The Role of the CPIA and PBA at the Country Level

Case Studies of Ethiopia and Malawi

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List of Acronyms

ARRP	
CABS	Common Approach to Budget Support
CAS	Country Assistance Strategy
CPIA	Country Policy and Institutional Assessment
CPR	Country Performance Rating
CSO	Civil Society Organization
DAG	Development Assistance Group
DPP	Democratic Progressive Party
GDP	Gross Domestic Product
GEF	Global Environmental Facility
GNI	Gross National Income
HLF	High Level Forum
IBRD	International Bank for Reconstruction and Develoment
IDA	International Development Association
MGDS	Malawi Growth and Development Strategy
MoFED	Ministry of Finance and Economic Development (Ethiopia)
OPCS	Operations Policy and Country Services
PAF	Performance Assessment Framework
PBA	Performance-based Allocation
PBS	Protection of Basic Services
PPP	Purchasing power parity
PRSP	Poverty Reduction Strategy Paper

Executive Summary

As the world's largest multilateral donor, the International Development Association (IDA) is central to the evolution of development policy and the international aid architecture. What IDA does, and how it does it, matters not only for partner countries, but also for other donors, bilateral as well as multilateral. The Country Policy and Institutional Assessment (CPIA) and the Performance-based Allocation system (PBA) together constitute the defining features of IDA. The CPIA rates countries' performance on a total of 16 indicators against a standard for good policies and institutions. This performance rating is used to allocate funds so that, *ceteris paribus*, strong performers receive larger allocations than weak performers.

The CPIA was originally focused on economic policy and management to address fiduciary concerns, and served to allocate funds among IDA-eligible countries. While this remains its core function, the CPIA today is much broader in scope, defining a comprehensive standard for countries' policies and institutions believed to facilitate economic growth, poverty reduction and the effective use of development assistance. As a more ambitious and comprehensive standard for 'good' policies, the CPIA has serves broader functions within IDA. The CPIA is now to i) serve as an anchor for the Bank's Country Assistance Strategy (CAS), ii) be a central tool in the on-going policy dialogue with partner countries; and iii) signal to partner countries – through the PBA system – incentives for adopting policies and building institutions that conform to the standard defined by the CPIA. This study assesses these latter three functions of the CPIA in two countries – Ethiopia and Malawi.

Overall, we find that the CPIA is not a significant part of the ongoing policy dialogue at the country level, that it does not significantly shape the Bank's Country Assistance Strategy, and, finally, that the CPIA – through the PBA – does not effectively signal incentives to partner countries to improve their 'performance' as defined by the CPIA. In both countries studied, the content, function and results of the CPIA are known but to very small group who interact directly with the Bank. When comparing the CPIA scores and the respective, country-specific CASs, moreover, we find little evidence that the CPIA heavily shape their contents and priorities. Lastly, there are no robust indications that the CPIA and the PBA provide effective signals or incentives to governments to make decisions that conform to the standard embedded in the CPIA. On this basis, we offer five general recommendations:

1. In order to be made into a diagnostic tool for shaping policies and institutions in partner countries, the process of producing the CPIA must be made more transparent, and the resultant CPIA ratings publicized and actively promoted by the Bank – not only towards the government, but also to the general public.

2. If the CPIA and the PBA are to signal incentives forcefully to recipient countries, IDA allocations would have to be made publicly available for all to see that a government's actions and policies actually result in either higher or lower allocations. Moreover, a link could easily be made between CPIA ratings and partner-country policies and priorities by including in the CPIA write-ups specific actions that would have to be taken by partner countries to improve the score over time.

3. Clarify the role of the CPIA in shaping and informing the CAS relative to governments' own PRSPs. The CAS is supposed to respond to the PRSP, but the CPIA is simultaneously said to shape the CAS. It unclear which is more important – the PRSP or the CPIA – in shaping the CAS. A review of established practice in different countries could be useful to clarify the how the CAS is, and should be, made. An important consideration here is whether the CPIA's role in shaping the CAS undermines the principle of national ownership that underwrites the PRSP.

4. The debate about performance vs need, and about the secrecy of CPIA ratings and write ups, should not be concluded before a more thorough assessment has been made to determine how well the CPIA captures the determinants of growth, poverty reduction and aid effectiveness in various countries. If it does, there are good reasons to strengthen and expand the CPIA and the PBA. If not, other options would have to be considered. Such an assessment should be the basis for discussing the contents and appropriate role of the CPIA and the PBA.

5. Donors, the Bank, and partner countries may want to consider that there is a structural tension between two roles that the CPIA and PBA are currently serving. One is an 'allocation function' that must be rules-based to ensure equitable treatment. The other is a 'policy function' that specifies a standard for good development policy and providing incentives for partner countries. The allocation function must be universal in character because of concerns of equitable treatment of partner countries, but the policy function need not be. Hence, there are

good reasons for trying to separate or de-couple the debate about the contents of the CPIA and PBA as an allocation mechanism from the debate about how the Bank should advise on policy and seek to help particular countries achieve growth, poverty reduction and effective uses of aid based on their individual circumstances.

1 Introduction

This study assesses the role of the World Bank's Country Policy and Institutional Assessment (CPIA) at the country level. This is motivated by the ongoing reflection on the contents and role of the CPIA in shaping the allocations of the International Development Association (IDA) and in informing country-specific operations. The CPIA is an analytical tool defined and used by the Bank to assess borrowing countries' policies and institutions, and it plays a key function in informing the Performance Based Allocation (PBA) system, which determines the distribution of IDA funds to eligible recipients. Three other functions of the CPIA are frequently mentioned, and it is these functions that are to be assessed here. These are, first, the role in shaping and informing the country-level policy dialogue between the World Bank and partner countries; second, the signalling of incentives for improved performance through the PBA system; and three, the shaping and prioritizing of the World Bank's Country Assistance Strategy (CAS). It is difficult to assess the relevance and utility of the CPIA in isolation from its primary function as a tool for allocating scarce IDA resources among countries. Thus, we also discuss the implications of our findings and those of others for the broader debate about the proper contents and role of the CPIA in IDA and in World Bank operations more generally.

1.1 Structure and scope

In the first section we present an overview of the debate about CPIA over time, concerning its role in shaping IDA allocations and in informing policy dialogue, in shaping the CAS, and in providing, through the PBA, incentives to client countries to change policies. Section two provides an analysis of the evolution, content and role of the CPIA and the PBA in IDA. It sets the stage for the detailed analysis of the CPIA at the country level in the two case studies in the following section. Section three reports on findings from the two case studies. It first describes key characteristics of Ethiopia and Malawi, and then assesses the role of the CPIA in each. The discussion is organized under sub-headings concerning the several roles that the CPIA is expected to play (incentives, policy dialogue, and informing the CAS). We move on in section four to highlight some general findings and conclude by offering some recommendations for how to move the debate about the content and role of the CPIA forward.

The report considers the CPIA at the country level. It does not attempt to assess the validity and reliability of the CPIA as such, nor analyse the content of the PBA. Other studies, such as the IEG's evaluation of the CPIA, and the study commissioned by the GTZ on the CPIA and PBA, address those issues, whereas this study is specifically focused on the country-level uses and role of the CPIA and the PBA.[1] Inasmuch as discussions of the CPIA and the PBA system need to take into account how the CPIA and the PBA are perceived and used (or not) at the country level, such an analysis of country-level dynamics seems warranted.

1.2 Method

The study is based on desk review of primary and secondary sources, quantitative data from the World Bank and OECD, and in-depth interviews with stakeholders in Ethiopia and in Malawi.[2] Although this study is limited to two countries, we feel that our findings are not unique and thus have relevance to the broader debate about the CPIA and the PBA. This is in part, as discussed below, because the basis for our findings concerns structural features of the CPIA and the PBA and their role in Bank operations in partner countries. That is: the literature on aid effectiveness that underwrites the CPIA and the PBA – key among which is the 'conditional view' that became central during the 1990s, largely through research funded by or performed at the Bank – holds that aid is effective only in circumstances of settings with good policies and institutions. Further, it holds that aid itself is not particularly effective in changing such policies and institutions. One of the key challenges for reforming or amending the CPIA and PBA is that they build on the first of these findings, while apparently ignoring the other concerning the effect of aid on policies and institutions.[3]

1 IEG (2009) 'The World Bank's Country Policy and Institutional Assessment: An Evaluation'. June. Washington DC; Steets, Julia (2009) 'Adaptation and Refinement of the World Bank's Country Policy and Institutional Assessment'. Discussion paper commissioned by the Federal Ministry for Economic Cooperation and Development. GTZ and GPPI: Eschborn.

2 Interviews were conducted with officials from the World Bank, African Development Bank, donor countries, officials from government ministries, especially the Ministry of Finance, Planning, and the Central Bank. Interviews were also conducted with representatives of non-governmental organizations in both countries. Interviews were conducted in June (Ethiopia) and August (Malawi) 2009.

3 For an overview, see IEG (2009) 'The World Bank's Policy and Institutional Assessment', pp. 30–31.

2 CPIA – Background and Role

The Country Policy and Institutional Assessment (CPIA) is an important diagnostic tool integral to the World Bank's Performance-Based Allocation System (PBA), which determines the distribution of scarce IDA funding to eligible countries.[4] The PBA includes both country needs and performance.[5] 'Needs' are proxied by population size and GNI per capita,[6] while performance is measured by the CPIA and the Bank's loan portfolio performance. The distribution of IDA funds is thus not determined solely by the CPIA – but it remains predominant (see below).

The CPIA was initiated by the Bank in the late 1970s, and consists of a set of criteria that represent the various policy and institutional dimensions the Bank deems important for effective poverty reduction and economic growth. It was not, however, until 2004 that the Bank disclosed the CPIA criteria and ratings of IDA countries. The CPIA consists of 16 criteria grouped into four equally weighted clusters. For each criterion, countries are rated on a scale from 1 (very weak performance) to 6 (very strong performance), and a total rating is calculated for each country – the CPIA score.

The CPIA is designed to measure a country's overall governance environment, policies and institutional arrangements. It covers only those aspects that are under a country's control, and it is focused on actions, not plans and intentions. The CPIA exercise is undertaken by the Bank's respective country teams in cooperation with the region's Chief Economist and various thematic Networks. It is administered by the Bank's Operations Policy and Country Services (OPCS) network. The assessed government may be and usually is consulted during the CPIA

4 The IDA, established in 1960, together with the International Bank for Reconstruction and Development (IBRD) constitutes the World Bank. Currently there are 79 countries eligible for IDA funding. Eligibility is determined using two criteria: i) relative poverty defined as GNI per capita below an established threshold and updated annually (being USD1,135 for fiscal year 2010), and; ii) lack of creditworthiness to borrow on market terms and therefore a need for concessional resources to finance the country's development programme.

5 The IDA has established a set of exceptions to the PBA formula: i) blend countries, meaning countries that are eligible for IDA resources on the basis of per capita income but also have limited creditworthiness to borrow from IBRD, might receive less; ii) post-conflict countries can be provided with additional resources in periods of exceptional need; iii) countries re-engaging with the IDA can receive exceptional allocations for a shorter period; iv) additional funds can be provided to IDA-eligible countries in the aftermath of major natural disaster; v) regional integration projects can provide participating countries with additional resources; vi) exceptional resources can be provided to aid the clearance of arrears to the IBRD or the IDA (World Bank 2008: 44–45).

6 Allocations increase with higher population, and decrease with an increase in GNI per capita.

exercise, but the government does not hold any formal role within the CPIA process. The Bank shares with the government the so-called 'write-ups' that underpin and justify the numerical score accorded to each of the criteria in the CPIA. While the score is shared and discussed with the government, it is not negotiated with them.

2.1 Evolution of the role and content of the CPIA

By itself, the CPIA is merely one among the World Bank's many annual assessments of partner countries. What renders it important is that it has always been tied to the IDA's allocation practices. Since 1977, the CPIA has been the key determinant of country performance ratings that the IDA uses in allocating funds to eligible countries through its performance-based allocation system. The precursor to the CPIA focused primarily on countries' economic management and poverty alleviation efforts. For IDA 10,[7] for example, donors were informed that countries were rated on

> Short-term management includes consideration of monetary, fiscal, exchange rate, and pricing policies. For the long term, consideration is given to structural policies— including external and domestic trade regimes, private sector development, tax and financial sector policies, governance, and natural resource management. Poverty alleviation includes policies promoting the delivery of social services, and the reduction of biases against the agricultural terms of trade and the demand for labor.[8]

Over time, both the scope and contents of the CPIA criteria have changed. In 1997, governance was explicitly introduced through a new criterion on legal and regulatory framework. Here, concern with corruption was central, as evidenced by the reference to the importance of paying attention 'to the implications for corruption of public sector administration' in assessing all elements—tax reforms, volume and composition of expenditures, public expenditure management, and civil administration'.[9] The following year, the CPIA was again changed, in part as a response to Burnside and Dollar's (1997) influential study 'Aid, Policies and Growth'. With this, the governance aspects of the CPIA were further expanded and refined – now totalling six specific criteria. This marked a significant change in the CPIA, which now came to reflect 'an agreed set of Bankwide criteria for promoting growth and poverty reduction.'[10] In 1999, social policies were added at the urging of IDA deputies. Later, in 2001, the CPIA also came to cover policies and institutions for dealing with communi-

7 Donors meet every three years to replenish IDA funds and review IDA's policies. The number following IDA refers to specific, sequential triennial periods: IDA 10 refers to the July 1993–June 1996 period. The current IDA is number 15. IDA 15 runs from July 2008 to June 2011.
8 IDA (1992) 'Allocations Revisited', IDA10 Discussion Paper 2, Annex, page 20.
9 OED (2001) 'Review of the Performance Based Allocation System, IDA10–12', p. 9.
10 Ibid. p.11.

cable diseases. And in 2004, important changes were made concerning *how* the CPIA was performed, with detailed guidelines for how each criterion was to be assessed.

These developments reflect important features of the evolution in general development thinking, but they also reflect an important feature of IDA operations: From being focused on a set of core of economic issues linked with the concern as to the fiduciary risks of IDA grants and loans when the association was first established, the CPIA now covers a country's policies and institutional characteristics on a comprehensive scale. It defines a standard of 'good' policies and institutions that IDA sees as conducive to sustainable growth, poverty reduction and the effective use of development assistance.[11] As such, the CPIA is not seen solely as a tool for allocating funds among countries on the basis of fiduciary concerns, it also defines a standard for the types of policies and institutions that the IDA encourages and advances through its general policies and country operations.

2.2 CPIA: core function

The CPIA's core function is to provide the key input to the PBA system. As an international organization, the World Bank is concerned to reduce or mitigate the politicization of allocation decisions. The CPIA and the PBA together fill this function, giving this rules-based allocation system a specific form, focusing on the content and quality of countries' policies and institutions. While the IDA is based on the PBA system, the allocation mechanism also factors in country needs, measured by GNI per capita and population size. Moreover, an assessment of the performance of Bank operations at the country level – the ARRP – is factored into the formula that yields the Country Performance Rating (CPR). The CPR combines the four CPIA clusters (A–D). In keeping with prevailing development thinking in the Bank, the CPR accords much higher weight to the governance aspects of the CPIA (Cluster D). Currently, the CPR is calculated as follows:[12]

$$\text{Country Performance Rating} = (0.24 * \text{CPIA}_{A\text{-}C} + 0.68 * \text{CPIA}_{D} + 0.08 * \text{Portfolio})$$

It gives 68% weight to the governance factor, 24% to the other CPIA clusters, and 8% to the portfolio assessment (ARRP). To arrive at the final IDA allocation, the CPR is given a weighting of 5 and combined with population size and poverty levels, as measured by GNI per capita, as follows:

[11] 'Country Policy and Institutional Assessments', 2008 Assessment Questionnaire, OPCS, the World Bank, p.1.

[12] The formula is subject to triennial discussions, in the event of IDA replenishment.

IDA country allocation = f (Country performance rating $_{5.0}$, Population$_{1.0}$, GNI/capita$_{-0.125}$)

In addition, there are important exceptions to the PBA formula. These concern, *inter alia,* capping of the allocation to countries that are also eligible for loans from the IBRD, additional resources to post-conflict countries, additional resources for countries re-engaging with the IDA and countries that have experienced major natural disasters.[13]

Until the mid-2000s, the CPIA ratings were not made public. That they are so today reflects at least two developments: An increased focus on transparency and accountability in development policy in general and at the Bank in particular, but also an ambition on the part of Bank management and IDA deputies to broaden the role of the CPIA. As stated in various IDA documents from the last decade, the CPIA is no longer solely an exercise addressed to the task of determining the allocation of funds among countries. As discussed in greater detail below, the expansion of the CPIA's functions to cover all key factors held to promote growth and aid effectiveness lies at the heart of the on-going debates about whether and how to modify or change the CPIA and the PBA system.

2.3 CPIA in Bank operations

The primary objective of the CPIA is to provide the key input to the PBA system in order to determine the distribution of scarce IDA resources among eligible countries. In addition to this function, the CPIA is also intended by the Bank to i) anchor the Bank's strategies at the country level through the 'Country Assistance Strategy' (CAS), ii) inform and underwrite the on-going policy dialogue with partner countries, iii) signal incentives for partner countries to over time adopt policies that conform to the CPIA, and iv) establish a standard for the designation of 'fragile states'. Here, we focus on the first three, as a discussion of whether and how the CPIA is appropriate for determining state fragility would require a separate analysis.

As to the incentive function, the IDA noted in 2002 that changes in the PBA in 2001 were in two parts, one concerning assessment and one concerning allocations, specifying that 'the PBA's system's changes and results in 2001' are, in terms of assessments, that it provides 'incentives for good governance across the full spectrum of performance by replacing the governance discount by the governance factor. This eliminated a discontinuity in the assessment process and resulted in

13 IDA (2008) 'IDA's Performance Based Allocation System for IDA 15', p. 1.

greater dispersion in the performance ratings.'[14] The same report notes, concerning the 'governance factor' then introduced, that 'a country that scores above the mid-point on the governance-related criteria will receive a premium, and a country that that scores below the mid-point on governance will receive a discount.'[15]

Figure 1 illustrates the structural linkages of CPIA with regard to the CAS and client countries' Poverty Reduction Strategy Paper – or PRSP – and how it anchors and relates to the overall policy dialogue between the Bank and client government. Whereas the boxes on the left side belong to government's domestic realm, the boxes on the right relate to the Bank.

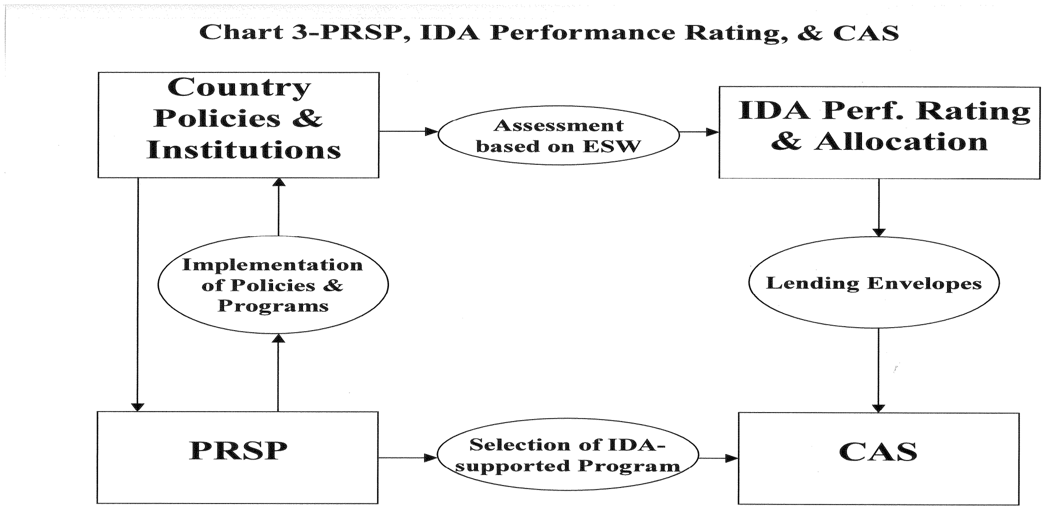

Figure 1: The chart explicates the structural relations among the various components integral to the IDA country allocations system

The PRSP outlines government's own national development and poverty alleviation strategy, which needs the approval of the Bank's board to become effective. The CAS is the Bank's policy response to the PRSP, and explicates the government strategies and policies the Bank opts to support. As Figure 1 shows, there is a direct interrelationship between the assessment of country policies and institutions and the government's own PRSP. The assessment of the country's policies and institutions, i.e. CPIA, feeds into the Bank's IDA allocation system, which again provides the financial frameworks of CAS as well as informing on its content.

14 IDA (2002) 'Linking IDA Support to Country Performance, Third Annual Report on IDA's Country Assessment and Allocation Process', April 2002. p 2.

15 Ibid., p. 4.

It is noted in IDA documents, for example, that the CPIA shapes the CAS and policy dialogue by serving as a 'diagnostic tool' that 'indicate[s] areas where attention needs to be focused and thereby influence the focus of the IDA-supported program; for example, the CPIA influences the ESW work program which may have an impact on the PRSP and, in turn, IDA's assistance program and future CPIA results.'[16]

The governance factor (Cluster D) in the CPIA has been the subject of much discussion. It is now seen as the most important determinant of growth, poverty reduction of aid effectiveness, and is weighted, as noted above, with 68% in the PBA. But the successive changes to the PBA and the role of the CPIA within it have incurred some costs, not least a loss of transparency and clarity in the incentives that the CPIA-PBA ostensibly offers to partner countries. As a result, efforts have been made to make the system more transparent and understandable:

> Implementation of the PBA formula has ensured that more resources have been allocated and committed in better-governed countries. The review also finds that the inclusion of the governance factor has increased the responsiveness of country performance ratings (and therefore IDA allocations) to changes in governance. … Going forward, management proposes that the country performance rating formula be simplified and its outcomes be made less volatile. Simplification of the formula is necessary at a time when IDA is taking steps to be transparent about how its resources are allocated through public disclosure of its country performance assessments. A simpler formula would promote a clearer understanding among partner countries of which factors most influence IDA allocations. Moreover, a simplified formula would better reflect the gains made in improving measurements of governance. 17

And again in 2008, IDA emphasized that it was important to simplify the governance factor because of concerns with signalling incentives: 'To make the system more effective at the country level by enhancing transparency of resource flows, Deputies agreed to simplify the formula using a linear transformation.'[18] As a review of the Bank's Global Environmental Facility (GEF) noted about the CPIA and PBA 'Transparency and clarity are, of course, extremely important to the rationale for using a performance-based formula at all. The easier the formula is to understand, the more clearly can its incentive aspects be communicated to the eligible countries.'[19]

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16 IDA 2002 'Summary of the PBA system', p. 6.
17 IDA 14 (2006) 'IDA's Performance Based Allocation System: A Review of the Governance Factor'. World Bank. Para 4.
18 IDA 15 (2008) 'Report from the Executive Directors of the International Development Association To the Board of Governors', p. 21.
19 Watson, Kenneth (2008) 'Mid-Term Review of the GEF Resource Allocation Framework – Comparison of the GEF RAF with other Performance-Based Allocation Systems', Technical Paper #8 GEF Evaluations Office. pp. 6–7.

Although not the sole determinant for allocating IDA funds, the CPIA is by far the most important one. It is also the only factor on which a client government might have any immediate impact by altering its policies. This, moreover, is illustrative of a wider change on the part of the Bank and the policies it pursues, representing a generational shift from economic conditionality integral to the structural adjustment programmes of the early 1980s to political conditionality. This has often been referred to as a shift from first- to second-generation conditionality, where the latter essentially promotes the introduction and strengthening of the institutions of liberal democracy – as contained in the CPIA cluster D. Central to the debate on the role of CPIA and PBA is the extent to which the CPIA is reliable and valid for capturing the determinants of growth, poverty reduction, and aid effectiveness and thus whether the Bank should continue using it as a comprehensive standard for 'good' policy.[20] In focusing on two countries below, we do not aim to assess the reliability and validity directly. We merely ask how the CPIA and PBA function at the country level.

20 See e.g. Jeff Powell: 'The World Bank Policy Scorecard. The New Conditionality?' Bretton Woods Project, 22 November 2004. Available at http://www.brettonwoodsproject.org/article.shtml?cmd%5B126%5D=x-126-84455

3 Case Studies

3.1. Ethiopia Case Study

Ethiopia is Africa's second most populous country, with an estimated population at around 80 million.[21] It is also among the world's poorest countries, with an average per capita income at USD 220. It is ranked 38 (out of 75) on the 2008 IDA CPIA index,[22] and 169 out of 179 on the UN Human Development Index.[23] It is the largest country in the Horn of Africa, a region destabilized by numerous intra- and interstate conflicts over recent decades. Plagued by famines and droughts, Ethiopia has embarked on extensive efforts to improve food security. In May 2005 the country held general elections, which were initially deemed free and fair by international observers. Nonetheless, the government employed draconian measures to police the post-election turmoil that erupted, and opposition candidates and journalists were imprisoned with charges of treason and inciting to violence after having taken to the streets with allegations of electoral fraud and corruption.

In response to what were seen as deteriorating developments for democracy and good governance, the World Bank and bilateral donors discontinued their direct budget support. Rather than cutting or withholding funds, the Bank and bilaterals reallocated funds to a newly established Protection of Basic Services (PBS) programme. PBS is a large programme involving the government and eight development partners with a total project cost for the first phase (2006–2009) of USD 2562 million. The Bank is the largest donor, with an annual commitment of USD 215 million. Although the Bank discontinued budget support over governance-related issues, the government maintained its service delivery due to the PBS. Government and donors have pledged commitment to a new PBS2, which reportedly includes an enhanced focus on governance issues and capacity building of democratic institutions.[24]

In January 2009, the Ethiopian parliament adopted a new law regulating civil society organizations (CSOs). The law, if enacted, puts re-

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21 The World Bank puts the population at 72.7 million in 2006, and the UN at 83.1 million in 2007. See http://siteresources.worldbank.org/INTETHIOPIA/Resources/ET_Glance.pdf and http://data.un.org/CountryProfile.aspx?crname=Ethiopia respectively.

22 See http://siteresources.worldbank.org/IDA/Resources/73153-1181752621336/I AI2008 table2.pdf

23 See http://hdr.undp.org/en/statistics/

24 Interviews with officials at the Ethiopian Ministry of Finance and Economic Development (MoFED), 9 June 2009.

strictions on the human rights activities of domestic and external CSOs by restricting such efforts undertaken by organizations that receive more than ten per cent of their funding from abroad. The law has received considerable criticism from international observers, who fear it will be applied randomly and used to control civil society and opposition in the upcoming 2010 elections. This remains to be seen, however.[25] The government asserts that the law aims to secure Ethiopian interests, lessen the influence of external actors, and uphold Ethiopian sovereignty over domestic political life.

PASDEP – Ethiopia's second Poverty Reduction Strategy Paper (PRSP) – states that poverty eradication is the main development objective of the government.[26] Despite challenges in domestic policies and critical governance concerns, Ethiopia has seen significant progress on key human development indicators – notably primary school enrolment, child mortality, access to clean water, and levels of poverty.[27] In recent years Ethiopia has been one of the fastest growing non-oil economies in Africa, with double-digit growth rates for six consecutive years. Partly as a result, the World Bank has referred favourably to Ethiopia's emerging 'dual take-off': 'Ethiopia shows some signs of having entered a new phase of more rapid economic growth, while simultaneously experiencing what might be called a "service delivery take-off'".[28] The Bank expects Ethiopia to 'leave the ranks of the poorest countries in the world sooner than might have been expected only a short time ago'[29] if this the dual take-off can be sustained.

Key Findings

Incentives and Allocations in Ethiopia

While Ethiopia is seen as a poor performer on governance issues, the Bank deems Ethiopia to be doing well in economic growth and service delivery. Development partners agree that Ethiopia's good achievements are due to its having one of the most 'pro-poor budgets' in Africa.[30]

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25 See e.g. Amnesty International: 'Ethiopian Parliament adopts repressive new NGO law' (8 January 2009 – available at www.amnesty.org/en/news-and-updates/news/ethiopian-parliament-adopts-repressive-new-ngo-law-20090108); Daily Monitor: 'U.S. expresses concern on Ethiopia CSO law' (23 October 2008 – available at www.allafrica.com/stories/200810230780.html).

26 The Plan for Accelerated and Sustained Development to End Poverty (PASDEP) was approved by parliament in May 2006, and covers fiscal years 2005/06 to 2009/10. Available at http://go.worldbank.org/DBKOAPDD51

27 See World Bank's Country brief on Ethiopia; http://go.worldbank.org/WA1RL12OL0.

28 World Bank, 2008: 'Country Assistance Strategy for Ethiopia', 2 April 2008. p. i.

29 Ibid.

30 Interviews in Addis Ababa with officials and representatives of the Norwegian embassy (8 June 2009); UNDP (9 June 2009); DFID (10 June 2009); GTZ (11 June 2009); and Swedish embassy (11 June 2009).

Table 1: Ethiopia CPIA Scores 2005–2008[31]

Cluster	Criteria	2005	2006	2007	2008
A: Economic Management		**3.7**	**3.5**	**3.5**	**3.3**
	1. Macroeconomic management	3.5	3	3	2.5
	2. Fiscal policy	4	4	4	4
	3. Debt policy	3.5	3.5	3.5	3.5
B: Structural Policies		**3.2**	**3.2**	**3.2**	**3.2**
	4. Trade	3	3	3	3
	5. Financial sector	3	3	3	3
	6. Business regulatory environment	3.5	3.5	3.5	3.5
C: Policies for Social Inclusion and Equity		**3.6**	**3.6**	**3.7**	**3.6**
	7. Gender equality	3	3	3	3
	8. Equity of public resources use	4.5	4.5	4.5	4.5
	9. Building human resources	3.5	3.5	4	4
	10. Social protection and labour	3.5	3.5	3.5	3.5
	11. Policies and institutions for environmental sustainability	3.5	3.5	3.5	3
D: Public Sector Management		**3.1**	**3.3**	**3.3**	**3.3**
	12. Property rights and rule based governance	2.5	3	3	3
	13. Quality of budgetary and financial management	3.5	4	4	4
	14. Efficiency of revenue mobilization	4	4	4	4
	15. Quality of public administration	3	3	3	3
	16. Transparency, accountability and corruption in public sector	2.5	2.5	2.5	2.5

Ethiopia's average CPIA score has been 3.4 over the last four years.[32] Although it has remained fairly stable and consistent, Ethiopia is ranked 38 out of 75 IDA-eligible countries, and just above the 3.2 threshold for being classified as fragile.[33] Despite a stable CPIA, IDA loans have increased in size over the same period, from USD 449.9 million in 2005, to 504.7 million in 2006, 630 million in 2007, and USD 634.5 in 2008.[34]

The CPIA scores and aid allocations do not correlate. While it is difficult to assess how much IDA allocations would change as an effect of changes in CPIA scores over time, *ceteris paribus*, we can note that a stable, average CPIA of 3.4 from 2005 to 2008 has co-existed with an increase in IDA funding from USD 449.9 million to 634.5 million over the same period. Moreover, the termination of direct budget sup-

31 The CPIA scores are available at http://go.worldbank.org/S2THWI1X60
32 While the rounded averages for 2005 and 2006 are 3 and 4, respectively, the actual average for 2007 is 3.425 and 3.35 for 2008.
33 The Bank's definition of fragile states covers low-income countries scoring 3.2 and below on the CPIA. Previously both Cluster D and CPIA had to be 3.2 or less for a country to be designated as fragile.
34 These figures derive from the respective and relevant CASs. Available at http://go.worldbank.org/ZBCG9IF761

port – with reference to the government's handling of the post-2005 election turmoil – and the establishment of the PBS as a substitute did *not* entail any cut in the Bank's overall allocations. Rather, two out of five criteria in the public sector management cluster, the governance cluster, received an increase of 0.5 each from 2005 to 2006. That the CPIA average remains 3.4 is due to the 0.5 drop in economic management. The rationale for increasing the score on two good governance-related criteria remains uncertain, in view of the post-election turmoil and donors' termination of direct budget support.[35] It seems puzzling that concerns over governance issues, critical enough to lead the Bank to alter its partnership and funding modality significantly, are not reflected in the CPIA scores.[36]

Since 2005 there has been a significant decrease in the score on macroeconomic management, from 3.5 in 2005 to 2.5 in 2008. This change in assessment by the Bank has taken place in the same period as Ethiopia has seen high economic growth rates for six consecutive years. This growth is challenged by high domestic inflation and a difficult balance-of-payment situation, with weak foreign exchange reserves driving fuel and food prices up. Although these remain critical macroeconomic challenges, it is also recognized that these problems are exacerbated by the steep rise in global food and commodity prices, the international financial crisis, and the lack of rain during the first half of 2008.

While influencing the domestic economy, these are all exogenous factors outside the control of the government and thus they are not part of what the CPIA assesses. The government has removed fuel-price subsidies, and the National Bank has raised the minimum reserve requirement on commercial bank deposits. These measures have brought the high domestic inflation under temporary control. Nevertheless, the Bank asserts that the county's macroeconomic situation remains tenuous,[37] and the decrease in CPIA score on economic management is made with reference to what the Bank deems an incomplete sequencing and implementation of what it generally considered a sound policy response by the government. Here it is important to note that all interviewees agreed that these measures had been undertaken on the government's initiative to improve the macroeconomic situation, and not as an attempt to improve the CPIA rating as such. Both government and donor representatives agreed that the government would never alter its policies just for the sake of accommodating do-

35 Steets (2009: 71) remarks that the improvement in criteria 12 and 13 of the CPIA is a reflection of international praise for Ethiopia's market reforms and good governance.
36 Reflection made by DFID programme officer (10 June 2009).
37 Interview with senior official at World Bank country office in Addis Ababa (11 June 2009).

nors or to increase its CPIA to gain more IDA funding.[38] Indeed, interviewees held that the government would rather opt to lose development assistance than accommodate donor demands and policy prescriptions.

Policy Dialogue

The macroeconomic situation was one of two key themes at the Ninth Government–Donor High Level Forum (HLF) of 20 April 2009, in which government ministers (notably the Ministry of Finance and Economic Development) meet donor representatives (the DAG chairs[39] and senior IFI representatives). The themes were the new CSO law and the macroeconomic situation, both central to issues covered by the CPIA. The CSO law, which had already been adopted, was subject to discussion only on technical issues, implementation and application. The session on macroeconomic issues was initiated by a joint presentation made by the IMF and World Bank representatives. The IMF representative focused on topics falling under CPIA's Economic Management cluster, and the Bank representative attended to issues dealing with structural policies, integral to cluster B of the CPIA.

There was little debate over the IMF representative's presentation of the macroeconomic challenges, as the government had already embarked on several policy measures (see above).[40] The Bank representative addressed structural issues, i.e. those falling under CPIA cluster B, as part and parcel of stabilizing the economy, thus making a call for modernizing the financial sector to facilitate private-sector activities. That would entail opening up and privatizing such key institutions as the banking system and the telecommunication sector, and would open up for private ownership of land. Reportedly, the government, in its response, 'could agree with 90–95% of what is suggested… In effect, 20 of the 25 recommendation … are agreeable but the others require further discussion.'[41] Most of what the government did commit to relates to the macroeconomic situation, to which government had already adopted policy measures. The government said it would adjust macroeconomic management issues and welcomed IMF assistance in tightening up inflation problems.[42] However, the government did not

38 This view is reflected by nearly all interviewees, e.g. senior official at MoFED's Multilateral Cooperation Department (12 June 2009); World Bank senior officials (10 June 2009); a political affairs officer at the British Embassy (11 June 2009); UNDP representative (10 June 2009).
39 DAG, the Development Assistance Group Ethiopia, is a mechanism for coordination among bi- and multilateral donors.
40 Interview with UNDP official (9 June 2009). See also minutes from Ninth Government–Donor High Level Forum (HLF), 20 April 2009. Ministry of Finance and Economic Development.
41 Quote from minutes of Ninth Government–Donor High Level Forum, 20 April 2009. Ministry of Finance and Economic Development.
42 See minutes from HLF meeting.

agree when it came to the Bank's proposal to liberalize the financial sector, open the banking system to foreign investment, privatize telecommunications and privatize land ownership. As in Malawi (see below), the government was willing to discuss macroeconomic management, which it itself considers relevant, but not governance issues relating to privatization etc., which it deems to be ideological and political.[43]

Although it is not possible to establish any direct correlation, the HLF meeting illustrates that the CPIA does influence country dialogue between the Bank and government. It is far from clear, however, whether the policy preferences and priorities embedded in the CPIA shape government priorities. Although government representatives recognize the necessity of CPIA as an instrument for determining the distribution of scarce IDA funding, they contest the contents of the CPIA for reasons of ideology, alleged subjectivity and lack of transparency.[44] The CPIA is seen as an ideological policy package promulgated by the Bank.[45] As the debate over structural policies illustrates, the government sees these as explicitly challenging its ideological orientation.[46] For example, Ethiopia's 'pro-poor budget' is, amongst others, based on revenues derived in part from the government's ownership of telecommunications, land, and the banking system – sectors the Bank would like to see privatized. Consequently, the CPIA is criticized for rewarding policies seen as neither appropriate nor desirable by the Ethiopian government. The contestation over ideology relates to the criticism of over the CPIA's focus on performance, i.e. policy input. The Ethiopian government has been delivering good results according to the Bank's own standards for economic growth and poverty alleviation, and feels it unfair to be penalized because it pursues policies advanced by the Bank. This underscores the criticism of the CPIA as being ideological and insensitive to country context. Ethiopia's economic growth and poverty alleviation are, moreover, seen as falsifying the CPIA's underlying assumption that one certain set of policies is more conducive to growth and poverty reduction than others.

Interviewees acknowledge the Bank has taken a major step by disclosing the CPIA ratings, but the process through which they are produced is seen by those familiar with it as non-transparent and subjective. Quite a few of those interviewed were critical of how the Bank selected and interpreted data to arrive at specific scores. In short, government officials with knowledge of the CPIA were not convinced

43 Interview, MoFED officials (9 June 2009).
44 Interviews, MoFED (9 and 12 June 2009).
45 Interview with DFID programme officer (10 June 2009).
46 Interviews at MoFED (12 June 2009). This sentiment is also acknowledged by Bank representatives (interviews at the Bank's country office, 10 June 2009).

that the 'subjective' results used by Bank staff could be reliably transferred into 'objective' numerical scores.[47] The government has no formal leeway to monitor, dispute or inform this process. This was also seen as undermining predictability and the potential incentive mechanism of the CPIA–PBA system.

Anchoring CAS

In official Bank documents, the CPIA is described as informing or 'anchoring' the Bank's lending programme at the country level, as outlined in the Country Assistance Strategy (CAS). The CAS is the Bank's response to a government's Poverty Reduction Strategy Paper (PRSP), setting out the total IDA allocation and which areas and projects will receive support. It is difficult to assert any direct linkages between CPIA and CAS in terms of policy influence for several factors, notably relating to sequencing.[48] As the CPIA was disclosed only from 2005 it is hard to trace its influence on the Ethiopian CAS for the years 2003 to 2005. The interim CAS of 2006 to 2007 for Ethiopia saw enhanced attention to good governance, which seems warranted in light of the turmoil following the 2005 elections and the Bank's termination of budget support. That is, however, not reflected in the CPIA score, as the governance cluster increased from 2005 to 2006. Moreover, the PASDEP runs from 2005 to 2009/10, underpinned by the Interim CAS of 2006–07 and the current CAS (2008–2011). However, it is evident that the Bank has stepped up its focus on economic management and structural policies in the country dialogue and in the recent CAS, even though this is not reflected in the PASDEP which is the government's strategy.[49]

With a score of 3.2, the cluster on structural policies in the CPIA is the one that has received the lowest average CPIA score in Ethiopia. The current CAS reads 'In certain areas, such as reforms in the banking and telecommunications sectors and the encouragement of more private sector investments in infrastructure, there are some differences of views between the government and the Bank on the approach. The Bank will continue a dialogue with government to seek to narrow the gap between these differing views' (paragraph viii). Although Ethiopia is hailed for its economic progress, which the Bank attributes to, *inter alia,* 'improvements in structural policies' (CAS paragraph 11), Ethiopia will have to deal with some 'structural issues', because 'turning such serendipitous beginnings into a virtuous circle of sorts requires a set of sound policies' (CAS paragraph 29). Attending to reforms of structural policies is, however, difficult for the Bank in the

47 Ibid.
48 Although this statement draws largely on reading CPIA and CAS, it was also reflected by interviewees at the Bank's country office (10 June 2009).
49 The various Ethiopian CAS are available at http://go.worldbank.org/ZBCG9IF761

present context, as it has lost its unique advantage in country dialogue after terminating budget support and thus losing the opportunity of PRSC negotiations. With reference to a recent CAS Completion Report, the current CAS asserts that 'Budget support provided an important forum for dialogue, especially on issues related to growth and structural reforms' (paragraph 51), arguing for the resumption of budget support once donors and government agree that the conditions are appropriate. Budget support is desirable for the Bank, as that would provide 'important opportunities to engage in policy dialogue on wide-ranging structural issues' to address 'key structural issues that hinder more robust growth of the private sector' (CAS paragraph 60). As such, the Bank seems convinced – at least in the context of Ethiopia – that direct budget support and annual PRSC negotiations, rather than CPIA, would be more influential in terms of providing incentive mechanisms, shaping policy dialogue, anchoring CAS and infusing reforms of the policies contained in the CPIA.

3.2. Case study: Malawi

Political Context

Malawi became independent in 1964. It was ruled as a one-party state by President Banda until 1994, when the first multi-party election was held. In 2004 and again in 2009, Bingu va Mutharika of the Democratic Progressive Party (DPP) was elected president. According to most observers, Mutharika and his DPP won by a sizeable margin largely because of their development agenda, where government involvement in the agricultural sector was a central component. As with many multi-party democracies in Africa, political power tends to be concentrated in the executive. The power vested in the presidency by the constitution is combined with the informal power of patronage. As a result, personal loyalty and patronage to the president tend to override the formal checks and balances put in place by the constitution.

Business and political elite are intertwined, with key members of both the ruling party and the opposition party having substantial business interests in tobacco, fertilizer, construction etc. One study notes that debates about economic policies between the opposition and government are hampered by this feature, and that taxation 'is often used to sanction business people who are not favoured by political elites', a fact also attributed to the weakness of business associations.[50] There are few civil society organizations focused on economic governance, with the exception of the Malawi Economic Justice Network and the Economics Association of Malawi.

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50 Rakner, Lise et al. (2004) 'The Political Economy of the Budget in Malawi: The Budget as a Theatre – the formal and informal institutional makings of the budget process in Malawi.' p. 8 Available at http://www.gsdrc.org/docs/open/DOC51.pdf

Economy

Malawi is one of Africa's most densely populated and poorest countries. The population is at 13.1 million, with 85% living in rural areas. Its GDP per capita (in PPP terms) is USD 800, placing it as one of the world's poorest countries. On the latest Human Development Index, Malawi ranks 160 out of 182.[51] Agriculture is the mainstay of the economy, responsible for over one third of GDP and over 80% of export earnings. Agriculture is also the major source of subsistence, supporting 85% of the population. The government has given priority to agriculture in its development strategy – allocating to it, according to one estimate, around 14% of the budget.[52]At present, donors contribute around 40% per cent to Malawi's annual budget.

Recently, the country has seen substantial economic growth, averaging 7.5% over the past four years. Inflation is down to single digits as of 2005, and was reported at 8.7% in May of 2009. Interest rates are also down, from around 40% in 2003 to the current 15%. This recent period of economic growth was preceded by a period of economic mismanagement where the IMF defined Malawi as being 'off-track', causing both the IMF and other donors to either suspend or drastically reduce their development assistance. Partly as a consequence of this reduction in development assistance, Malawi borrowed heavily in the private market, accumulating high levels of debt. In 2005, it completed the IMF 'staff monitored program' and reached the completion point of the HIPC initiative in 2006, resulting in debt relief amounting to over USD 2 billion.[53]

Now on-track with the IMF, Malawi receives budget support totalling around USD 158 million. The Common Approach to Budget Support (CABS) group is the key institutional forum for policy dialogue between donors and the government of Malawi. The CABS group employs a 'Performance Assessment Framework' (PAF) for its budget support which consists of detailed indicators and targets that are drawn from a variety of different sources. These targets are used as benchmarks against which government performance is measured. The Malawi government has in place an economic programme for 2006–2011 – the Malawi Growth and Development Strategy (MGDS), which is the Poverty Reduction Strategy Paper (PRSP). The World Bank's Country Assistance Strategy (CAS), is a response the MDGS. The MDGS emphasizes agriculture and food security, irrigation, in-

51 Human Development Report 2009. Available at http://hdr.undp.org/en/statistics. Accessed 5 January 2010.
52 African Economic Outlook. Recent Economic Developments: http://www.africaneconomicoutlook.org/en/countries/southern-africa/malawi/#/recent_economic_developments
53 http://lilongwe.usembassy.gov/economic_commercial_section2.html

frastructure, energy generation, rural development, prevention and management of nutrition, and HIV/AIDS.[54]

Key findings

The key findings from the Malawi case study, substantiated below, can be summarized as follows: While the CPIA clearly does shape IDA allocations in how it enters the PBA formula that IDA uses to allocate funds, the changes in IDA funds available to Malawi have varied much more than CPIA ratings. This indicates that there is no direct economic incentive effect in the CPIA-PBA for partner countries to adopt policies that conform to the CPIA. As discussed below, this is further supported by the finding on the other role that the CPIA is expected to perform, namely to inform policy dialogue and shape the focus and priorities in the Bank's CAS. Here, we find that the CPIA plays little or no role, as evidenced by the fact, first, that the CPIA is unknown to all but a very limited group of people in the government, and second, that other indicators and assessment tools dominate the work of the CABS group. Finally, there is – as discussed in greater detail in the conclusion – a structural deficiency with regard to how the CPIA is to 'anchor' the CAS. According to Bank policy, the CAS is to respond to a government's PRSP, in this case the MDGS. The CPIA is here said to enter the picture by specifying where there is the greatest need for improvement, thus serving, in theory, as an indication of where IDA funds are most needed to improve policies and institutional quality. But the CPIA does not seem to fill such a function, as the CPIA figures only marginally in the CAS to describe approximate funding levels, and is nowhere to be seen in the government's MDGS. Hence, and in contrast to official IDA assertions, the CPIA does not seem to 'anchor' the CAS. The CPIA does play a marginal role in the on-going policy dialogue, but it is not in any way an institutionalized framework or tool used in this dialogue.

CPIA and incentives:

CPIA ratings for Malawi have remained quite stable over time. As shown in Table 2 below, building human resources went down from 3.5 in 2005 and 2006 to 3 in 2007 and 2008, but the most significant changes is on CPIA cluster A, Economic Management. Here, fiscal policy improved from 3 to 3.5 between 2006 and 2007; macroeconomic management also improved from 3 to 3.5 from 2005 to 2006. In the most heavily weighted cluster on governance, there are no changes.

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54 Malawi Growth and Development Strategy – from Poverty to Prosperity 2006–2011.

Table 2: Malawi CPIA Scores 2005–2008

Cluster	Criteria	2005	2006	2007	2008
A: Economic Management		**3**	**3.2**	**3.3**	**3.3**
	1. Macroeconomic management	3	3.5	3.5	3.5
	2. Fiscal policy	3	3	3.5	3.5
	3. Debt policy	3	3	3	3
B: Structural Policies		**3.5**	**3.5**	**3.5**	**3.5**
	4. Trade	4	4	4	4
	5. Financial sector	3	3	3	3
	6. Business regulatory environment	3.5	3.5	3.5	3.5
C: Policies for Social Inclusion and Equity		**3.5**	**3.5**	**3.4**	**3.4**
	7. Gender equality	3.5	3.5	3.5	3.5
	8. Equity of public resources use	3.5	3.5	3.5	3.5
	9. Building human resources	3.5	3.5	3	3
	10. Social protection and labour	3.5	3.5	3.5	3.5
	11. Policies and institutions for environmental sustainability	3.5	3.5	3.5	3.5
D: Public Sector Management		**3.4**	**3.4**	**3.4**	**3.4**
	12. Property rights and rule based governance	3.5	3.5	3.5	3.5
	13. Quality of budgetary and financial management	3	3	3	3
	14. Efficiency of revenue mobilization	4	4	4	4
	15. Quality of public administration	3.5	3.5	3.5	3.5
	16. Transparency, accountability and corruption in public sector	3	3	3	3

IDA allocations, however, have changed quite significantly in the same period. As indicated in Table 3 below, when compared to CPIA ratings in the same period, there is no clear relationship between the two. Of course, there can be no denying that the CPIA, through its role in the PBA system employed by IDA, plays a role in these allocations. *Ceteris paribus*, Malawi would receive a higher allocation with an improvement in CPIA ratings, especially on Cluster D. The point here is simply that *other* factors – factors that fall outside the PBA – override possible changes in the IDA allocation stemming from improvements or deterioration in CPIA scores.

Table 3: IDA allocations (plan and actual) as found in CAS for Malawi 2003–2010[55]

	2003	2004	2005	2006	2007	2008	2009	2010
Planned	95	75	70	70	80	80	90	90
Actual	133.7	116.0	47.2	110.0				

55 Country Assistance Strategy for Malawi 2003 and 2007. See http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/MALAWIEXTN/0,,menuPK:355885~pagePK:141132~piPK:141105~theSitePK:355870,00.html. Accessed October 1, 2009.

The impression left by the absence of a clear link between policies and IDA allocations is further substantiated by the fact that IDA allocations are not, as is claimed, solely rules-based. Other studies have documented that IDA allocations may change significantly from year to year, under political pressure from key donors in the Bank. Andersen et al. note, for example, how the IDA decided to withdraw lending to Allende's Chile in 1970–1973; and during the Iran–Iraqi war, the IDA stopped funding to both countries. Moreover, World Bank assistance to Pakistan tripled from USD 226 million in 2001 to 860 million in 2002.[56] As such, IDA allocation decisions seem to be driven, or shaped, also by a host of factors *other than those* contained in the CPIA and the PBA formula. Some of these have to do with the exceptions stipulated during IDA negotiations; others concern front- and back-loading and flexibility in Bank operations to deviate from the allocation depending on country context, Bank plans, etc. One informant within the Bank estimated that Bank flexibility to deviate from the allocation at about 20 per cent, further reducing the visibility of the performance component of IDA allocations.[57]

The CPIA, through the PBA, would have signalled incentives more clearly by increasing the performance element in the PBA, by reducing discretion in deciding on actual commitments and disbursements, by linking CPIA more clearly to allocations, or by specifying actions needed for better performance and thus more funds. Still, it remains an open question whether such incentive mechanisms would be strong enough to trump domestic political factors. Granted, there can be objectively effective incentives without the actors involved recognizing them – as when bus commuters answer in the negative when surveyed as to whether they will change behaviour if fares are raised, but where the sum-total of individual behaviour does result in a reduction of commuters.[58]

The extent to which such incentives are effective in shaping government policy and transforming institutions is a question beyond the scope of this report. Nevertheless, both primary and secondary sources indicate that even if there should be a strong link between performance and allocations, this is unlikely to contribute to Malawi changing its policies or institutions in a certain direction. Insights from the broader literature on aid and on the political economy in developing countries (and elsewhere) strongly suggest that domestic economic concerns, political alliances and personal loyalty will overrule the in-

56 Andersen, Thomas B, Henrik Hansen and Thomas Markussen (2006) 'US Politics and World Bank IDA Lending', Discussion Papers 05–06. University of Copenhagen. p. 3

57 Communication with Bank official, August 2009.

58 We thank Kenneth Watson for challenging us to discuss the distinction between individual subjective perceptions and collective effects of incentives.

centive effects of the CPIA-PBA.[59] A study of the budget process in Malawi concluded that it was a ‘theatre’:

> From the process of planning and formulation the budget, through its implementation and oversight, the study finds that the budget process in Malawi provides no realistic estimate of revenue or spending: The budget process is a theatre that masks the real distribution and spending. All the actors, from civil society, government, and donors seem aware that many of their statements and actions have little bearing on actual distribution of resources. Yet, all stakeholders ‘act’ as if the budget planning and formulation will actually have a bearing on the actual implementation and distribution of resources. (Rakner et al. 2004: iv)

This is not to suggest that donors have no influence. They do. As discussed below, the IMF is seen, as one informant put it, as the ‘ultimate whip’ as far as economic management is concerned. This is in part related to the fact that Malawians recall the consequences of being judged off-track by the IMF, causing other donors to cut their support drastically. But it also has something to do with the standing of the IMF towards partner countries, as the effects of IMF criticism or assessments may prove very significant. This is not the case with the World Bank, as it only *adjusts* its lending and operations scenario when it wants to signal to the government that it some policies are ill-founded. A case in point is how the Bank reduced its support from 40 USD million to 30 million in response to the Malawi government’s agricultural subsidies programme, which the Bank opposed in part on the grounds that it excluded private actors. As a donor representative put it, ‘When the Bank is not happy about something, it signals this by reducing its support somewhat, but it allows the other donors to continue their support. It’s a bad cop, good cop thing.’[60]

It should also be noted that, at least in Malawi, IDA loans must be approved by the parliament. This potentially complicates or ‘distorts’ the idea that the incentives at work through the PBA are effective in signalling the ‘price’ of a change in behaviour. Since the parliament is a political body made up of various groups vying for advantage, changes in IDA allocations that follow from the CPIA exercise do not automatically go into the government’s budgets. Loans must be approved, and thus the issue of both the size of the loan and the conditions attached to it comes into play.

CPIA and Country Dialogue

The CPIA is not well known in government circles in Malawi. In the Ministry of Finance, it is familiar to those whose job it is to coordinate

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59 See, for example, Hyden, Goran (2006) *African Politics in Comparative Perspective.* Cambridge University Press; Eriksen, Stein Sundstøl (2005) ‘Politics of Survival in the Making of Strong and Weak States’, *Forum for Development Studies,* no 2.

60 Interview, Lilongwe, 26 August 2009.

donor issues. Interviews with officials elsewhere in the Ministry of Finance and in the Ministry of Planning indicate that the CPIA is not part of the framework within which government policy is formulated and administered. Here we should recall that the first time the Bank presented and discussed the role and content of the CPIA with donors was as late as the 1990s, as a workshop in London in 1996. The section responsible within the Finance Ministry (Debt and Aid) in Malawi has tried to broaden the understanding and implications of the CPIA and the PBA across ministries, noting that 'There is no room for complacency', as the CPIA ratings affect aid allocations from the IDA. Nevertheless, only those who deal directly with Bank officials, who coordinate with the CABS group and who are consulted by the Bank during the production of the CPIA seem to be aware of what it is and why it matters. Similarly, officials at the Reserve Bank of Malawi noted that while they knew of the CPIA, that it assessed macroeconomic issues under the purview of the Reserve Bank, they did not pay much attention to it, focusing instead on the dialogue with the IMF.

Because Malawi receives budget support, the central arena for policy dialogue are the consultations between the government and the CABS group. The latter has established a Performance Assessment Framework (PAF) with detailed targets, actions, and indicators of progress – but the CPIA is nowhere to be found here. While the indicators and targets broadly reflect the type of development thinking that underwrites the CPIA, the CPIA as such does not play any significant role in the work of the CABS group or in the policy dialogue with the government. The Malawi MDGS, which provides the overarching framework for the dialogue between donors (including the Bank) and the government, makes no reference to the CPIA or the PBA.

Interviews with civil society organizations in Malawi yield a similar picture. The Malawi Economic Justice Network, by most accounts the largest and most central CSO focused on economic growth and poverty, had never heard about the CPIA – again indicating that the CPIA may be central to discussions between Bank officials and a small group of officials within the Ministry of Finance, but it is not central to the policy dialogue as such. Bank officials also acknowledged this, noting that 'Ideally, government should use the CPIA but they don't. Debt and Aid in Ministry of Finance has tried to improve and use the CPIA and also the PAF rigorously in internal negotiations.'[61] This view was also communicated by officials in the Ministry of Finance, with one informant noting that 'We (Debt and Aid in the Ministry of Finance) have tried to sell CPIA to other parts of the government that it matters, but with limited effect. The Debt and Aid section has to

61 Interview, Bank Official, Lilongwe, 24 August 2009.

make clear why PFEM Action Plan is important because of its links to CPIA and thus also PBA.'[62]

CPIA and the CAS

When compared with the CPIA for Malawi, the CAS does not seem to give priority to those areas identified by the CPIA as showing the poorest performance. Bank support, as stipulated in the CAS, is 29% for human development, 34% for infrastructure, 24% for agriculture, rural development and natural resources, 7% for private sector development and 6% for public sector development.[63] This prioritization in the CAS seems to dovetail with the MDGS – as it is supposed to, according to Bank mode of operations. But it does not harmonize with the CPIA ratings. The CPIA ratings (see above) have remained fairly constant on all indicators for the period 2005 – 2008, whereas IDA allocations have not. According to the 2007 CAS for Malawi, the estimate is that Malawi will have access to USD 80 million in the fiscal year 2007/08, and USD 95 million in the fiscal year 2009/10, subject to PBA ratings and the size of IDA 15. However, this is the only reference to the PBA and CPIA; and the latter can hardly be said to 'anchor' or shape in any significant way the CAS at the country level, as evidenced by the fact that funding priorities within the CAS are aligned with the MDGS, not the CPIA.

There is structural tension here in how the Bank describes the ideal uses of the CPIA in relation to the CAS. On the one hand, the CAS is meant to respond to the country's own PRSP as a reflection of country ownership. On the other hand, the CPIA is to anchor the CAS and identify areas in need of special attention. In the case of Malawi, the CAS seems to be aligned with the MDGS (Malawi's PRSP), and not with the CPIA. There are good reasons why the CAS should be aligned with the PRSP rather than the CPIA – but this fact also suggests that the CPIA occupies an uneasy position towards the CAS, as it is an external assessment of policy and institutional performance against a given standard, not a reflection of the government's (ownership) and policy priorities, as reflected in their PRSP.

62 Interview, Officials with the Malawian Ministry of Finance, 26 August 2009.
63 Malawi Country Brief, World Bank. Updated June 2009. Accessed 13 September 2009: http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/MALAWIEXTN/0,,menuPK:355882~pagePK:141132~piPK:141107~theSitePK:355870,00.html

4. Conclusions

Our findings indicate that, while the CPIA, through the PBA, clearly does affect IDA allocations, there is – at least in the two cases reviewed here – no clear relationship between CPIA ratings and IDA allocations. Moreover, the CPIA does not seem to anchor or serve as a tool for prioritizing the CAS. Rather, the CAS responds, as it is indeed meant to do, to the government's own plans, and these appear to take priority over CPIA. For example, the CPIA and PBA are referred to in the CAS for Malawi only to show the general level of IDA allocation, not to indicate priorities as to where the Bank should direct its resources. Third, we find that the CPIA does not play any significant role in the policy dialogue at the country level. The case of Ethiopia shows that the CPIA is contested by the government and as such it does form part of the policy dialogue – but it does not guide, shape or contribute to the alignment of priorities and policies on the part of the government. In the case of Malawi, where the relationship between the Bank and the government is of a different character and where budget support is being provided, the CPIA does not occupy a central position in the policy dialogue, except for those persons in the Ministry of Finance responsible for coordinating with the Bank on aid matters. Instead, other indicators and targets are used by the CABS group in their on-going dialogue with the government.

Thus we find that the *CPIA does not play a significant role at the country level* in terms of signalling incentives, shaping policy dialogue, or informing the CAS. That is not to suggest, however, that the CPIA might not play such a role in other countries, or that it cannot be made more powerful in shaping both incentives, in structuring policy dialogue and in prioritizing the CAS. What we do mean to say is that several important questions remain to be dealt with in the debate about the CPIA and the PBA

5. Recommendations

1. In order to be made into a diagnostic tool for shaping policies and institutions in partner countries, the process of producing the CPIA must be made more transparent, and the resultant CPIA ratings publicized and actively promoted by the Bank – not only towards the government, but also to the general public. The CPIA started out as an internal, largely secret, undertaking by the Bank. For various reasons, the Bank still seems to produce and use the CPIA in the same way, even though CPIA ratings are now disclosed. One official indicated that the CPIA can be a very useful tool to be used *by* governments towards other donors to attract funding, saying 'If CPIA gives bad score on an issue, government can take this to donors and ask for support. For example, a poor score on girls' education, which can be linked to the MDGs, too.'

2. If the CPIA and the PBA are to signal incentives forcefully, IDA allocations would have to be made publicly available for all to see that a government's actions and policies actually result in either higher or lower allocations. Moreover, a link could easily be made between CPIA ratings and partner-country policies and priorities by including in the CPIA write-ups specific actions that would have to be taken by partner countries to improve the score over time. One could also make a modified version of the CPIA write-ups, including suggested actions deemed important by the Bank, available to the general public so as to generate debate and accountability between partner-country governments and their citizens.

3. The role of the CPIA in shaping and informing the CAS brings up a structural tension between the CPIA as an external assessment of 'good' policies and institutions, on the one hand, and the government's own PRSP, on the other. A review of the relative importance of the CPIA and the PRSP in shaping the CAS could be established as a means to assess the extent to which the CAS reflects universal standards (CPIA) or the government's own priorities (PRSP). This seems important not only as a means to help make the Bank's operations more context specific, but also to assess how the Bank understands and implements the principle of national ownership that underwrites the PRSP.

4. The debate about performance vs need, and about the transparency and secrecy of CPIA ratings and write ups, cannot and should not be concluded before a far more thorough assessment has been made to

determine how well the CPIA captures the determinants of growth, poverty reduction and aid effectiveness in various countries. If the CPIA and the PBA in fact do capture the key determinants for growth, poverty reduction and the effective use of aid , then there are good reasons for expanding the role of the CPIA as an overarching knowledge product in the public domain and possibly also expanding the incentive structure offered by the CPIA-PBA mechanism. If not, then there is a strong case to be made for scaling down the CPIA to its original format of assessing fiduciary risks, however defined, in allocating funds among countries, and for allocating funds on the basis of needs and allowing partner countries, with Bank support, to tailor their policies to national and regional contexts.

5. Donors, the Bank, and partner countries may want to consider that there is a structural tension between two roles that the CPIA and PBA are currently serving. The PBA is a rules-based system of allocation funds, and all international organizations typically adopt such systems to allocate funds among countries in an equitable manner. This 'allocation function' of the CPIA-PBA is at loggerheads with the more forward-looking 'policy function' gradually accorded to the CPIA-PBA in terms of setting a comprehensive standard for good development policy and providing incentives for partner countries to conform. To ensure equitable treatment in allocating funds, the CPIA-PBA must maintain a *universal* standard (whether based on needs or performance, or a combination). To be effective in capturing the determinants of growth in a *particular* country and to tailor policy advice accordingly, however, requires going away from the 'one size fits all' logic embedded in the CPIA-PBA. Hence, there are good reasons for trying to separate or de-couple the debate about the contents of the CPIA and PBA as an allocation mechanism from the debate about how the Bank should advise on policy and seek to help particular countries achieve growth, poverty reduction and effective uses of aid based on their individual circumstances.