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The World Bank's Scorecard for Rating Performance of its Recipient Governments

Background
In 1997, at the urging of the US government, in particular, the World Bank designed the "Country Policy and Institutional Assessment" (CPIA), to rate a government's policies, and the institutions it has in place, to promote economic growth and poverty reduction. The Bank uses its CPIA to prepare an annual scorecard that rates its approximately 136 recipient countries, 82 of which receive assistance from the IDA. At present, the CPIA (or a close analog) is used in the aid allocation formulas of some regional development banks and the development agencies of the Scandinavian countries, France and the UK. However, the African Development Bank and other critics of the CPIA want to abolish or redesign it, as discussed below.

CPIA Criteria
Using 16 criteria, grouped in four clusters as shown below, the CPIA ranks policies from one (low) to six (high):

1. *Economic Management*: Macroeconomic Management; Fiscal Policy; Debt Policy;
2. *Structural Policies:* Trade; Financial Sector; Business Regulatory Environment;
3. *Policies for Social Inclusion and Equity*: Gender Equality; Equity of Public Resource Use; Building Human Resources; Social Protection and Labor; Policies and Institutions for Environmental Sustainability; and
4. *Governance (Public Sector Management and Institutions*): Property Rights and Rule-based Governance; Quality of Budgetary and Financial Management: Efficiency of Revenue Mobilization; Quality of Public Administration; and Transparency, Accountability and Corruption in the Public Sector.

Purpose of CPIA
In many ways, the CPIA is the most important document prepared for each country by the Bank due to its role in determining country allocations in the following respects:
1. *aid allocation,* or the volume of assistance available to it.
2. *allowable debt ceilings,* which determine the mix of grants vs loans it receives; and
3. the purposes of policy *conditions attached to Bank assistance, presuming* that policy conditions seek to remedy policy "weaknesses" diagnosed by the CPIA.

These three components form the bases of the Bank's assistance strategies for each country[1].

How to Calculate a Government's Performance Rating[2]. The box below identifies the two ratings that, in addition to the CPIA, determine a government's final performance rating. The "Quality of Government Performance on IDA projects" refers primarily to the rate at which IDA financing is disbursed. Importantly, the "Governance Factor" accounts for two-thirds of the final score, which diminishes the value of all other factors (see "Critique", below).

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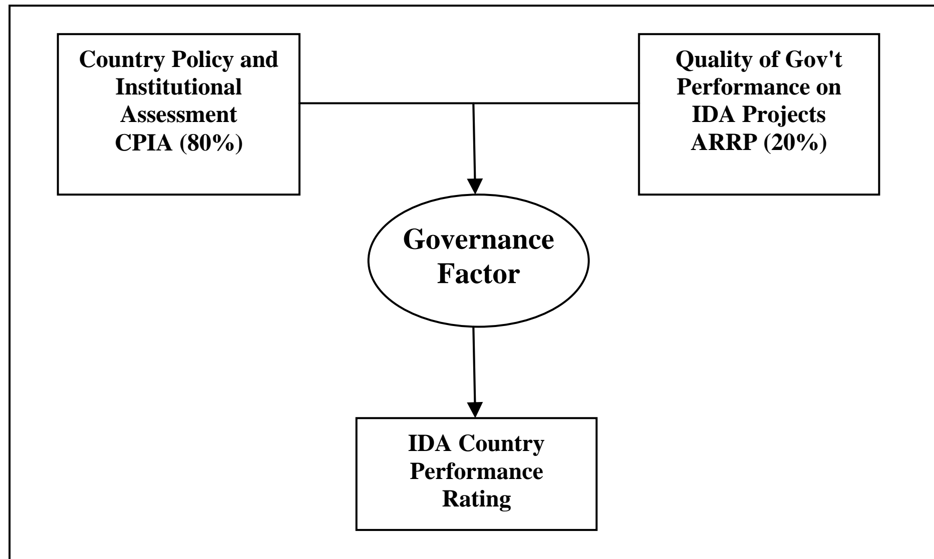
[1] Website to view the Bank's scores for all low-income countries: http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:20933600~pagePK:51236175~piPK:437394~theSitePK:73154,00.html
Middle-income countries do not permit the Bank to disclose their scores.

[2] The rating is explained in greater detail in the following during the IDA-15 discussions, three changes were called for in factor 2 above, namely the government's performance in executing IDA operations in ways that will tend to raise ratings for governments. The adjustments require that the Bank only take into account each government's problematic projects, not the projects that are potentially problematic. The change was made to "reduce unwarranted volatility" in ratings.
The country ratings derived from use of this formula vetted by the Bank's staff and adjustments are made, where necessary, to ensure regional and international comparability. Even these final outcomes require six adjustments, which is a signal that the initial CPIA formula is problematic. These six adjustments are: 1) Assistance to countries with access or potential access to IBRD resources have their allocations capped, or reduced. 2) Fragile States receive extra allocations for designated time periods, and may be eligible for grants to help clear their arrears with the Bank. 3) For countries re-engaging IDA after prolonged inactivity, additional resources may be granted for a designated timeframe if their performance warrants it. 4) Additional allocations may be made at will, for instance, to countries emerging from major natural disasters. 5) 20% of each country's aid allocation is devoted to regional projects – namely projects that involve at least two other countries. 6) Countries may qualify for additional allocations to help finance clearing their arrears to the IBRD and/or IDA.
As contextual factors, the Bank also takes into account each government's (lack of) creditworthiness and per capita income.



Critique

1. *One-size-fits-all.*
   The CPIA is a set of one-size-fits-all policy prescriptions for all circumstances in all countries. This fact alone should de-legitimize the CPIA.

2. *Government Exclusion from Ratings.*
   Governments have no role in determining the CPIA ratings that will profoundly affect their future. There is also no appeals process whereby governments can dispute the Bank's rating of their performance.

3. *Government Performance vs Need for Resources.*
   The IDA-15 negotiators directed that the Bank study how governments' aid allocations affect their development outcomes. The Bank believes that, in order for its aid to be used effectively, governments must be "good" performers. As a result, countries judged as the top performers receive approximately seven times as much as countries judged to be the worst performers. However, the institution also acknowledges that since the CPIA directs aid to governments with high performance, poorly performing low-income countries can be deprived of badly needed resources. There is concern that, on average, the CPIA ratings of African governments progress at about half the speed of countries in other regions.

4. *Lack of Policy Autonomy.*
   On the other hand, the High-Level Panel on the future of the African Development Bank produced a report, *Investing in Africa's Future: The ADB in the 21st Century*, that called for elimination of the Performance-Based Allocation (PBA) system, including the CPIA. Chaired by Joachim Chissano, former President of Mozambique, and Paul Martin, former Prime Minister of Canada, the Panel questions the assumption that some indicators are universally applicable, saying it "leaves little room for country-owned development strategies or continental diversity." Harvard Professor Dani Rodrik (not on the Panel) has echoed this view, saying that, by assuming an *a priori* definition of "good policies", the CPIA fosters the "greatest risk to globalization…that national governments' room for maneuver will shrink to such levels that they will be unable to deliver the policies that their electorates want and need in order to buy into the global economy."[3]

5. *Subjective and Backward Looking.*
   The High-Level Panel criticizes the PBA's indicators of countries' need for resources as too narrow, and says "much of the assessment is essentially subjective and backward-looking", measuring certain policy choices, rather than results. Indeed, World Bank staff working on country operations have an incentive to gloss over

[3] D. Rodrik, "The cheerleaders threat to global trade," Financial Times, February 2007.

problems in order to protect their own reputations. In other words, they have a conflict of interest.

6. *Unreliable Methodology.*
   The Bank's methodology for evaluating a country's governance is wildly unreliable. Yet, the CPIA assigns greater weight to the governance aspect of the rating than to any other indicator. The Bank officials who designed the governance indicator – Danny Kaufmann and Aart Kraay – themselves, openly concede that it has an extremely high margin of error.

7. *Unnecessarily Punitive.*
   In today's world, many domestic policy decisions are strongly influenced by external factors (exogenous shocks, such as drops in commodity prices, natural disasters, erratic aid and other financial flows). The African Development Bank's High-Level Panel says that the CPIA itself acts as an exogenous shock since variation in a government's scores "introduces an unconstructive element of uncertainty into the planning and management process" for both borrowers and lenders. In sum, the CPIA – by not taking exogenous shocks into account -- can punish governments for factors beyond their power to control.

It is time that the World Bank took a different approach; one that would link the disbursement of aid resources to achieved or pledged development results. This "outcomes based" approach would advance both the potential to increase government ownership and to establish clearer relations between development programs and their impact on poverty reduction.

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