximately 95% of posts.

Ethiopia is also a strategic ally of the United States, and has a special role in US regional anti-terrorist efforts. For example, in late 2006, Ethiopian military forces, with American support, invaded Somalia and drove the then-reigning Islamic Council from Mogadishu and the rest of Somali territory that it occupied. Ethiopian forces continue to occupy Somalia and prop up the Somali Transitional Federal Government (TFG). It is hard to assess the connections within the region, but it is thought that Islamists from Somalia are also stirring up trouble amongst Ethiopia's ethnic groups, for example in the eastern region of Ogaden. The Ogaden have taken violent measures in recent years. Another ethnic group, the Oromo, is also said to be organizing against the government with possible support from regional forces.

Economic Development

More than 80% of Ethiopia's inhabitants work in the agricultural sector; economic stability and growth depend on the weather. This, plus recent wars with Eritrea and large amounts of government debt, have restricted Ethiopia's potential growth. Ethiopia received debt relief from the Highly

Indebted Poor Countries (HIPC) initiative and was forgiven its IMF debt in December 2005.

These developments, plus a few years of good weather, have allowed Ethiopia to average eleven percent annual growth over the last four years. Yet challenges remain. The country experienced double-digit inflation rates over the past three years, skyrocketing oil prices have devastated Ethiopia's foreign currency reserves and the weather could change. In fact, recent reports show that a famine is again threatening the country.[91] Furthermore, security issues continue to threaten the country.

Ethiopia CPIA Scores			
	2005	**2006**	**2007**
1. Macroecon. Mgt.	3.5	3	3
2. Fiscal Policy	4	4	4
3. Debt Policy	3.5	3.5	3.5
Avg. Economic Mgt.	**3.7**	**3.5**	**3.5**
4. Trade	3	3	3
5. Financial Sector	3	3	3
6. Business Regulatory Environ.	3.5	3.5	3.5
Avg. Structural Policies	**3.2**	**3.2**	**3.2**
7. Gender Equality	3	3	3
8. Equity of Public Resource Use	4.5	4.5	4.5
9. Building Human Resources	3.5	3.5	4
10. Social Protection & Labor	3.5	3.5	3.5
11. Environmental Sustainability	3.5	3.5	3.5
Avg. Social Inclusion/Equity	**3.6**	**3.6**	**3.7**
12. Property Rights and Rule-based Governance	2.5	3	3
13. Quality of Budget & Financial Mgt.	3.5	4	4
14. Efficiency of Revenue Mobilization	4	4	4
15. Quality of Public Admin.	3	3	3
16. Transparency, Account. & Corrupt. In Pub. Sec.	2.5	2.5	2.5
Avg. Public Sector Mgt. and Institutions	**3.1**	**3.3**	**3.3**
Total CPIA Rating	3.4	3.4	3.4
IDA Loans (million $)	449.9	504.7	630.0
Per Capita Loans $	5.62	6.31	7.88

91 Will it ever be able to starve off starvation? 12 July 2008, The Economist: available online: http://www.economist.com/world/mideast-africa/displaystory.cfm?story_id=11549764 (accessed online 15 August 2008).

Analysis of CPIA Ratings

Ethiopia's CPIA ratings present an interesting case. Between 2005 and 2007, the total CPIA rating remained stable at 3.4. At the same time, IDA loans steadily increased from $449.9 million in 2005 to $630 million in 2007.

For Cluster A, Economic Management, there was an overall decline in 0.2 points, because of criterion 1 (Macroeconomic Management) declining from 3.5 in 2005 to 3 in 2006 and 2007. This could be the result of rising inflation; it has been in double digits for the last three years, and food prices have been particularly affected. Cluster C, Policies for Social Inclusion and Equity, generally stayed the same, except for criterion 9 (Building Human Resources) which increased by 0.5 in 2007; this increase is likely due to the great improvements Ethiopia has achieved in education, particularly in tertiary education. As for Cluster D, Public Sector Management and Institutions, criteria 12 (Property Rights and Rule-based Management) and 13 (Quality of Budget and Financial Management) both increased by 0.5 from 2005 to 2006, reflecting recent international praise for Ethiopia's market reforms and good governance.

E. Georgia

Background

Integrated into the Russian empire in the late nineteenth century, Georgia experienced a brief (1918-1921) period of independence before being forcibly integrated into the USSR. Despite being a rather small country (it is slightly smaller than US state South Carolina) with only 4.6 million inhabitants, Georgia emerged as an independent state in the wake of the USSR's dissolution in 1991. It was led by the old Soviet apparatchik, President Eduard Shevardnadze from 1995 until late 2003.

New elections in early 2004, part of the so-called Rose Revolution, swept a young, Western-educated reformer, Mikheil Saakashvili, and a new National Movement party into power. Yet from the beginning of Georgia's independence, problems with ethnic Russians in the secessionist territories of Abkhazia and South Ossetia plagued efforts to modernize and build a stable, secure society. In August 2008, the situation escalated to a small-scale war between Russia and Georgia. Russia ultimately recognized the independence of both these territories. While reports show that Georgia suffered serious damage to its infrastructure, the full political and economic ramifications of these events are yet unclear.

Recent Political Events

Upon its initial election in 2004 the Saakashvili government quickly began market reforms and democratization as well as a general public sector overhaul. It particularly focused on creating an environment to foster private business development. Generally, the government was hailed throughout the West as modern and forward-looking. Yet in late 2007, crackdowns on political opposition movements led to both domestic and foreign criticism. In the wake of Russia's recent invasion of Georgia, however, polls show Georgians have rallied around Saakashvili.

Economic Development

The government's reforms to foster private business included a national anti-corruption strategy in 2005. Based on this, the World Bank called Georgia the world's top anti-corruption performer in its 2006 report, Anticorruption in Transition-3 (ACT3). These efforts also led to a serious reform of taxes and tax mobilization mechanisms; taxes were generally reduced and a flat tax was introduced. Regulations, licenses and permit requirements for businesses were also lowered, and many state institutions and properties privatized. Georgian trade policy was liberalized through a significant cut in customs and tariffs. Currently Georgia's tariff rates are the second lowest in the world, and the government plans to abolish tariffs and customs completely in the coming years.

These initial reforms led Georgia to jump a spectacular 75 places, moving from 112 to 37, on the World Bank's index of business attractiveness in the 2006 Doing Business report, and growth in 2006 and 2007 was around ten percent.

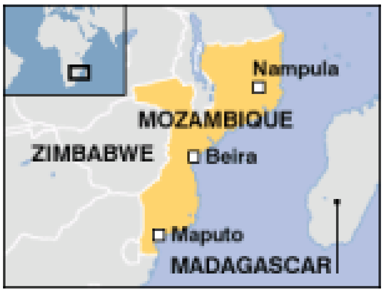
Georgia CPIA Scores			
	2005	**2006**	**2007**
1. Macroecon. Mgt.	4.5	4.5	4.5
2. Fiscal Policy	4	4.5	4.5
3. Debt Policy	4	4.5	5
Avg. Economic Mgt.	**4.2**	**4.5**	**4.7**
4. Trade	3.5	4.5	5.5
5. Financial Sector	3.5	3.5	3.5
6. Business Regulatory Environ.	4	4.5	5
Avg. Structural Policies	**3.7**	**4.2**	**4.7**
7. Gender Equality	4.5	4.5	4.5
8. Equity of Public Resource Use	4	4.5	4.5
9. Building Human Resources	4	4	4
10. Social Protection & Labor	3.5	4	4
11. Environmental Sustainability	3.5	3.5	3
Avg. Social Inclusion/Equity	**3.9**	**4.1**	**4**
12. Property Rights and Rule-based Governance	3.5	3.5	3.5
13. Quality of Budget & Financial Mgt.	3.5	4	4
14. Efficiency of Revenue Mobilization	4	4	4.5
15. Quality of Public Admin.	3.5	3.5	3.5
16. Transparency, Account. & Corrupt. In Pub. Sec.	3.5	3.5	3
Avg. Public Sector Mgt. and Institutions	**3.6**	**3.7**	**3.7**
Total CPIA Rating	3.8	4.1	4.3
IDA Loans (million $)	23.0	35.0	74.0
Per Capita Loans $	5	7.61	16.1

Analysis of CPIA Ratings

Georgia presents the model case of a reformer state with overall increasing scores accompanying increases in IDA loans, respectively 3.8 to 4.3 CPIA score and $23 million to $74 million.

A close examination of the CPIA scores reveals that the greatest gains are in Cluster B (Structural Policies, a rise of one point) and in Cluster A (Economic Management, a rise of half a point), whereas Clusters C (Policies for Social Inclusion and Equity) and D (Public Sector Management and Institutions) only rose marginally by 0.1 points, and scores for some criteria actually decreased, namely criterion 11 (Policies and Institutions for Environmental Sustainability) as well as criterion 16 (Transparency, Accountability and Corruption in the Public Sector). The decrease in Criterion 16 is striking as it came so recently (in 2007) after the World Bank named Georgia as the world's top performer in anti-corruption in 2006.

F. Mozambique



Background

Despite strong long-term growth rates, Mozambique continues to be one of the world's poorest non-failed states, and is faced with frequent natural disasters, high levels of HIV/Aids and the long-term effects of war.

Soon after its independence in 1975, a violent civil war broke out between the ruling Front for the Liberation of Mozambique (Frelimo), which had established a single-party socialist state, and the Mozambican National Resistance (Renamo), created in Rhodesia to counter the black independence movement. The war lasted from 1977 to 1992 and killed an estimated one million people. A peace agreement was signed in 1992. Since then, Mozambique has undergone a successful transition to peace. Three national and two local elections have been held that were all won by Frelimo amid suspicions of election fraud.

Recent Political Events

The most recent national assembly and presidential elections were held in December 2004. The Frelimo presidential candidate, Armando Guebuza, won with 64% of the votes (though with participation of only 36% of voters) over his Renamo rival, and was inaugurated in February 2005.

Since the elections, the opposition Renamo party has further lost influence and support among the population, and Mozambique seems on the road to an effective single party system. The next elections are scheduled for 2009. By declaring the fight against poverty his top priority, President Guebuza hopes to gain broad support among the population.

Poverty reduction efforts have been partly successful due to strong economic growth, but have been disrupted several times by major natural disasters. Half a million people were left homeless and a large portion of Mozambique's infrastructure was destroyed by flooding in early 2000 and 2001.

In July 2006, the World Bank cancelled most of Mozambique's debt. Mozambique is the country with the highest per capita development aid in the world.

Economic Development

Mozambique is a model for the successful transition from a socialist planned economy to a liberal market economy. With a strong annual GDP growth of 8% between 1996 and 2006, and a reduction of absolute poverty by 15% between 1997 and 2003, the World Bank has praised Mozambique's "impressive performance".

2006 GDP growth was 8.5%. The central bank is committed to single-digit inflation rates and reached this goal in 2005, when inflation was 6.4%, down from 16.8% in 2002. The exchange rate has been relatively stable over recent years. The government has some control over prices through state-owned utilities. Moreover, the central

bank recently introduced a number of reforms, such as improving the efficiency of accounting in 2006, introducing a better consumer price index, and adopting the "International Financial Reporting Standards" in 2007, thereby improving oversight over commercial banking.

Mozambique entered bilateral free trade agreements with Zimbabwe and Malawi in 2005, and is negotiating an agreement with Zambia. In January 2006, the maximum import tariff was reduced from 25% to 20%. The average weighted tariff was 12% in 2005/06 and 10% in early 2008. The IMF expects the government to continue improving the investment climate, according to a 2006 review.

Yet living conditions remain poor for the majority of the population, and Mozambique still faces many tough development challenges. Despite recent advances in poverty reduction, 70% of the population continues to live below the national poverty line. In the 2007/08 Human Development Index, Mozambique ranks 172 out of 177 countries. Average life expectancy was 42 years in 2006, five years below the Sub-Saharan average. In particular, the spread of HIV continues to be a significant problem: 16% of the population between the ages of 15 and 49 were infected in 2005. Education standards are also low. In 2004, only 35% of boys and 24% of girls completed primary school.

There is some indication that the Frelimo government wants to tackle these problems. Fiscal spending has been in accordance with the guidelines for achieving the Millennium Development Goals and the Poverty Reduction Strategy. It remains to be seen to what extent the government's poverty reduction strategies will have long-term success.

Analysis of CPIA Ratings

Overall CPIA scores improved by 0.1 in 2007. Mozambique made significant progress concerning economic growth between 2005 and 2007, and the CPIA reacted adequately and quickly to these advances. Scores in the structural policies cluster B increased by 0.5 in the relevant time period. In areas where not much progress was made, such as health and education, CPIA scores did not improve. The CPIA therefore reflects the recent dynamic policy changes in Mozambique.

Trade ratings are very positive compared to weak financial sector and business regulatory environment ratings. Trade ratings improved by 0.5 to 4.5 in 2006, which could be due to the lower maximum import tariff. The financial sector was at a low 2.5 in 2005, and improved by 0.5 in both 2006 and 2007. This impressive progress may be attributed to the significant reforms made by the central bank in 2006 and 2007.

Business regulatory environment ratings are consistently low. Mozambique possesses restrictive labor regulations, with high costs of firing and complex regulations for closing a business. More importantly, all land is owned by the state and can only be leased, not bought. This is a particular problem for small-scale investors, who frequently receive less preferential treatment by the government.

There were no changes in the policies for social inclusion/equity cluster C between 2005 and 2007. Although some progress was made between 1997 and 2003, poverty and gender inequality continue to be widespread, and there were no major improvements during the period under investigation.[92]

Mozambique CPIA Scores			
	2005	**2006**	**2007**
1. Macroecon. Mgt.	4	4	4
2. Fiscal Policy	4	4	4
3. Debt Policy	4.5	4.5	4.5
Avg. Economic Mgt.	**4.2**	**4.2**	**4.2**
4. Trade	4	4.5	4.5
5. Financial Sector	2.5	3	3.5
6. Business Regulatory Environ.	3	3	3
Avg. Structural Policies	**3.2**	**3.5**	**3.7**
7. Gender Equality	3.5	3.5	3.5
8. Equity of Public Resource Use	3.5	3.5	3.5
9. Building Human Resources	3.5	3.5	3.5
10. Social Protection & Labor	3	3	3
11. Environmental Sustainability	3	3	3
Avg. Social Inclusion/Equity	**3.3**	**3.3**	**3.3**
12. Property Rights and Rule-based Governance	3	3	3
13. Quality of Budget & Financial Mgt.	3.5	3.5	3.5
14. Efficiency of Revenue Mobilization	3.5	3.5	4
15. Quality of Public Admin.	3	2.5	3
16. Transparency, Account. & Corrupt. In Pub. Sec.	3	3	3
Avg. Public Sector Mgt. and Institutions	**3.2**	**3.1**	**3.3**
Total CPIA Rating	3.5	3.5	3.6
IDA Loans (million $)	170.00	200.50	200.00
Per Capita Loans $	8.59	9.93	9.76

92 Sources: BBC country profile Mozambique: http://news.bbc.co.uk/1/hi/world/africa/country_profiles/1063120.stm, BTI 2008 country report, Doing Business 2008, IMF data and statistics, Index of Economic Freedom 2008, Human Development Report 2007/08, World Bank country website: www.worldbank.org/mozambique

G. Nepal

Background

In 1990, King Birendra established a constitutional monarchy after a small uprising against the autocratic political system. Nepal subsequently underwent a succession of weak and short-lived governments. A Maoist rebellion erupted in February 1996, leading to a violent civil war and the decline of democracy. In June 2001, the political crisis deteriorated after ten members of the royal family were killed by Crown Prince Dipendra, who then committed suicide. In 2002, new King Gyanendra dissolved the parliament and took over executive powers. He subsequently appointed a royalist prime minister. However, attempts at stabilizing the country did not succeed.

Recent Political Events

In February 2005, King Gyanendra again dismissed the government and assumed direct rule, justifying this move with the need to defeat the Maoist rebels. For the first time, however, worries over the King's increased political power united the main political parties and the Maoists. November 2005 marked the beginning of the peace process, when Maoist rebels and opposition parties jointly agreed on a program to restore democracy. In April 2006, after increasingly violent protests, the King finally agreed to reinstate the parliament.

The Maoists subsequently began peace talks with the government. A Comprehensive Peace Agreement was signed in November 2006, formally ending the 10-year conflict that is estimated to have killed 13.000 people, and allowing the Maoists to join the interim government that was to facilitate peaceful democratic elections. However, new violent protests erupted in 2007 in the lowlands bordering India over the social and economic exclusion of local inhabitants.

Elections were postponed several times from 2007, and were finally held in April 2008, when the Maoists won the highest number of seats in parliament. In May 2008, the monarchy was officially abolished, and Nepal became a Federal Republic.

Economic Development

Nepal is the world's twelfth poorest country, with economic development advancing only slowly. The escalation of the political conflict in 2001 had an additional negative impact on economic growth.

Contrary to expectations, which had predicted that the recent increase in political stability would lead to higher growth rates, GDP growth was a poor 2.5% in 2007. This was due in part to bad weather conditions negatively affecting the agriculture industry, responsible for 39% of overall GDP. In addition, renewed violence in the Terai region disrupted fuel supplies from India. Moreover, Nepal is experiencing a severe electricity crisis with daily power outages that are negatively affecting the economy.

Inflation increased in recent years due to rising oil and food prices, and rose to 8% in 2006 compared to only 3% in 2005. The government's anti-inflationary policies included a liberal import policy. The ratio of trade to GDP was 45% in 2006, making Nepal one of Asia's most trade-dependent countries. Consequently, the country has been open to trade, with virtually no quantitative trade restrictions. Simple average tariffs decreased from 14% in 2005/06 to 12.6% in 2008. Nepal became a WTO member in 2004 and is a member of the South Asia Free Trade Area (SAFTA).

Poverty reduction remains the primary challenge to the new government. In 2006, 31% of the population lived below the national poverty line. The Maoists receive much of their support from the rural poor, who hope for redistribution measures that will improve their living situation. Yet while combating poverty is a declared priority for the government, the recent political events did not leave room to develop an effective long-term poverty-reduction strategy. In 2007, an Interim Development Plan was adopted, which aims to reduce poverty incidence to 24% and secure annual GDP growth rates of 5.5%, while limiting inflation to 5.6%.

Analysis of CPIA Ratings

Crucial steps towards peace and stability were made in 2006 with the reinstatement of parliament and signing of the peace agreement. This development can be expected to be positively reflected in the CPIA. Whereas overall CPIA ratings improved by 0.1 in 2006, improvements in clusters C and D were higher; each of these clusters improved by 0.2 points.

The peace agreement can be viewed as a major enhancement of citizens' protection against violence, since it increased government influence and police presence in territories that were formerly in the hands of the Maoists. Steady progress towards law and order is reflected in a 0.5 increase in the property rights and rule-based governance criterion (12) in 2006.

Despite these advances, Nepal continues to suffer from a weak and politicized judiciary and high levels of corruption. The Royal Commission for Corruption Control formed in 2005 has so far remained ineffective in decreasing corruption levels. A Public Procurement Act aimed at improving transparency and fighting corruption was prepared in cooperation with the World Bank and implemented in 2006. Although corruption outcomes have not yet significantly improved, these recent policy efforts were reflected in the 0.5 increase in Criterion 16 in 2006.

Significant progress has been made in improving health conditions and providing access to education. Nepal eliminated neo-natal tetanus in 2007 and cut child mortality by 30% through free vitamin A supplements and a highly successful female community health volunteer program. Nepal is one of only seven countries on track to meet MDG child mortality goals.

Primary school enrollment increased from 81% in 2002 to 87% in 2006, and the completion rate rose from 60% in 2002 to 68% in 2006. Progress towards gender equality in education included an increase in the ratio of female to male primary school enrollment from 79% to 95% between 2000 and 2006, while the ratio for secondary school enrollment increased from 71% to 89%. These positive developments could explain improvements in CPIA ratings for the gender equality criterion (7) and the building human resources criterion (9), both of which increased by half a point.

IDA lending was suspended in 2006 and resumed in 2007. In December 2007, the World Bank announced a major increase in IDA lending to Nepal, allocating $253mn for 2008, the highest amount ever allocated to the country. With this increase, the World Bank aims to support and strengthen the peace process through a number of development projects, such as the "Education for All Project" and the "Poverty Alleviation Fund Project II".[93]

93 Sources: BBC country profile Nepal: http://news.bbc.co.uk/1/hi/world/south_asia/country_profiles/1166502.stm, Bertelsmann Transformation Index 2008 country report, Doing Business 2008, TI International Corruptions Perceptions Index 2007, UNICEF Nepal country profile, World Bank country website: www.worldbank.org/nepal

Nepal CPIA Scores			
	2005	**2006**	**2007**
1. Macroecon. Mgt.	4.5	4.5	4.5
2. Fiscal Policy	3.5	3.5	3.5
3. Debt Policy	3.5	3.5	3.5
Avg. Economic Mgt.	**3.8**	**3.8**	**3.8**
4. Trade	4	4	4
5. Financial Sector	3	3	3
6. Business Regulatory Environ.	3	3	3
Avg. Structural Policies	**3.3**	**3.3**	**3.3**
7. Gender Equality	3	3.5	3.5
8. Equity of Public Resource Use	3.5	3.5	3.5
9. Building Human Resources	3.5	3.5	4
10. Social Protection & Labor	3	3	3
11. Environmental Sustainability	3	3	3
Avg. Social Inclusion/Equity	**3.2**	**3.3**	**3.4**
12. Property Rights and Rule-based Governance	2.5	3	3
13. Quality of Budget & Financial Mgt.	3.5	3.5	3.5
14. Efficiency of Revenue Mobilization	3.5	3.5	3.5
15. Quality of Public Admin.	3	3	3
16. Transparency, Account. & Corrupt. In Pub. Sec.	2.5	3	3
Avg. Public Sector Mgt. and Institutions	**3**	**3.2**	**3.2**
Total CPIA Rating	3.3	3.4	3.4
IDA Loans (million $)	135.00	4.5	103.20
Per Capita Loans $	5.34	0.17	3.91

H. Zimbabwe

Background

Slightly larger than Germany in total area, Zimbabwe has roughly thirteen million inhabitants who have a life expectancy of around thirty-four years. Zimbabwe achieved its formal independence in 1980 after fifteen years of de facto, but non-recognized independence declared by the white-minority government of Rhodesia.

At the time of its independence, Zimbabwe was relatively well developed for Africa; it had infrastructure, a modern financial sector and a wide productive base. In fact, it was a regional model and hub. However, since 1980 Zimbabwe has declined according to most indicators. Many ascribe this descent to the disastrous policies of the former freedom fighter and initially, freely elected Robert Mugabe. From 1980 to 1987, he served as Prime Minister and since 1987, has been serving as executive President. In fraudulent elections in 2002 and 2008, President Mugabe was re-elected. The political struggle following these fraudulent elections has maintained a prominent place in international news and hindered most efforts to foster development from the international community.

Recent Political Events

Most analysts point to Mugabe's misguided land redistribution in 2000 as the beginning of the most recent sustained crisis. The decision crippled the economy and caused an exodus of the remaining white farmers. In spite of the ensuing international condemnation, Mugabe rigged the presidential election using fraud and intimidation in 2002. This was repeated in a 2005 parliamentary election. The Parliament amended the Constitution at its will and recreated the Senate, an institution abolished in the late 1980s.

Also in 2005, Mugabe started a program called Operation Restore Order. Ostensibly to restore urban order, the program specifically targeted opposition homes and businesses, of which more than 700,000 were destroyed. Following the uproar over these events, the international community placed much hope on general elections in 2008. By most accounts, opposition leader Morgan Tsvangirai won these elections. However, according to the Zimbabwe Electoral Committee, his victory was not an outright majority, and a run-off election was scheduled for late June 2008. In the lead up to this election, extensive intimidation and electoral irregularities led to the withdrawal of Tsvangirai from the ballot. President Mugabe was thus again re-elected.

Economic Development

From 1998-2002, Zimbabwe was involved in the civil war in the Congo. This engagement, the country's land reform attempts, and the country's poor economic policy are probably the primary reasons for Zimbabwe's rapid economic decline after 2000. The land reform has turned into a farming fiasco. Tens of thousands of jobs were lost, and Zimbabwe, which had been a net exporter of food products, is now a net importer.

The government suffers from a large, unsustainable amount of debt, which is unlikely to be forgiven until there is political change. To pay off the debt, the Reserve Bank of Zimbabwe's answer is to print more money. This has led to serious hyperinflation. Moreover, store shelves are empty and basic commodities have been price controlled. Overall, in the last ten years, Zimbabwe's real GDP has fallen by more than thirty-five percent and inflation rates have skyrocketed, most recently in August 2008 they were as high as eleven million percent. Since 2000, the World Bank has suspended its lending program to Zimbabwe, and currently its role is limited "to technical assistance and analytical work focusing on macroeconomic policy, food security/agrarian issues, social sector expenditures and delivery, infrastructure assessment, and HIV/AIDS program support."[94]

Zimbabwe CPIA Scores			
	2005	**2006**	**2007**
1. Macroecon. Mgt.	1	1	1
2. Fiscal Policy	1	1	1
3. Debt Policy	1	1	1
Avg. Economic Mgt.	**1**	**1**	**1**
4. Trade	2	2	2
5. Financial Sector	2.5	2.5	2.5
6. Business Regulatory Environ.	2	2	1.5
Avg. Structural Policies	**2.2**	**2.2**	**2**
7. Gender Equality	2.5	2.5	2.5
8. Equity of Public Resource Use	1.5	1.5	1.5
9. Building Human Resources	2	2	1.5
10. Social Protection & Labor	1.5	1.5	1
11. Environmental Sustainability	2.5	2.5	2.5
Avg. Social Inclusion/Equity	**2**	**2**	**1.8**
12. Property Rights and Rule-based Governance	1	1	1
13. Quality of Budget & Financial Mgt.	2.5	2	2
14. Efficiency of Revenue Mobilization	3.5	3.5	3.5
15. Quality of Public Admin.	2	2	1.5
16. Transparency, Account. & Corrupt. In Pub. Sec.	1.5	1	1
Avg. Public Sector Mgt. and Institutions	**2.1**	**1.9**	**1.8**
Total CPIA Rating	1.8	1.8	1.7
IDA Loans (million $)	---	---	---
Per Capita Loans $	---	---	---

Analysis of CPIA Ratings

Given the rapid decline of Zimbabwe since 2000, it is somewhat remarkable that the overall CPIA rating has not declined more than one tenth of a point (it has declined from a rating of 1.8 to 1.7) from 2005 to 2007. Yet 1.8 is already such a low score that further declines are difficult. Thus, Zimbabwe's CPIA scores stayed low, or declined further in response to specific policies, decisions or

94 Zimbabwe Country Brief from the World Bank. Available Online at http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/ZIMBABWEEXTN/0,,menuPK:375746~pagePK:141132~piPK:141107~theSitePK:375736,00.html (Accessed 20 August 2008).

breakdowns in governance. In Cluster A for Economic Management, all the scores stayed at the lowest possible score of 1. In Cluster B, Structural Policies, criteria 4 and 5 (Trade and Financial Sector) remained relatively low, whereas criterion 6 (Business Regulatory Environment) declined in 2007.

As for Cluster C, Policies for Social Inclusion and Equity, most criteria stayed the same except for criteria 9 and 10 (Building Human Resources and Social Protection and Labor) which declined. This probably occurred because of the closing of schools as well as the crackdown on laborers by Mugabe's government. In Cluster D, Public Sector Management and Institutions, while criterion 14 (Efficiency of Revenue Mobilization) remained comparatively high at 3.5, most other criteria were either low to begin with or declined by half a point.

ANNEX X: Bibliography

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ANNEX XI: List of Interviews

Abebe Adugna, Senior Economist, Resource Mobilization, World Bank (July 8, 2008)

Gregor Binkert, Lead Specialist, Macroeconomics 1, Mozambique, World Bank (July 24, 2008)

Amar Bhattacharya, Director, G24 Secretariat (July 11, 2008)

Ximenca Coronado, Technical Advisor, GTZ Bolivia (written comments, August 26, 2008)

Rui Coutinho, Senior Economic Policy Adviser, World Bank (July 11 and September 2, 2008)

Shantayanan Devarajan, Chief Economist Africa Region, World Bank (July 24, 2008)

Roger Fischer, Adviser to the German Executive Director, World Bank (July 9, 2008)

Barry Herman, Senior Fellow, New School New York and Board Member, Global Integrity (July 17, 2008)

Robert Holzmann, Sector Director, Social Protection & Labor Unit, Human Development Network, World Bank (July 11, 2008)

Steve Knack, Lead Economist, Development Research/Public Sector Governance, World Bank (July 9, 2008)

Alexis Kohler, Alternate French Executive Director, World Bank (July 23, 2008)

Aart Kraay, Lead Economist, Development Research Group, World Bank (July 15, 2008)

Julio Loayza, Country Economist Bolivia, World Bank (written comments, August 8, 2008)

Deepak Mishra, Lead Economist, Ethiopia and Sudan, World Bank (written comments, August 13, 2008)

Lalita Moorty, Senior Economist, Resource Mobilization, World Bank (July 8, 2008)

Brian Ngo, Lead Economist, Poverty Reduction and Economic Management – Africa Region, World Bank (August 11, 2008)

Jeff Powell, Coordinator, Bretton Woods Project (July 23, 2008)

Sudir Shetty, Sector Manager, Poverty Reduction Group, Poverty Reduction and Economic Management Vice Presidency, World Bank (July 10, 2008)

Vinaya Swaroop, Lead Economist Bangladesh, World Bank (August 14, 2008)

Dusan Vujovic, Lead Economist, Country Evaluations and Regional Relations, World Bank Independent Evaluation Group (IEG) (June 30, 2008)

Elisa van Waeyenberge, London University (July 25, 2008)

ANNEX XII: Acronyms

ARPP	World Bank Annual Report on Portfolio Performance
BMZ	Federal Ministry for Economic Cooperation and Development (Germany)
CAS	Country Assistance Strategy
CPIA	Country Policy and Institutional Assessment
CPR	Country Performance Rating
FDI	Foreign Direct Investment
GNI	Gross National Income
GPPI	Global Public Policy Institute
GTZ	German Association for Technical Cooperation
HDI	Human Development Index
IDA	International Development Association
IEG	Independent Evaluation Group (World Bank)
IFC	International Finance Corporation
IMF	International Monetary Fund
IRAI	IDA Resource Allocation Index (= CPIA score)
PBA	Performance-Based Allocation
PCPI	Post-Conflict Performance Indicators
PPP	purchasing power parity
WTO	World Trade Organization

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