



**AFRICAN DEVELOPMENT BANK GROUP**

**THE 2008 COUNTRY POLICY AND INSTITUTIONAL  
ASSESSMENTS (CPIA)**

**2008 CPIA QUESTIONNAIRE**

**October 2008/ORPC.2**

# Country Policy and Institutional Assessment 2008 Questionnaire

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## COUNTRY POLICY AND INSTITUTIONAL ASSESSMENT (CPIA)

### QUESTIONNAIRE AND GUIDELINES FOR 2008

#### **Background**

During the consultations for the ADF-11 replenishment, State Participants endorsed the simplification of the performance-based methodology for allocation of the Fund's concessional resources.<sup>1</sup> One element of the simplified PBA formula is to eliminate double counting of the governance factor. Accordingly, the new CPIA is split into two groups, the CPIA Cluster A-C, and CPIA – Cluster D. The CPIA Cluster A-C has 3 clusters and the fourth cluster under the previous CPIA now becomes CPIA Cluster D, which represents the Governance Rating.

The CPIA is a system designed to assess the quality of a country's present policy and institutional framework, in terms of how conducive such a framework is to ensuring the efficient utilization of scarce development resources in the pursuit of sustainable and poverty reducing development in the Regional Member Countries (RMCs); it is delineated in the following pages in some detail. In pursuit of the institutional objective of greater harmonization and consistency, and in view of the numerous parallel changes in the PBA system under ADF-11 and IDA-15, the questionnaire is more fully aligned with that of the World Bank.

#### **CPIA process**

Under the new process, the CPIA is split into 2 groups: the CPIA (A-C), with 11 items, grouped into three clusters, to be assessed (see box 1 below) and the CPIA –D (see box 2).

Under the CPIA (A-C), there are three clusters for the rating, each weighted at 33.33%. It derives that the components in Economic Management and Structural Policies have an individual weight of 11.11% whereas the components in the cluster for Policies for Social Inclusion/Equity and Public Sector Management and Institutions carry a weight of 6.67%. This implies that each criterion in clusters A & B is relatively more important than that in cluster C. Countries should also be rated in relation to the benchmark countries for which agreed ratings will be provided to staff. Ratings will be reviewed across complexes to insure objectivity, fairness, and consistency. All countries, including post conflict countries will be assessed.

The CPIA Cluster D which becomes the Governance Rating (Public Sector Management and Institutions) within the simplified allocation formula, is made up of five items, each weighted 20.00%.

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<sup>1</sup> See the *ADF-11 Deputies Report, London, United Kingdom, December 2007, (para 6.5)*

## 2008 criteria

As Box 1 shows, the 11 CPIA (A-C) criteria are grouped into three clusters: A) Economic Management, B) Structural Policies and, C) Policies for Social Inclusion and Equity. The specific contents of each of the criteria are presented below. The criteria focus on policies and institutional arrangements, the key elements that are within the control of a country.

### BOX 1: CPIA (A-C) CRITERIA

#### A. Economic Management

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

#### B. Structural Policies

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

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

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

### BOX 2: CPIA-D- CRITERIA

#### D. Governance Rating: Public Sector Management and Institutions

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

Countries should be rated on their current status in relation to the criteria and benchmark countries. The proposed ratings should focus on the level of performance assessed against the criteria, rather than the degree of improvement since last year. The ratings should depend on actual policies, not promises or intentions.

In general, depending on the specific component being rated, the rating scale described below derives from informed judgment on tangible results resulting from implementation of policies over a sustained period of time rather than intended ones where applicable. Institutions and their good functioning are important also. The following are broad representations of the various rating categories.

- “1” Very weak for 2 years or more.**
- “2” Weak**
- “3” Moderately weak**
- “4” Moderately strong**
- “5” Strong**
- “6” Very strong for 3 years or more**

This scale allows for intermediate ratings such as **1.5; 2.5; 3.5; 4.5, and 5.5**. However, integer scoring is advisable to avoid bunching, homogenization, or inadvertent upgrading or downgrading. The rating scale would apply for each criterion irrespective of the number of dimensions. However, for a criterion with multi-dimensions, a rating for each dimension should be provided in the write-up along with its justification.

**All ratings for RMCs will be particularly disclosed, and could be scrutinized by any third party.** It is required that ratings are justified in writing for each criterion according to the Country Worksheet Form. Staff may need to take into account the size of the economy and its degree of sophistication in implementing the guidelines. The criteria were developed to ensure that, to the extent possible, their contents are not influenced by the level of development in the country; that the higher scores do not set unduly demanding standards, and can be attained by a country that, given its stage of development, has a policy and institutional framework that strongly fosters growth and poverty reduction. Each criterion includes suggested indicators to assist country teams in determining country scores and in ranking countries. Most of the available data (e.g., macroeconomic data and social indicators) refer to “*outcomes*”. In the context of a framework for growth and poverty reduction, policies and institutions can be seen as “*inputs*”—as elements that are essentially under the country’s control – while “*outcomes*” can be affected by external factors beyond the country’s influence. Staff should use outcome indicators to inform their judgments about the effectiveness of the relevant policies and institutions, and to help comparisons among countries. However, this should not be a mechanical process: staff’s professional judgment of country performance against the CPIA criteria should continue to be the key input in determining country scores.

## **A- COUNTRY POLICY AND INSTITUTIONAL ASSESSMENT (CPIA A-C)**

### **1. MACROECONOMIC MANAGEMENT**

This criterion assesses the quality of the monetary/exchange rate and aggregate demand policy framework. A high quality policy framework is one that is favorable to sustained medium-term economic growth. Critical components are: a monetary/exchange rate policy with clearly defined price stability objectives; aggregate demand policies that focus on maintaining short and medium-term external balance (under the current and foreseeable external environment); and avoid crowding out private investment. Fiscal issues, including sustainability, are covered in criterion 2 (Fiscal Policy), and debt issues are covered in criterion 3 (Debt Policy). In assessing the quality of the policy and institutional framework outcome indicators should be used to inform the determination of the score.

**Guideposts:**

- IMF Article IV Consultation; other relevant reports.

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| <ol style="list-style-type: none"> <li>1 For 2 years or more, aggregate demand policies have generated macroeconomic imbalances and raised the risk of (or led to) balance of payment crisis; monetary/exchange rate policies have not been oriented towards price stability; and public spending has been crowding out private sector investment.</li> <li>2 Aggregate demand policies are inconsistent with macroeconomic stability. Monetary and exchange rate policies do not ensure price stability; and there is significant private sector investment crowding out. Policy framework is inadequate to mitigate the effects of external/internal shocks.</li> <li>3 Sporadic or partial attempts to address macroeconomic imbalances (e.g., pursue price stability, reduce current account deficits, mitigate the effects of external shocks, and avoid crowding out). In many cases the set of policies pursued are not fully consistent.</li> <li>4 Aggregate demand policies pursue external and internal balances. Monetary/exchange rate policies pursue price stability; and expenditure policy intends to avoid crowding out. Policy inconsistencies or slippages, however, sometimes undermine the achievement of these objectives.</li> <li>5 Aggregate demand policies pursue external and internal balances. Rapid and flexible policy response mitigates the effects of external or internal shocks. Monetary/exchange rate policies clearly target price stability, and public spending does not crowd out private investment.</li> <li>6 For 3 years or more aggregate demand policies have maintained external and internal balance and built adequate safeguards against external/internal shocks. Monetary/exchange rate policies have maintained price stability, and public spending has not crowded out private investment.</li> </ol> |
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**2. FISCAL POLICY**

This criterion assesses the short- and medium-term sustainability of fiscal policy (taking into account monetary and exchange rate policy and the sustainability of the public debt) and its impact on growth. Fiscal policy is not sustainable if it results in a continuous increase in the debt to GDP ratio and/or creates financing needs that cannot be adequately met by the supply of funds available to the public sector. This criterion covers the extent to which: (a) the primary balance is managed to ensure sustainability of the public finances; (b) public expenditure/revenue can be adjusted to absorb shocks if necessary; and (c) the provision of public goods, including infrastructure, is consistent with medium-term growth. Sustainability is defined inclusive of off-budget government spending items and contingent liabilities. The impact of fiscal policy on economic growth depends on the marginal productivity of government spending and on the distortions introduced by taxes collected to finance this spending.

**Guideposts:**

- IMF Article IV Consultation and other relevant reports.

- |   |
|---|
| <ol style="list-style-type: none"> <li>1 For 2 years or more fiscal policy has contributed to macroeconomic imbalances (high inflation, crowding out of private investment, and unsustainable current account deficits or unsustainable public debt). Public expenditures and revenues have been inflexible to adapt to shocks. The provision of public goods has been greatly</li> </ol> |
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insufficient to support medium-term growth.

- 2 Fiscal balance is likely to lead (or is already leading) to macroeconomic imbalances. The primary balance is insufficient to halt the increase of the ratio public debt to GDP; public expenditure and revenues are rigid to adapt to shocks without jeopardizing the quality and quantity of public goods produced; and the provision of public goods is insufficient to support medium-term growth.
3. Sporadic efforts to address macroeconomic imbalances through fiscal policy, but not maintained consistently, or implemented through ad-hoc or temporary measures that cannot be maintained (i.e., unrealistic cuts in real wages, or cuts in public investment with high long-term run returns). Public expenditure and revenue rigidities and/or delayed response result in frequent departures from the programmed balance when unexpected shocks occur. The provision of public goods in some areas is insufficient to support medium-term growth.
4. Fiscal policy is consistent with macroeconomic stability and debt sustainability, but there are occasional slippages. Fiscal balance is sometimes reached at the expense of public goods provision. Fiscal policy response to shocks is reasonably rapid. The quality of public goods provision is in many areas sufficient to support growth most of the time.
- 5 Fiscal policies are consistent with macroeconomic stability. Fiscal balance can be financed in a non-inflationary way and is consistent with adequate credit for the private sector and a sustainable path of public debt. Public expenditures and revenues are flexible to adapt to shocks, and the provision of public goods is adequate to support growth.
- 6 Fiscal policy has been supporting, for 3 years or more, macroeconomic stability. The primary surplus has been managed to maintain a stable and low ratio public debt to GDP; public expenditure and revenues have adjusted to shocks without jeopardizing the quality and quantity of public goods produced; provision of public goods has been adequate to support medium-term growth.

### 3. DEBT POLICY

This criterion assesses whether the debt management strategy aims at minimizing budgetary risks and ensuring long-term debt sustainability. The criterion evaluates the extent to which external and domestic debts are contracted with a view to achieving/maintaining debt sustainability, and the degree of co-ordination between debt management and other macroeconomic policies. Adequate and up-to-date information on debt stock and flows is an important component of debt management strategy. Timely, accurate statistics on the level and composition of debt, both domestic and external, is necessary as is the capacity to analyze the volatility of debt servicing due to exchange rate and interest rate shocks. A dedicated debt management unit should be able to monitor new borrowing with a view to ensure debt sustainability, including headroom to leverage additional resources in the event of exogenous shocks. Effective inter-agency coordination on issues related to debt management and debt sustainability is also crucial. This criterion covers the adequacy of the debt recording systems, the timelines of the public debt data, and the effectiveness of the debt management unit. Regarding treatment of MDRI, it should be noted that MDRI should not be used as a rationale for proposing higher country scores, given that it is an external action which is related to country performance already incorporated in the CPIA scores.

- 1 Debt burden indicators are high, and the country is running arrears. New debt is contracted in amounts/terms that are not conducive to long-term debt sustainability. Little coordination/ major inconsistencies exist between

debt management and other macroeconomic policies. Systems for recording and monitoring debt are inadequate, and no unified debt management unit exists. Debt data are not accurate and/or publicly available. Borrowing operations are reactive and the authorities may resort to quasi-fiscal financing by the central bank, use of captive investors, and other short-term expedient measures. There is no clear financing strategy and the legal framework for borrowing is not defined.

- 2 Debt burden indicators are high with a significant risk that arrears will emerge in the absence of debt restructuring/reduction. New external/domestic debt is contracted on terms that may worsen debt sustainability in the short/medium term. There is little coordination between debt management and other macroeconomic policies and major conflicts may exist. A debt management unit exists, but lacks adequate systems for recording and monitoring debt. Data on debt are made available on a sporadic basis and analytical capacity is weak. Financing strategies are prepared on an informal basis and are not clearly linked to the composition of debt. The legal framework for borrowing is defined, but there is little coordination between agencies responsible for contracting debt.
- 3 Debt burden indicators do not signal a risk of debt service problems, though in the medium term the country may experience debt-servicing difficulties in the event of shocks. New external/domestic debt is contracted in amounts and on terms that are partly conducive to debt sustainability. There is some coordination between debt management and other macroeconomic policies. A debt management unit exists, debt-recording systems are adequate, but analytical capacity could be bolstered. Data on public debt is produced, but it may be difficult to obtain an overall picture of its composition. Emphasis is placed on developing an annual plan for financing the government, but it may lack specificity and is not set in a medium-term framework. The legal framework for public borrowing is clearly defined, although coordination and information sharing between different agencies responsible for contracting debt could be improved.
- 4 Debt burden indicators do not signal a reasonable risk of debt servicing difficulties. New external/domestic debt is contracted in amounts and on terms conducive to debt sustainability. There is some coordination between debt management and macroeconomic policies. A debt management unit exists, debt-recording systems are adequate, and analytical capacity is satisfactory. Data on public debt is produced, but it may be difficult to obtain an overall picture of its composition. Emphasis is placed on developing an annual plan for financing the government, but it may lack specificity and is not set in a medium term framework. The legal framework for public borrowing is clearly defined and there is some coordination and information sharing between different agencies responsible for contracting debt.
- 5 Debt burden indicators do not signal a reasonable risk of debt servicing difficulties. Terms of new borrowing are conducive to long-term debt sustainability. There is good coordination between debt management and macroeconomic policies. The debt management unit is well established, supported by efficient systems, and has good analytical capacity as indicated by regular analytical work on debt. Regular, comprehensive and accurate statistics are produced. The government produces annually a strategy defining how the composition of the debt is projected to evolve over the medium term. The legal framework for public borrowing is clearly defined, and information is shared between different agencies responsible for contracting debt.
- 6 Debt burden indicators do not signal the possibility of debt servicing difficulties even under reasonable shock scenarios. Terms of new borrowing are conducive to long-term debt sustainability. There is good coordination between debt management and macroeconomic policies, and debt management is implemented separately from monetary policy. The debt management unit is well established, supported by efficient systems, and has good analytical capacity. Regular, comprehensive and accurate statistics are produced. The objectives for debt management are public (and may be defined in legislation), and the government produces annually a strategy defining how the composition of the debt is projected to evolve over the medium term, based on a thorough analysis of risk and cost, and taking into account the (explicit) constraints that the government faces. The legal framework for public borrowing is clearly defined, and information is shared between different agencies responsible for contracting debt.

#### **4. POLICIES AND INSTITUTIONS FOR ECONOMIC COOPERATION, REGIONAL INTEGRATION & TRADE**

This criterion assesses how the policy framework fosters regional integration and trade in goods. The first part of this criterion seeks to measure the extent to which a country supports regional organizations in which it is a member and its commitment to economic cooperation and regional integration initiatives. The second part of part of criterion focuses on trade and covers two areas : (a) trade regime restrictiveness focusing on the height of tariffs barriers, the extent to which non-tariff barriers (NTBs) are used, and the transparency and predictability of the trade regime; and (b) customs and trade facilitation, including the extent to which the customs service is free of corruption, relies on risk management, processes duty collections and refunds promptly, and operates transparently. The overall score for trade is a weighted average of the scores for the two components: (a) trade restrictiveness (0.75) and (b) customs/trade facilitation (0.25).

**Guideposts:**

- Private Sector Profiles
- FIAS Administrative Barriers Reports (where current);  
<http://www.fias.net/>
- WTO Trade Policy Review (where current).  
[http://www.wto.org/english/tratop\\_e/tpr\\_e/tpr\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tpr_e.htm)

**1.1** Has signed and ratified less than 25% of protocols and agreements of key regional economic integration and cooperation institutions. Non-existence of a mechanism and policies for addressing regional integration and co-operation. No allocation of government resources for existing regional economic integration projects/programmes for two years or more.

**1.2**

a. Average tariff above 25 percent; many rates above 50 percent; no use of tariff bands. Internal taxation (e.g., VAT, excises, sales tax, withholding procedures, etc.) discriminates heavily against imports. NTBs (e.g., anti-dumping, protectionist technical standards, price controls, trade monopolies, tariff rate quotas) routinely used to limit trade. Administrative measures are non-transparent, discretionary, and discriminatory. Tariff setting process is unpredictable, favours specific firms, and is not transparent. Many export taxes at high tax rates.

b. Corruption and arbitrary decisions are endemic. Total reliance on physical examination for control of imported goods. Import and export documentation and procedures are manual and paper-based. Poor processing of duty and tax collections; refunds rarely paid. Customs procedures are not documented. Mechanisms for appealing customs decisions do not work.

**2.1** Has signed and ratified between 25-50% of protocols and agreements of key regional economic integration and cooperation institutions. Non-existence of a mechanism and policies for addressing regional integration and co-operation issues. Limited allocation of government resources for existing regional economic integration projects/programs.

**2.2**

a. Average tariff below 25 percent; many rates above 40 percent; more than 5 tariff bands. Discriminatory internal taxes used as trade policy tool. Widespread use of NTBs, especially trade monopolies and quantitative restrictions. Administrative measures are documented, but are discriminatory and discretionary. Tariff rates are adjusted frequently and not transparently; concessions and exemptions are often given to specific firms. Many export taxes, often at high rates.

b. Widespread perception of corruption. Heavy reliance on high levels of physical examination of goods. Documentation on trade goods paper-based, but supported by information technology (IT) for duty assessment and statistical purposes. Collection of duties, taxes, and payment of refunds routinely slow and cumbersome. Published laws, regulations, and procedures are incomplete, outdated, and cumbersome. Formal mechanisms in place for appealing customs decisions, but are difficult to use.

**3.1** Has signed and ratified between 50-75% of protocols and agreements of key regional economic integration and cooperation institutions. Partially effective mechanism for addressing regional integration issues. Insufficient allocation of government resources to existing regional economic integration projects and programmes. Any arrears on multinational projects are temporary and due to administrative reasons.

**3.2**

a. Average tariff below 20 percent; 5 or fewer bands, maximum band at 30 percent tariff. Few cases of discriminatory internal taxation. Common use of NTBs, applied transparently and on most favored nation (MFN) status basis, but not automatically. Tariff rates are adjusted more than once a year, but through a transparent process. Few export taxes.

b. Allegations of corruption are frequent. Decisions on level of documentary/physical examination based partially on risk assessment. IT employed for processing of declarations, duty assessment and control of transit goods. Collection of duties, taxes, and payment of refunds often slow and cumbersome. Laws, regulations, and guidelines published; procedures need to be simplified and rationalized. Formal mechanisms for appealing customs decisions work erratically and slowly.

**4.1** Has signed and ratified between 75-90% of protocols and agreements of key regional economic integration and cooperation institutions. Well-functioning regional integration mechanism. Adequate allocation of government resources for regional economic integration projects and programmes. Existence of an effective focal point for regional economic integration. No arrears on multinational projects for at least nine months.

**4.2**

a. Average tariff below 16 percent; 4 or fewer tariff bands, maximum band at 25 percent tariff rate. Exceptional and temporary cases of discriminatory internal taxation. NTBs, such as standards, are limited to a relatively few sensitive goods, but are transparent and non-discretionary. Tariff rates are adjusted no more than annually, through a transparent process. No export taxes.

b. Limited allegations of corruption in customs administration. Risk management guides most decision-making. Reliance on IT for processing of declarations, duty assessment, control of transit goods. Manifest information transmitted to customs electronically. Facility exists for Direct Trader input of import/export declarations. Collections and refunds processed relatively quickly and at low cost. Laws, regulations and guidelines are published; attempts made to simplify and rationalize procedures. Formal mechanisms established for appealing customs decisions.

**5** a. Average tariff below 12 percent; 3 or fewer tariff bands, maximum band at 20 percent tariff rate. Internal taxes do not discriminate between imported and local products. NTBs are used infrequently and in a transparent and non-discriminatory manner. Tariff rates rarely change other than through negotiated trade agreements.

b. Customs has reputation for professionalism; few instances of corruption. Risk management used as main basis for decisions on treatment of import and export consignments. Low level of physical examinations. Extensive use of IT. Facility exists for direct trader input of import/export declarations and payment of duty and taxes. Usually speedy and complete processing of collections and refunds. Laws, regulations, and guidelines are published, simplified, and rationalized. Speedy resolution of appeals against customs decisions.

**5.1** Has signed and ratified over 90% of protocols and agreements of key regional economic integration and cooperation institutions, and has implemented such agreed upon protocols, agreements, policies, programmes and projects, and the mechanisms for their implementation are efficient making discernible progress towards policy harmonization with countries in the region. No arrears on multinational projects for at least the last one year.

**5.2**

a. Average tariff below 12 percent; 3 or fewer tariff bands, maximum band at 20 percent tariff rate. Internal taxes do not discriminate between imported and local products. NTBs are used infrequently and in a transparent and non-discriminatory manner. Tariff rates rarely change other than through negotiated trade agreements.

**b. Customs has reputation for professionalism; few instances of corruption. Risk management used as main basis for decisions on treatment of import and export consignments. Low level of physical examinations. Extensive use of IT. Facility exists for direct trader input of import/export declarations and payment of duty and taxes. Usually speedy and complete processing of collections and refunds. Laws, regulations, and guidelines are published, simplified, and rationalized. Speedy resolution of appeals against customs decisions**

**6.1** For at least the last 3 years, the government has efficiently implemented regional policies, programmes and projects and the mechanisms for their implementation have been efficient. Has significantly harmonized fiscal and monetary policies with regional member countries. No arrears on multinational projects for at least the last 3 years.

**6.2**

**a. Average tariff rate less than 7 percent; maximum tariff rate 15 percent. No internal tax discrimination. Little or no use of protectionist NTBs. Tariff rates rarely change other than through negotiated trade agreements.**

b. Customs has sound reputation for professionalism and integrity. Risk management extensively used. Very low level of physical examinations. Approaching paperless trading environment. Laws, regulations, and guidelines are published, simplified, and rationalized. Speedy resolution of appeals against customs decisions; rapid processing of duties, taxes, and refunds.

## 5. FINANCIAL SECTOR

This criterion assesses the structure of the financial sector and the policies and regulations that affect it. Three dimensions are covered; (a) financial stability; (b) the sector's efficiency, depth, and resource mobilization strength; and (c) access to financial services. These are areas that are fundamental to support successful and sustainable reforms and development. The first dimension assesses the sector's vulnerability to shocks, the banking system's soundness, and the adequacy of relevant institutional elements, such as the degree of adherence to the Basel Core Principles and the quality of risk management and supervision. The second dimension assesses efficiency, the degree of competition, and the ownership structure of the financial system, as well as its depth and resource mobilization strength. The third dimension covers institutional factors, (such as the adequacy of payment and credit reporting systems) the regulatory framework affecting financial transactions (including collateral and bankruptcy laws and their enforcement) and the extent to which consumers and firms have access to financial services.

Monetary policy issues are covered in the economic management cluster, although some of the indicators to be used in the criterion measure the macro-financial interface. The size of the economy and its degree of sophistication should be appropriately taken into account in interpreting the guidelines. In the criterion and associated guidelines both quantitative and qualitative parameters are used to assess country performance.<sup>2</sup> These indicators should not be analyzed in isolation, but rather as a set to determine the overall rating.<sup>3</sup>

### Guideposts:

- World Development Indicators;

<b>1</b>	<p>a. Banking sector very vulnerable to shocks. Share of NPLs and level of capital at risk are very high. No adherence to Basel Core Principles, and the quality of risk management in financial institutions is very poor. Supervisors lack tools and resources to adequately assess risk.</p> <p>b. Size and reach of financial markets is very limited, and capital markets are very underdeveloped. Interest rate spreads are very high and private sector credit (percent of GDP) is very low, given the economy's size and sophistication. Microfinance very inefficient.</p> <p>c. Payment and clearance systems and credit reporting systems are highly underdeveloped. Very small percent of the population has access to formal sector financial services, and small and medium enterprises (SMEs) have very limited access to finance. Legal and regulatory framework burdensome to financial services.</p>
<b>2</b>	<p>a. Banking sector highly vulnerable to shocks in the medium term. Share of NPLs and level of capital at risk</p>

<sup>2</sup> The level of capital at risk is defined as [NPLs- Loan Loss Provisions (LLP)] /Banking system capital. For each element of the rating scale, indicative thresholds are included in the guidelines for NPLs as a share of portfolio, and for capital markets degree of capitalization.

<sup>3</sup> For example, many banking systems with low intermediation levels have high capital adequacy ratios (because banks do not lend, the system is stable and banks are well-capitalized). If capital adequacy ratios are used as an indicator of soundness, these systems would get a high score for financial stability and a low score for financial sector depth. However, the high score for financial stability is likely to be a consequence of the low score for financial sector depth. The stability of this system has not been tested at higher levels of financial intermediation. Such a system should probably get a low score overall, not an average score.

are high. Adherence to Basel Core Principles is limited (capital adequacy requirements not in line or below Basel I requirements). Quality of risk management in financial institutions is poor. Supervisors use rudimentary tools and resources to adequately assess risk.

- b. Size and reach of financial markets are limited, and capital markets underdeveloped, but improving. Interest rate spreads are high, and private sector credit (percent of GDP) is low, given the economy's size and sophistication. Microfinance is inefficient.
  - c. Payment and clearance systems and credit reporting systems are underdeveloped. Small percent of the population has access to formal sector financial services. SMEs face significant limitations in access to finance. Legal and regulatory framework burdensome to financial services.
- 3**
- a. Banking sector vulnerable to shocks in the medium term. The share of NPLs and the level of capital at risk are moderately high. Adherence to Basel Core Principles is limited (capital adequacy requirements in line with or below Basel I requirements but enforcement is weak) and quality of risk management in financial institutions is poor but improving. Supervisors ability to adequately assess risk is very limited.
  - b. Size and reach of financial markets, and capital markets, underdeveloped but growing. High but falling interest rate spreads, and moderately low ratio of private sector credit to GDP. Microfinance moderately inefficient.
  - c. Underdeveloped but functioning payment and clearance systems and credit reporting systems. Small but growing percent of population has access to formal sector financial services. Limited but improving access to finance by SMEs. Legal and regulatory framework burdensome to financial services but improving.
- 4**
- a. Banking sector is to some extent vulnerable to shocks in the medium-term. The share of NPLs and the level of capital at risk are moderate. General adherence to Basel Core Principles (capital adequacy requirements in line with or above Basel I requirements, enforcement improving) and the quality of risk management in financial institutions is not quite satisfactory. Supervisors have a moderate ability to assess risk.
  - b. Size and reach of financial and capital markets approaching adequate levels for economies of similar size and sophistication. Interest rate spreads somewhat high but falling, and the private sector credit (share of GDP) is moderately adequate for the economy's size and sophistication. Microfinance is reasonably efficient.
  - c. Payment and clearance systems and credit reporting systems moderately developed and functional. Moderate share of the population has access to formal sector financial services. SMEs have moderate access to finance. Legal and regulatory framework still has weaknesses but generally supports access to finance.
- 5**
- a. Banking sector resilient to shocks. The share of NPLs and the level of capital at risk are low. There is consistent adherence to Basel Core Principles and quality of risk management in financial institutions and of supervision is generally satisfactory.
  - b. Size and reach of financial markets is good. Capital markets reasonably strong. Interest rate spreads reasonable, and high ratio of private sector credit to GDP. Efficient microfinance.
  - c. Payment and clearance systems, and credit reporting systems are well developed. Sizeable share of the population has access to formal sector financial services. SMEs have good access to finance. Legal and regulatory framework supports access to finance.
- 6**
- a. Banking sector highly resilient to shocks. The share of NPLs and the level of capital at risk are very low. There is consistent adherence to Basel Core Principles following best practice. The quality of risk management in financial institutions and of supervision is good.
  - b. Size and reach of financial markets very good. Strong capital markets. Interest rate spreads low, and very high ratio of private sector credit to GDP. Very efficient microfinance.
  - c. Payment and clearance systems and credit reporting systems demonstrate best practice. Vast majority of the population has access to formal sector financial services. SMEs have very good access to finance. Legal and regulatory framework supports access to finance.

## 6. BUSINESS REGULATORY ENVIRONMENT

This criterion assesses the extent to which the legal, regulatory, and policy environment helps or hinders private business in investing, creating jobs, and becoming more productive. The emphasis is on direct regulations of business activity and regulation of goods and factor markets. Three sub-components are measured: (a) regulations affecting entry, exit, and competition; (b) regulations of ongoing business operations; and (c) regulations of factor markets (labour and land). These three components should be considered separately and equally weighted. Macroeconomic aspects are covered in criteria 1 to 3; trade factors are assessed in criterion 4. Some business environment related issues are covered in criterion 12, namely discretion and lack of transparency in obtaining business licenses. Issues related to access to credit are assessed in criterion 5.

### Guideposts:

#### ***Doing Business indicators***

- Procedures, time, cost to start a business;
- Rigidity of employment law index;
- Time, cost and recovery rate on insolvency;
- Procedures, time and cost to register property;
- Corporate governance disclosure index;
- Procedures, time and cost of business licensing (construction) (available December 2004);

#### ***Investment Climate Assessments (FOR AVAILABLE COUNTRIES)***

[http://www.worldbank.org/privatesector/ic/ic\\_country\\_report.htm](http://www.worldbank.org/privatesector/ic/ic_country_report.htm)

#### ***Other indicators***

- World Bank Institute Governance Indicators—Regulatory Quality  
<http://www.worldbank.org/wbi/governance/govdata2002/index.html>

- 1
  - a. Extensive bans on, or complex licensing of, investment. Procedures to enter and exit are extremely difficult and costly. No legal framework to address anti-competitive conduct by firms in naturally-competitive markets. Public sector entities are required to purchase only from state firms.
  - b. Extremely burdensome operational licensing, permits, inspections, and other compliance systems, including taxes and customs. Goods markets are highly restricted, e.g. through extensive state ownership in competitive sectors, widespread price controls, or the state makes administrative allocation/decisions about production. No, or weak requirements on ownership and financial disclosure, few or no shareholder protections; those that exist are not enforced.
  - c. Extensive labour market controls and rigidity of labour regulation. Private land ownership is illegal or severely curtailed. Very few businesses have formal title or use rights to land. Process to register property extremely costly.
- 2
  - a. Many bans on, or complex licensing of, investment. Procedures to enter and exit economic activities are very costly. Very limited legal framework to address anti-competitive conduct by firms in naturally-competitive markets. Public entities are required to purchase many goods and services only from state firms.
  - b. Burdensome operational licensing, permits, inspections and other compliance systems, including taxes and customs. A market for goods exists, but there is significant state intervention, e.g. a significant presence of regulated parastatals in product markets and/or significant subsidies on major commodities. Weak regulations on ownership and financial disclosure, few shareholder protections; those that exist are not effectively enforced.
  - c. Very rigid employment regulations and other labour institutions that significantly depress formal employment. Private land ownership curtailed by restrictive land use rights and distortions from property market controls. Many businesses do not have formal title or use rights to land. Process to register property is very costly.
- 3
  - a. Few bans on investment, but there are complex licensing requirements for many activities. Procedures to enter and exit many economic activities are costly. Legal framework to address anti-competitive conduct by firms exists, but there is no effective enforcement. Public sector entities are not formally required to purchase exclusively from state firms, but there is widespread implicit pressure to do so.
  - b. Operational licensing, permits, inspections and other compliance systems, including those related to taxes and customs, are moderately burdensome in some sectors. A market for goods exists, but there is some state intervention through controls and/or subsidies/taxes. Inadequate regulations on ownership and financial disclosure; those that exist are sometimes not enforced effectively.
  - c. Rigid employment regulations and other labour institutions depress formal employment. Private land ownership permitted with very few restrictions or distortions from property market controls, but in practice some businesses do not have formal title or use rights to land. Process to register property is costly.
- 4
  - a. Licensing requirements for most activities eliminated or streamlined, but remain problematic in some cases. Few barriers to entry and exit for most activities, but barriers remain for some. Good legal framework to address anti-competitive conduct by firms exists, and enforcement is often, but not always, effective. Public entities are free to procure from any source, but there is occasional interference.
  - b. Operational licensing, permits, compliance and inspection requirements, including those related to taxes and customs, impose few burdens on business. Little direct state intervention in goods markets through controls and/or subsidies, but there some market imperfections are not addressed, e.g. high concentration ratios in industries enjoying some trade protection or producing non-tradable goods. No significant parastatals in product markets. Corporate governance laws generally encourage disclosure and protect shareholder rights, although enforcement requires improvement.
  - c. Employment law is reasonably flexible, but there are some labor market institutions that depress formal

employment in some sectors. No legal/institutional barriers to land ownership, but land markets could be distorted by significant monopolistic elements. Registering property is reasonably easy.

- 5
- a. Very few bans or investment licensing requirements. Few barriers to entry and exit of business. Good legal framework to address anti-competitive conduct by firms exists and is generally enforced. All public sector entities are free to procure from any source.
  - b. Operational licensing, permits, inspections and other compliance requirements, including those related to taxes and customs, impose only minimal burdens on business. State intervention in the goods market is generally limited to regulation and/or legislation to smooth out market imperfections. Corporate governance laws encourage ownership and financial disclosure and protect shareholder rights and are generally enforced.
  - c. Employment law provides for flexibility in hiring and firing. State intervention in the labor and land markets is limited to regulation and/or legislation to smooth out market imperfections. Procedures to register property are simple and low-cost.
- 6
- a. Almost no bans or investment licensing requirements. Regulations facilitate efficient entry and exit of business. Good legal framework to address anti-competitive conduct by firms exists, and is consistently enforced. All public sector entities are free to procure from any source.
  - b. Streamlined industry licensing, permits, and inspections requirements facilitate business activity. State intervention in the goods market is limited to regulation and/or legislation to smooth out market imperfections. Corporate governance laws encourage disclosure and protect shareholder rights and are enforced effectively.
  - c. Employment law provides a high degree of flexibility to hire and fire at low cost. Other labor market institutions facilitate doing business. State intervention in the labor and land markets is limited to regulation and/or legislation to smooth out market imperfections. Procedures to register property are simple, low cost, and fast.

## 7. GENDER EQUALITY

This criterion assesses the extent to which the country has enacted and put in place institutions and programs to enforce laws and policies that: (a) promote equal access for men and women to human capital development opportunities; (b) promote equal access for men and women to productive and economic resources; and (c) give men and women equal status and protection under the law.

For the domain of *human capital development opportunities*, the focus is on primary and secondary education, antenatal and delivery care, and family planning services. For the domain of *equal access to economic and productive resources*, the focus is on labor force participation and remuneration, business ownership and management, land tenure, and inheritance. For the domain of *equal status and protection under the law*, the focus is on ratification of the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), family law, violence against women, and political participation.

Each domain should be rated separately in a continuum that extends from 1, a “Very Weak” score at one extreme, to 6, a “Very Strong” score at the other. The overall rating for this question is an unweighted average of the scores in each of the three domains

- 1
  - a. Significant differences exist in female to male enrolment in primary or secondary education. Substantial gaps exist in access to antenatal or delivery care and family planning services. Policies and laws are obstacles to gender equality in education, access to antenatal care and delivery, and access to family planning services. There have been no recent efforts to make laws or policies more supportive of gender equality in education, access to antenatal and delivery care, or access to family planning services.
  - b. Significant gender disparities exist in participation and remuneration in the labor force, business ownership, land tenure, property ownership, and inheritance practices. Formal policies and laws are obstacles to gender equality in these areas, and there have been no recent efforts to make formal laws and policies more supportive of gender equality.
  - c. CEDAW has not been ratified. Family law gives men and women different rights in requesting a divorce, or in obtaining individual identity cards or a passport. Violence against women is common, the law does not treat it as a crime, and there are no policies, institutions or programs aimed at decreasing violence against women. Significant gender disparities exist in political participation at the local or national level. Laws and policies are obstacles to women's participation in national or local governments, and there have been no recent efforts to make laws and policies more supportive of gender equality in this respect.
- 2
  - a. Same as 1a), except that there have been recent efforts to make laws or policies more supportive of gender equality in education, access to antenatal and delivery care, and access to family planning services.
  - b. Same as 1b), except that there have been recent efforts to make formal laws and policies more supportive of gender equality.
  - c. Same as 1c), except that there have been recent efforts to make laws and policies more supportive of gender equality in this respect.
- 3
  - a. Significant differences prevail in female to male enrolment in primary or secondary education; and substantial gaps exist in access to antenatal or delivery care and family planning services, particularly at the regional urban/rural levels. Policies and laws provide for gender equality in education, access to antenatal care and delivery, and access to family planning services but enforcement is weak because there are no mechanisms for their enforcement.
  - b. Significant gender disparities exist in participation and remuneration in the labour force, business ownership, land tenure, property ownership and inheritance practices. Formal policies and laws provide for gender equality in these areas, but enforcement is weak because there are no mechanisms for their enforcement.
  - c. CEDAW has been ratified with reservations. Family law gives men and women equal rights in requesting a divorce, and in obtaining individual identity cards or a passport. Violence against women is common and it is considered a crime. The law however, is weakly enforced because there are no mechanisms for their enforcement. Significant gender disparities exist in political participation at the local or national level. Laws and policies provide for gender equality in participation in national or local governments, but are weakly enforced because there are no mechanisms for their enforcement.
- 4
  - a., b. and c., same as 3, except that there are mechanisms to enforce these laws (e.g., in the form of programs to achieve gender equality, or institutions and agencies to guide the achievement of gender equality).
- 5
  - a. No major differences in female to male enrolment in primary and secondary education. Broad

access to antenatal or delivery care and family planning services. Policies and laws that specifically address gender equality in education, access to antenatal care and delivery, and to family planning services are broadly enforced. However, there are no active programs or institutions to prevent an increase in gender inequalities or a decline in antenatal or delivery care or in family planning services.

- b. Few or no gender disparities exist in participation and remuneration in the labour force, business ownership, land tenure, property ownership and inheritance practices. Policies and laws that specifically address gender equality in these areas are broadly enforced. However, there are no active programs or institutions to prevent an increase in gender inequalities in these areas.
- c. CEDAW has been ratified without reservations. Family law gives men and women equal rights in.
  - a. requesting a divorce and in obtaining individual identity cards or a passport. Extremely few or no cases of violence against women. Violence against women is considered a crime. Relatively few gender disparities exist in political participation at the local or national level (compared to international averages). Policies and laws that specifically address gender equality in these areas are broadly enforced. However, there are no active programs or institutions to prevent an increase in domestic violence or to promote greater gender equality.

6 a., b. and c., same as 5, except that policies and laws that specifically address gender equality in all these areas are consistently and effectively enforced, and there are active programs or institutions to prevent an increase in gender inequalities or to promote greater gender equality.

## 8. EQUITY OF PUBLIC RESOURCE USE

This criterion assesses the extent to which the pattern of public expenditures and revenue collection affects the poor and is consistent with national poverty reduction priorities. The assessment of the consistency of government spending with the poverty reduction priorities takes into account the extent to which: (a) individuals, groups, or localities that are poor, vulnerable, or have unequal access to services and opportunities are identified; (b) a national development strategy with explicit interventions to assist the groups identified in (a) has been adopted; and (c) the composition and incidence of public expenditures are tracked systematically and their results feedback into subsequent resource allocation decisions. The assessment of the revenue collection dimension takes into account the incidence of major taxes, e.g., whether they are progressive or regressive,<sup>4</sup> and their alignment with the poverty reduction priorities. When relevant, expenditure and revenue collection trends at the national and sub-national levels should be considered. The expenditure component should receive two thirds of the weight in computing the overall rating.

### Guideposts:

The assessment should draw on:

- A national development strategy and the Bank's (or their partners') assessment, including in IDA countries the Joint Staffs Assessment (JSA) of countries' PRSPs;

<sup>4</sup> A regressive tax redistributes income from the poor to rich, taking a greater percentage of a lower income than of a higher income. In contrast, a progressive tax redistributes income from the rich to the poor. Under a progressive tax the average rate of the (income) tax increases as income increases.

- Available Public Expenditure Reviews, poverty analyses, country economic memorandum, or any other relevant analytical work prepared by the Bank, the government, other donors and development partners.

**1** a. Public expenditures are not aligned with poverty reduction priorities. Poverty diagnosis, and the identification of vulnerable groups, and of groups w/o access to basic services, not in place. No strategy and interventions to explicitly assist above identified groups. No tracking of composition and incidence of expenditures and no feedback into allocation of resources.

b. The overall incidence of revenues is very regressive and does not reflect national poverty reduction priorities.

**2** a. Public expenditures are only marginally aligned with poverty reduction priorities. Poverty diagnosis in place but does not identify target groups. There is a strategy to assist the poor, the vulnerable, and those lacking access to services place, but without explicit interventions. Only a general tracking of expenditures is available (recurrent and investment and by ministry). No benefit incidence analysis.

b. The overall incidence of revenues is largely regressive and does not reflect national poverty reduction priorities.

**3** a. Public expenditures are unevenly aligned with poverty reduction priorities, but there are ongoing efforts to improve alignment. Poverty diagnosis identifies only some sub-groups of poor, vulnerable groups, and those lacking services. A few interventions are in place to assist identified groups, and implementation is partial. There is a tracking of spending by program, but not spatially or by target group

b. The overall incidence of revenues is regressive. Only small steps, if any, are being taken to correct this and to ensure consistency with the national poverty reduction priorities.

**4** a. Public expenditures are generally aligned to poverty reduction. The poverty diagnosis generally identifies poor, vulnerable groups, and those lacking services. There are ongoing interventions targeted at identified groups, but implementation of the strategy is partial. Expenditures are tracked by category, program, and region. Benefit incidence analysis is uneven. Feedback of the analysis to subsequent expenditure allocations is increasing.

b. Some egregious regressive revenue sources remain, but initiatives are underway to correct them and ensure that revenue generation is consistent with national poverty reduction priorities.

**5** a. Public expenditures are generally aligned to poverty reduction priorities, and alignment is improving. Poverty diagnosis clearly identifies poor, vulnerable groups and those lacking services. There are targeted interventions to assist identified groups and the alignment of expenditures with the strategy is improving. Tracking of expenditures in place by program, category, and region. Benefit incidence analysis carried out on a few programs, but some important programs are not assessed. Feedback of the analysis to subsequent expenditure allocations is broadly in place.

b. There are few, if any, egregious regressive taxes. Revenue generation generally aligned with national poverty reduction priorities.

**6** a. Public expenditures are fully aligned with poverty reduction priorities. Strong poverty diagnosis is in place that very clearly identifies poor, vulnerable groups, and those lacking services. Strategy adopted with well-defined interventions directed at assisting identified groups. Good progress achieved in aligning expenditures with the strategy. Tracking of spending (program, category, region) in place. Benefit incidence analysis carried out for major programs. Feedback of the analysis to subsequent expenditure allocations is fully implemented.

b. There are no egregious regressive revenue sources. Revenue generation aligned with national poverty reduction priorities.

## 9. BUILDING HUMAN RESOURCES

The breadth and quality of a country's human capital is a key determinant of its economic growth and social development, including global attainment of the Millennium Development Goals (MDGs), over half of which relate to Human Development (HD) outcomes. This criterion assesses the national policies and public and private sector service delivery that affect access to and quality of: (a) health and nutrition services, including population and reproductive health, (b) education, ECD, training and literacy programs, and (c) prevention and treatment of HIV/AIDS, tuberculosis, and malaria<sup>5</sup>. ECD refers to Early Child Development programs, including both formal and non-formal programs (which may combine education, health and nutrition interventions) aimed at children aged 0-6.

Each of these three major areas of human development should be rated separately on the scale from 1-6 outlined in the attached Box. Within each HD domain, the quality of both policies and program design and implementation should be assessed. In most cases, government performance will be stronger in some program areas than in others (i.e., basic health services vs. nutrition, primary education vs. tertiary, or HIV/AIDS vs. malaria). The rating for "health" or "education" should reflect a judgment about the relative importance of each underlying policy/program area for the country's overall development. To determine the overall rating, **however**, the three broad areas – health, education, and HIV/AIDS, TB and malaria -- should receive equal weight.

### Guideposts:

- Recent PERs, sector reviews, poverty assessments, and in the Africa region, Country Status Reports for education and health.
- EDSTATS: <http://www1.worldbank.org/education/edstats/>
- EFA Fast Track monitoring indicators (under development): <http://www1.worldbank.org/education/efafti/>
- Education attainment (DHS survey data for 80 countries): <http://www.worldbank.org/research/projects/edattain/edattain.htm>
- UNICEF: <http://www.childinfo.org/>
- WHO: <http://www3.who.int/whosis/menu.cfm>
- WHO: [http://www.who.int/nutgrowthdb/registration\\_form/welcome.html](http://www.who.int/nutgrowthdb/registration_form/welcome.html)
- UNAIDS: <http://www.unaids.org/en/resources/epidemiology.asp>
- US Bureau of the Census (HIV/AIDS database): <http://www.census.gov/ipc/www/hivaidsd.html>

<sup>5</sup> HIV/AIDS, tuberculosis, and malaria are the communicable diseases prioritized in MDG #6.

1.
  - a. Policies, programs and implementation are nonexistent or grossly inadequate to assure equitable access to a minimum package of basic health services, protect against the financial burdens of illness, or prevent malnutrition.
  - b. Policies, spending, and effectiveness are nonexistent or grossly inadequate to assure literacy, universal access to basic education, equitable access to ECD services, and adequate post-basic education and training; teacher and student learning standards are nonexistent or grossly inadequate.
  - c. Policies, programs and implementation for prevention and treatment of HIV/AIDS, tuberculosis, and malaria are nonexistent or grossly inadequate.
2.
  - a. Policies and funding permit only limited access to essential health services and protection against the financial burdens of illness; national health strategy lacks many important elements; oversight and regulation are largely ineffective; programs to prevent malnutrition are limited; public resources generally do not achieve intended goals.
  - b. Policies, spending and effectiveness are inadequate to achieve universal basic education, literacy, or equitable ECD access; teacher and student learning standards are low; policies for post-basic education and training are inappropriate and/or poorly implemented.
  - c. Policies for prevention and treatment of HIV/AIDS, tuberculosis, and malaria exist, but funding and implementation are limited; limited standards and epidemiological information exist; public resources generally do not achieve intended goals.
3.
  - a. Policies and programs provide for some essential preventive and curative interventions, but financial protection for the poor against the burdens of illness is limited; national health strategy lacks key elements and government stewardship and regulation are only partly appropriate; programs to prevent and treat malnutrition exist but implementation is weak; public resources achieve some intended objectives.
  - b. Policies, spending and effectiveness are adequate to achieve progress towards universal basic education, literacy, and equitable ECD access; standards for teacher preparation, student learning, and oversight of private/NGO providers exist, but lack key elements or implementation is weak; policies for post-basic education and training exist but are inadequate in some areas or ineffectively implemented.
  - c. Policies for prevention and treatment of HIV/AIDS, tuberculosis, and malaria are in place but are not effectively implemented; tracking of program coverage is inadequate; public resources achieve some intended objectives.
4.
  - a. Health or social insurance policies provide basic protection against the financial burdens of illness; public expenditure on health allows access to an appropriate package of preventive and some curative services; national public health policy and government regulation and oversight are appropriate; programs exist to prevent under- and micronutrient malnutrition, as well as severe malnutrition, and are adequately implemented; public resources often achieve intended objectives.
  - b. Policies, spending and effectiveness are generally appropriate for sustained progress towards universal basic education, literacy, and more equitable access to reasonable quality ECD services, although there may be gaps or inconsistencies; standards for teacher preparation, student learning, and oversight of private/NGO providers are largely appropriate, although implementation may be incomplete; policies in place for post-basic education and training are appropriate for sustained progress on quality, equity of access, and the efficiency of resource use.
  - c. Policies for prevention and treatment of HIV/AIDS, tuberculosis, and malaria are in place, but coverage is limited; systems to track program coverage are being put in place; public resources often achieve intended objectives.
5.
  - a. Appropriate health or social insurance policies exist; preventive and curative health services have good coverage; national public health strategy and government oversight at central and decentralized levels is appropriate; policies and resources to prevent and treat all forms of malnutrition are in place; public resources generally achieve intended objectives.
  - b. Policies, spending and effectiveness are appropriate for achieving universal basic education of reasonable

quality, universal literacy, and equitable access to reasonable quality ECD services; standards for teacher preparation, student learning, and oversight of private/NGO providers are appropriate; system performance and student learning outcomes are tracked, and increasingly used to guide policy; policies for post-basic education and training services are appropriate, and quality, equity of access, and efficiency of resource use are good-

- c. Policies for prevention and treatment of HIV/AIDS, tuberculosis, and malaria are in place and programs achieve reasonable coverage; systems to track disease prevalence and program coverage are in place and are showing annual improvements in service delivery; government oversight is appropriate; public resources generally achieve intended objectives.
- 6.**
- a. Health or social insurance policies exist and have wide coverage; access to appropriate preventive and curative health services is universal and services are client-focused and good quality; national health strategy is consistent with best practice and regulation is effective; policies and resources allow prevention and treatment of all forms of malnutrition; public resources are used cost-effectively.
  - b. Strategic national education policies, high standards, and effective use of public and private resources support a good quality, universal basic education system, good quality, equitable ECD services, and diversified, good quality post-basic education and training systems adequate to support economic development and life-long learning; government oversight of private/NGO providers is effective; school performance and student learning outcomes are systematically tracked, with feedback to schools and parents; performance data and evaluation guide policy; at all levels of education, equity of access is protected and efficiency of resource use is high.
  - c. Policies for prevention, treatment, care and support of HIV/AIDS, tuberculosis, and malaria reflect strong government commitment and client-focused programs reach all who need them; national authority is able to track disease prevalence, resources, and program implementation; quality and timeliness of services is steadily improving; interventions focus on the poor; public resources are used cost-effectively.

## 10. SOCIAL PROTECTION AND LABOUR

This criterion assesses government policies in the area of social protection and labour market regulation, which reduce the risk of becoming poor, assist those who are poor to better manage further risks, and ensure a minimal level of welfare to all people. Interventions include: social safety net programs, pension and old age savings programs; protection of basic labour standards<sup>6</sup>; regulations to reduce segmentation and inequity in labour markets; active labour market programs, such as public works or job training; and community driven initiatives. In interpreting the guidelines it is important to take into account the size of the economy and its level of development. For example, a combination of pension and savings programs can include mandatory, voluntary, public, private, funded, pay-as-you go, contributory and non-contributory programs, as appropriate given the country's level of development.<sup>7</sup>

<sup>6</sup> Each of the four core labour standards corresponds to two International Labour Organization (ILO) Conventions adopted by representatives of governments, employers, and workers from ILO member countries. These conventions are: Forced Labour (No. 29), Abolition of Forced Labour (No. 105); Minimum Age (No. 138), Worst Forms of Child Labour (No. 182); Equal Remuneration (No. 100), Discrimination in Employment and Occupation (No. 111); Freedom of Association (No. 87), Right to Organize and Collective Bargaining (No. 98).

<sup>7</sup> An *adequate* pension system is one which provides benefits to the full breadth of the population that are sufficient to prevent old age poverty on a country specific absolute level in addition to providing a reliable means to smooth lifetime consumption for the vast majority of the population; an *affordable* system is one that is within the financing capacity of individuals and the society, one that will not unduly displace other social or economic imperatives or lead to untenable fiscal consequences; the *Sustainability* refers to the financial soundness of a

Labour market issues are also covered in criterion 6 (Business Regulatory Environment), where the focus is on the effects of labour market regulations on firms' employment decisions. Under criterion 10, the focus is on the balance between job creation and social protection, and the availability and coverage of active labour market programs (e.g., retraining and public works).

Criterion 10 is a composite indicator of five different areas of social protection and labour policy: (a) social safety net programs; (b) protection of basic labour standards; (c) labour market regulations; (d) community driven initiatives; and (e) pension and old age savings programs. Within each area, policies and program design as well as implementation effectiveness should be assessed. In most cases, government performance will be stronger in some areas than in others. To determine a country's overall rating, the five areas should be given equal weight. In assessing policies along all five dimensions, careful attention should be paid to specific country conditions and capacity constraints as these may affect policies in a critical way.

### Guidepost:

- Summary indicators of labour market regulations in the World Bank *Doing Business Database*;

- |   |  |
|---|--|
| 1 | <ul style="list-style-type: none"> <li>a. Social protection programs to assist the poor and other vulnerable groups (the disabled, orphans, etc) to cope with risk and ensure adequate living standards are non-existent or severely under-funded.</li> <li>b. The ILO conventions on core labour standards have not been ratified nor legislation that conforms with them passed.</li> <li>c. Labour market regulations on health and safety, working conditions and hiring and firing do not exist, or are inappropriate and discourage job creation in the formal sector while not protecting most workers.</li> <li>d. Government policies and programs impede development of community initiatives or local accountability mechanisms.</li> <li>e. Pension and old-age savings systems are regressive, consume an unsustainable share of public resources, and do not provide adequate income security even to the few who are covered.</li> </ul>  |
| 2 | <ul style="list-style-type: none"> <li>a. Some social protection programs have been developed, but funding and coverage are limited and weak administration allows substantial leakage of benefits to better-off groups.</li> <li>b. The government has ratified ILO Convention 182 on the Worst Forms of Child Labour, or passed legislation that conforms with it. Only a few of the other ILO core conventions have been ratified, or legislation passed that conforms with them. These conventions and legislation on core labour standards are not enforced.</li> <li>c. There remain labour market regulations that discourage job creation in the formal sector. Regulations fail to protect a large proportion of the workforce. Very limited resources are devoted to labour market programs (e.g., retraining, public works) and very few workers benefit from them.</li> <li>d. No government policies or programs exist to encourage or support communities' own development initiatives</li> <li>e. Pension and old age savings schemes are limited to only a small segment of the working population. They provide minimally adequate old age support, but are unsustainable over periods of more than a few years in their financing arrangements.</li> </ul> |
| 3 | <ul style="list-style-type: none"> <li>a. The government has an overall strategy for social protection and some safety net programs. However, program scale and funding are inadequate to protect most poor and vulnerable groups and significant</li> </ul>   |

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pension system and its capacity to be maintained over a foreseeable horizon under a broad set of reasonable assumptions; and *Robust* refers to the capacity to withstand major shocks, including those coming from economic, demographic and political volatility.

leakages exist. Systems are being developed to monitor performance.

- b. The government has ratified ILO Convention 182 on the Worst Forms of Child Labour and is beginning to make progress in implementing the convention in national law and policy. It is also beginning to make progress in complying with the other ILO core conventions.
  - c. Labour market regulations are increasingly appropriate to balance social protection and job creation, yet they are weakly enforced. Active labour market programs (e.g., retraining, public works) for workers are available, although limited in coverage.
  - d. The government recognizes the importance of community involvement in development and has introduced some policies and programs to encourage it.
  - e. Pensions and old age savings systems afford some level of income security to some portion of the population, including most who are employed in the formal sector. However, programs are not financially sustainable across generations and may distort the efficient operation of labour markets by providing incentives for early withdrawal from the labour force.
- 4**
- a. The government has an overall strategy for social protection and a reasonable set of safety net programs. Programs reach more poor and vulnerable groups, but the level of benefits continues to be low and/or targeting uneven, and leakages exist. Systems are in place to monitor performance, but are not used effectively to guide policies.
  - b. The government has ratified ILO Convention 182 on the Worst Forms of Child Labour and has made progress in implementing the convention in national law and policy. The government has also made progress in complying with the other ILO core conventions.
  - c. Labour market regulations are broadly appropriate and enforced for an increasing number of workers. Active labour market programs (e.g., retraining, public works) are improving in quality and coverage, although weaknesses remain.
  - d. Government has a policy of community involvement in development initiatives, with some community involvement in planning and some allocation of resources to the community level.
  - e. Pensions and old age savings systems cover most formal sector workers, provide some access for the informal sector and afford adequate income security. Long-term (multi-generational) fiscal sustainability is not fully assured, however, and effective strategies for extending old age and disability protection broadly to workers outside the formal sector have not been developed.
- 5**
- a. The government has an overall strategy for social protection and a well-designed set of safety net programs; financing is sufficient to reach most poor and vulnerable groups, and leakage is low. Performance monitoring systems are being used to improve implementation.
  - b. The government has ratified international conventions on, or passed legislation that conforms with, core labour standards and has put in place policies and programs toward the application of these standards.
  - c. Labour market regulations are well-designed and effectively enforced. Active labour market programs (e.g., retraining, public works) are effective and reach a significant proportion of the unemployed.
  - d. Government has a clear policy of community involvement in development initiatives, with systematic community involvement in planning, and significant allocation of resources to the community level.
  - e. Pensions and old age savings systems provide income security to a high share of the population inside and a growing share outside of the formal sector. Program administration in most areas is efficient, and benefit levels are consistent with long-term financial sustainability.
- 6**
- a. Social protection programs provide income support to poor and vulnerable groups. Programs are cost-effective, well-targeted, and include monitoring and evaluation procedures. They form a balanced strategy with measures to increase poor and vulnerable groups' own incomes and their access to services and to social insurance.
  - b. Government has ratified international conventions on, or passed legislation that conforms with, core labour standards and is implementing these through its policies and programs. Government policy encourages civil society and local government actions to reduce child labour, including appropriate incentives for children to remain in school.
  - c. Labour 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 in accordance with the economic circumstances and values of the country.

- d Government policies and programs encourage and support communities' own development initiatives with systematic community involvement in planning, significant allocation of resources to the community level, and capacity building and other institutional strengthening efforts to ensure integration of communities into local government processes.
- e. A diversified, well-supervised, and appropriate combination of pension and savings programs (including mandatory, voluntary, public, private, funded, pay-as-you go, contributory and non-contributory programs) provide affordable, adequate, sustainable and robust income security to most of the potentially vulnerable groups with minimal distortions in the operation of labour markets.

## 11. ENVIRONMENTAL POLICIES AND REGULATIONS

This criterion assesses the extent to which environmental policies foster the protection and sustainable use of natural resources and the management of pollution. Assessment of environmental sustainability requires multi-dimension criteria (i.e. for air, water, waste, conservation management, coastal zones management, natural resources management). The following box only provides broad guidance to the scoring. To ensure balanced assessments, for each country the actual score should be obtained by filling out the CPIA Environment checklist spreadsheet available at the link below.

The two-way relationship between environmental degradation and poverty is well recognised. Poverty tends to lead to an extensive use of marginal land, water and forest resources, thus straining the already fragile and limited environment base. This question assesses the effectiveness of government's policies to protect the environment and promote sustainable development.

### Guidepost:

- Existence of an environmental policy framework and Environmental Impact Assessment legislation.
- Specific Issues: deforestation, protected areas, water use, access to safe water, access to sanitation, air pollution in major cities, ratification of global treaties

1. For two years or more, government policies have a negative effect on environment (e.g. agriculture policies that stimulate expansion into marginal land or tropical forest; subsidised prices on the exploitation of scarce and/or non-renewable resources). Government has no environmental action plans or similar national framework, and no institutions to sustainably manage the environment and support the various dimensions of sustainable development.

2. Government recognizes the environmental problems, but has been slow to formulate appropriate policies and programmes. Only few concrete actions have been taken.

3. The government has some environmental policies and programmes that address problems of environmental degradation, but the policies are not covering all the sectors and institutional capacity to implement these policies is limited.

4. The government's national environmental policy framework covers all the relevant sectors, and there are funds and good institutional capacity to implement the policies and programmes. The policies and programmes are being implemented.

5. Government environmental policies and programmes are comprehensive and well developed; impact assessments and implementation capacities are excellent and consistent with international norms; adequate financial resources are available; and macroeconomic and fiscal policies are consistent with environmental objectives.

6. For at least the last 3 years, government environmental policies and programmes have been effectively implemented with adequate financial resources.

## **B- CPIA - D (GOVERNANCE RATING)**

### **1. PROPERTY RIGHTS AND RULE-BASED GOVERNANCE**

This criterion assesses the extent to which private economic activity is facilitated by an effective legal system and rule-based governance structure in which property and contract rights are reliably respected and enforced. Each of four dimensions should be rated separately: (a) legal basis for secure property and contract rights; (b) predictability, transparency, and impartiality of laws affecting economic activity, and their application by the judiciary; (c) difficulty in obtaining business licenses; and (d) crime and violence as an impediment to economic activity. For the overall rating, these four dimensions should receive equal weighting.

- 1
  - a. Formal property rights are hardly recognized, and informal rights are seldom enforced. Formal contractual arrangements are little used. Manipulation of property and contract rights is endemic.
  - b. Laws and regulations are rarely applied and enforced. They are changed frequently and unpredictably to suit a select few. Records of legal changes and judicial decisions are not available outside government. Favoritism rather than equal treatment pervades dealings with the state.
  - c. Business licenses and permits are non-existent or can only be obtained through private connections and the unpredictable use of unofficial payments.
  - d. The state cannot protect the lives and property of its citizens in most of its territory.
- 2
  - a. Enforcement of contracts and recognition of property rights depend largely on informal mechanisms. Property and contract rights are subject to manipulation by government officials or other elites.
  - b. Laws and regulations are applied selectively or changed unpredictably, for example through frequent and unpublicized executive decrees. Judicial decisions are not publicly available.
  - c. Obtaining business licenses and permits is inordinately time-consuming and may require numerous unofficial payments.
  - d. The state is ineffective in protecting citizens' lives and property against crime and violence.
- 3
  - a. The law protects property rights in theory, but in fact registries and other institutions required to make this protection effective function poorly, making the protection of private property uncertain.
  - b. Laws and regulations are not changed arbitrarily, but may not be publicly available. Courts are costly to use. Judicial decisions are sometimes publicly available.
  - c. The process of securing business licenses and permits is overly bureaucratic and prone to delays, for those without connections.
  - d. The state is able to provide a modicum of protection against crime and violence.
- 4
  - a. Property rights are protected in practice as well as theory. Contracts are enforced, but the process may be lengthy and expensive.
  - b. Laws and regulations are publicly available and a mechanism exists to resolve conflicts of rules. Courts may be costly to use, but judicial decisions are publicly available.
  - c. Obtaining business licenses may be costly, but can be done without using connections. The process is cumbersome and delays are common, but are not pretexts for bribes.
  - d. The state is able to protect the lives and property of most citizens from crime and violence most of the time.
- 5
  - a. All property rights are transparent and well protected. Property registries are current and non-corrupt. Contracts are routinely enforced.
  - b. Laws and regulations affecting businesses and individuals are uniformly applied; changes in them are publicly announced. Low-cost means are available for pursuing small claims. Citizens can pursue claims against the state without fear of retaliation.
  - c. Obtaining the necessary licenses is a relatively small share of the costs of doing business, even for those without connections. Delays are rare and are not pretexts for bribes to operate a business.
  - d. A well-functioning and accountable police force protects citizens and their property from crime and violence.
- 6
 

Criteria for "5" on all four sub-ratings are fully met. There are no warning signs of possible deterioration, and there is widespread expectation of continued strong or improving performance.

## 2. QUALITY OF BUDGETARY AND FINANCIAL MANAGEMENT

This criterion assesses the extent to which there is: (a) a comprehensive and credible budget, linked to policy priorities, which in turn are linked to a poverty reduction strategy; (b) effective financial management systems to ensure that incurred expenditures are consistent with the approved budget, that budgeted revenues are achieved, and that aggregate fiscal control is maintained; (c) timely and accurate fiscal reporting, including timely and audited public accounts and effective arrangements for follow up; and (d) clear and balanced assignment of expenditures and revenues to each level of government. Each of these four dimensions should be rated separately. For the overall rating for this criterion, these four dimensions should receive equal weighting. In countries without local governments with significant budgets, the fourth dimension should not be rated.

### Guideposts:

- Checklist of Budget/Financial Management Practices from Public Expenditure Management Handbook (see Annex D).
- IMF Code of Good Practices on Fiscal Transparency—Declaration on Principles at <http://www.imf.org/external/np/fad/trans/code.htm>

- 1
  - a. If there is a budget, it is not a meaningful instrument, nor an indicator of policies or tool for allocation of public resources. More than 50 percent of public resources from all sources do not flow through the budget.
  - b. There is practically no monitoring and reporting of public expenditures. There is no reconciliation of cash accounts with fiscal accounts. No regular, in-year fiscal reports are produced.
  - c. Public accounts are seldom prepared, or are more than five years out of date. The use of public resources is not on the public agenda.
  - d. There is no information on revenues and expenditures at different levels of government. If at all, revenues and expenditures are assigned to different levels of government only on an ad hoc basis.
  
- 2
  - a. The budget is formulated without consultation with spending ministries. There is no discernible link with government policies or priorities, including poverty reduction. Significant fiscal operations (e.g., extra-budgetary expenditures, donor funded projects, and contingent liabilities of 25-50 percent of total spending by value) are excluded from the budget.
  - b. There is no adequate system of budget reporting and monitoring, and no consistent classification system. There are significant payments arrears, and actual expenditures often deviate significantly from the amounts budgeted (e.g., by more than 30 percent overall or on many broad budget categories).
  - c. There are significant delays (more than three years) in the preparation of the public accounts. The accounts are not (professionally) audited nor submitted to the legislature in a timely way, and no actions are taken on budget reports and audit findings.
  - d. There is no clear assignment of revenues and expenditures between different levels of government and there is a significant mismatch of revenues and expenditures at each level.
  
- 3
  - a. Policies or priorities that may focus on poverty reduction are explicit, but are not linked to the budget. There is no forward looking in the budget. The budget is formulated in consultation with spending ministries. A significant amount of funds controlled by the executive is outside the budget (e.g., 10-25 percent), a number of donor activities bypass the budget, and there is no analysis of contingent liabilities.
  - b. The budget classification system does not provide an adequate picture of general government activities, and budget monitoring and control systems are inadequate. Payment arrears are a problem, and expenditures deviate from the amounts budgeted by more than 20 percent overall, or on many broad budget categories.
  - c. There are significant delays (more than two years) in the preparation of public accounts. Accounts are not audited in a timely and adequate way, and few if any actions are taken on budget reports and audit findings.
  - d. The assignment of revenues and expenditures between different levels of government is vague and there is a mismatch of revenues and expenditures.
  
- 4
  - a. Policies and priorities that focus on poverty reduction are broadly reflected in the budget. Some elements of forward budget planning are in place. The budget is prepared in consultation with spending ministries.
  - b. The budget classification system is comprehensive, but different from international standards. There are no significant extra-budgetary funds and nearly all donor funds are reported in the budget, but there is little analysis of contingent liabilities. Budget monitoring and control systems exist, but there are some deficiencies. Actual expenditures deviate from the amounts budgeted by more than 10 percent on many broad budget categories.
  - c. There are delays (more than one year) in preparation of the public accounts. The accounts are audited in a timely and professional manner, but few meaningful actions are taken on budget reports or audit findings.
  - d. The assignment of revenues and expenditures between different levels of government is clear, but there is still some mismatch of revenues and expenditures.
  
- 5
  - a. Policies and priorities focus on poverty reduction and are linked to the budget. The budget is formulated through systematic consultations with spending ministries and the legislature.
  - b. The budget classification system is comprehensive. Budget monitoring occurs throughout the year based on well functioning management information systems. The budget is implemented as planned, and actual expenditures deviate only slightly from planned levels (e.g., by less than 10 percent on most broad categories).
  - c. The public accounts are prepared on a timely basis. The accounts are audited and submitted to the legislature in a timely way, and appropriate action is taken on budget reports and audit findings.
  - d. The assignment of revenues between different levels of government is clear and there is a good match of revenues and expenditures at each level of government.
  
6. Criteria for "5" on all four sub-ratings are fully met. There are no warning signs of possible deterioration, and there is widespread expectation of continued strong or improving performance.

### **3. EFFICIENCY OF REVENUE MOBILIZATION**

This criterion assesses the overall pattern of revenue mobilization--not only the tax structure as it exists on paper, but revenue from all sources as they are actually collected. Separate sub-ratings should be provided for (a) tax policy and; (b) tax administration. For the overall rating, these two dimensions should receive equal weighting.

#### **Guideposts:**

- WDI Table 5.5 on Tax Policies:

- 1
  - a. Tax base is extremely narrow with many open-ended exemptions. Most tax revenues are collected from foreign trade and other distortionary taxes. There are high, multiple, and widely ranged import tariffs, which change frequently or are applied in a highly discretionary manner. Little is collected from income taxes.
  - b. Tax administration is extremely weak, with very low collection rates. It is organized by type of tax and business processes have not been reviewed and reformed. Computerization is limited to very basic functions. Many taxpayers must make several or more personal visits to tax offices. Corruption is endemic among tax and customs officials.
- 2
  - a. Tax system is poorly designed, with a narrow base and many open-ended exemptions. Taxes on foreign trade, turnover taxes and other distortionary taxes are the dominant source of revenue. There are high and multiple import tariffs. Both company and personal income taxes have high rates on a very narrow base and generate little revenue.
  - b. Tax administration is weak due to complex laws, poor information systems, corruption, weak capacity and political interference. Collection rates are low. Tax obligations are negotiable rather than rule-based. Appeals and other dispute resolution mechanisms have not been developed.
- 3
  - a. Taxes on trade are the dominant source of revenue; turnover and other distortionary taxes and levies remain. Consumption based taxes (e.g., a VAT) are planned or in limited use. Import tariffs are moderate, but there are too many rates. Income tax base is narrow and the rate structure is only partly rationalized.
  - b. Tax administration is weak, but tax laws are not inordinately complex, and information systems are functioning (e.g., unique taxpayer identification numbers used). Corruption exists, but there are efforts to improve integrity as well as capacity.
- 4
  - a. A significant amount of revenue is being generated by low-distortion taxes such as retail sales/VAT, property, etc. VAT has not been fully operational to include activities at the retail stage. Non-trivial amounts of revenue are generated from company and personal income taxes. Tax base is broad and exemptions are moderate and made time-bound, especially for promotion schemes. Trade taxes have few and low rates.
  - b. Tax administration is solid, cost of revenue generation has been reduced and there are relatively few cases of corruption and political interference. Eligibility for preferential rates and exemptions is largely transparent.
- 5
  - a. The bulk of revenues are generated by low-distortion taxes such as sales/VAT, property, etc. Import tariffs are low and relatively uniform, and export rebate or duty drawback are functional. There is a single statutory corporate tax rate comparable to the maximum personal income tax rate. Tax base for major taxes is broad and free of arbitrary exemptions.
  - b. Tax administration is effective, and entirely rule-based. Administrative and compliance costs are low. A taxpayer service and information program, and an efficient and effective appeals mechanism, have been established.
- 6
 

Criteria for “5” on both sub-ratings are fully met. There are no warning signs of possible deterioration, and there is widespread expectation of continued strong or improving performance.

#### 4. QUALITY OF PUBLIC ADMINISTRATION

This criterion assesses the extent to which civilian central government staffs (including teachers, health workers, and police) are structured to design and implement government policy and deliver services effectively. Civilian central government staffs include the central executive together with all other ministries and administrative departments, including autonomous agencies. It excludes the armed forces, state-owned enterprises, and sub-national government.

The key dimensions for assessment are:

- a. Policy coordination and responsiveness;
- b. Service delivery and operational efficiency;
- c. Merit and ethics;
- d. Pay adequacy and management of the wage bill.

For the overall rating for this criterion, these four dimensions should receive equal weighting.

#### Guideposts:

- Civil service wages and employment database at <http://www1.worldbank.org/publicsector/civilservice/development.htm>
- Civil Service website at <http://www1.worldbank.org/publicsector/civilservice>

- 1
  - a. Mechanisms for coordination are non-existent or ineffectual, creating bureaucratic conflict and uncertain or conflicting policies.
  - b. Administrative structures are highly fragmented, with vague and overlapping responsibilities. Business processes are extremely complex and convoluted, with multiple decision layers, and many signatures required to move decisions forward.
  - c. There are no workable rules on hiring and promotion, which are based on bribes, personal ties, or ethnic affiliation rather than merit. Most public employees, even at lower levels, lose their positions on changes in government. Bribe seeking is endemic.
  - d. Level of public employment has little relation to provision of public services: either employment is too low or too few employees show up for work to provide essential services, or the wage bill consumes all of current spending, leaving no funds available for essential supplies such as drugs or textbooks. Pay and benefit levels, particularly at upper levels, are a small fraction of comparable private sector levels, and bribe payments represent a large share of income for many public officials.
- 2
  - a. Mechanisms for coordination are weak.
  - b. Administrative structures are fragmented, with frequently overlapping responsibilities. Business processes are complex involving multiple decision layers, regularly causing unnecessary delays.
  - c. Hiring and promotion based on personal ties or time in service rather than merit. Most public employees serve at the pleasure of the current government, and bribe-seeking is accepted behavior.
  - d. Public employment as a share of total employment is clearly excessive. The wage bill represents an inordinate share of recurrent spending, with adverse impacts on the quality of public service delivery. Pay and benefit levels, particularly at upper levels, are far below comparable private sector levels, but benefits (housing, car, utilities, servants) for senior civil servants may be high and there are other complex and opaque forms of compensation. "Ghost" employees are on the payroll.
- 3
  - a. Administrative structures are fragmented, and coordination mechanisms are generally inadequate to overcome parochial bureaucratic interests.
  - b. Business processes can be overly complex, often causing unnecessary delays.
  - c. Hiring and promotion formally merit-based, but there is extensive patronage in practice in several parts of government. Bribe seeking is accepted behavior in some agencies but not throughout government.
  - d. Public employment as a share of total employment is higher than needed and unsustainable if adequate wages were paid. The wage bill represents an excessively large proportion of total government expenditure. Some sectors are overstaffed (particularly health and education). Pay and benefit levels are generally inadequate and there are major difficulties in attracting and retaining staff in key technical areas.
- 4
  - a. Mechanisms for policy coordination generally function effectively.
  - b. Administrative structures are generally well designed, although gaps or areas of overlap may exist. Initial efforts have been made to redesign business processes in selected areas.
  - c. Hiring and promotion merit-based but emphasize seniority unduly. Corruption may occur but is not general practice in any public agency.
  - d. Public employment as a share of total employment is somewhat higher than needed and the wage bill represents a large proportion of government spending. Pay and benefit levels are low but not unattractive when benefits and job security are factored in. Some sectors are overstaffed (particularly health and education) and there are some difficulties in attracting and retaining staff in key technical areas.
- 5
  - a. Effective coordination mechanisms ensure a high degree of policy consistency across departmental boundaries.
  - b. Organizational structures are along functional lines with very little duplication. Business processes are regularly reviewed to ensure efficiency of decision making and implementation.
  - c. Hiring and promotion are based on merit and performance, and ethical standards prevail.
  - d. The wage bill is sustainable and does not crowd out spending required for public services. Pay and benefit levels do not deter talented people from entering the public sector. There is flexibility (that is not abused) in paying more attractive wages in hard to fill positions (e.g. rural teachers, technical specialists).
- 6
 

Criteria for "5" on all four sub-ratings are fully met. There are no warning signs of possible deterioration, and there is widespread expectation of continued strong or improving performance.

1 Very Weak	3 Moderately Weak	5 Strong
2 Weak	4 Moderately Strong	6 Very Strong

## **5. TRANSPARENCY, ACCOUNTABILITY, AND CORRUPTION IN THE PUBLIC SECTOR**

This criterion assesses the extent to which the executive can be held accountable for its use of funds and the results of its actions by the electorate and by the legislature and judiciary, and the extent to which public employees within the executive are required to account for the use of resources, administrative decisions, and results obtained. Both levels of accountability are enhanced by transparency in decision-making, public audit institutions, access to relevant and timely information, and public and media scrutiny. A high degree of accountability and transparency discourages corruption, or the abuse of public office for private gain. National and sub-national governments should be appropriately weighted. Each of three dimensions should be rated separately: (a) the accountability of the executive to oversight institutions and of public employees for their performance; (b) access of civil society to information on public affairs; and (c) state capture by narrow vested interests. For the overall rating, these three dimensions should receive equal weighting. A rating for each dimension should be provided in the write-up along with its justification.

- |          |   |
|----------|---|
| <b>1</b> | <ul style="list-style-type: none"> <li>a. There are no checks and balances on executive power. Public officials use their positions for personal gain and take bribes openly. Seats in the legislature and positions in the civil service are often bought and sold.</li> <li>b. Government decision-making is secretive. The public is prevented from participating in or learning about decisions and their implications.</li> <li>c. The state has been captured by narrow interests (economic, political, ethnic, and/or military). Administrative corruption is rampant.</li> </ul>  |
| <b>2</b> | <ul style="list-style-type: none"> <li>a. There are only ineffective audits and other checks and balances on executive power. Public officials are not sanctioned for failures in service delivery or for receiving bribes.</li> <li>b. Decision making is not transparent, and government withholds information needed by the public and civil society organizations to judge its performance. The media are not independent of government or powerful business interests.</li> <li>c. Boundaries between the public and private sector are ill-defined, and conflicts of interest abound. Laws and policies are biased towards narrow private interests. Implementation of laws and policies is distorted by corruption, and resources budgeted for public services are diverted to private gain.</li> </ul>  |
| <b>3</b> | <ul style="list-style-type: none"> <li>a. External accountability mechanisms such as inspector-general, ombudsman, or independent audit may exist, but have inadequate resources or authority.</li> <li>b. Decision making is generally not transparent, and public dissemination of information on government policies and outcomes is a low priority. Restrictions on the media limit its potential for information-gathering and scrutiny.</li> <li>c. Elected and other public officials often have private interests that conflict with their professional duties.</li> </ul>  |
| <b>4</b> | <ul style="list-style-type: none"> <li>a. External accountability mechanisms limit somewhat the degree to which special interests can divert resources or influence policy making through illicit and non-transparent means. Risks and opportunities for corruption within the executive are reduced through adequate monitoring and reporting lines.</li> <li>b. Decision making is generally transparent. Government actively attempts to distribute relevant information to the public, although capacity may be a constraint. Significant parts of the media operate outside the influence of government or powerful business interests, and media publicity provides some deterrent against unethical behaviour.</li> <li>c. Conflict of interest and ethics rules exist and the prospect of sanctions has some effect on the extent to which public officials shape policies to further their own private interests.</li> </ul>       |
| <b>5</b> | <ul style="list-style-type: none"> <li>a. Accountability for decisions is ensured through a strong public service ethic reinforced by audits, inspections, and adverse publicity for performance failures. The judiciary is impartial and independent of other branches of government. Authorities monitor the prevalence of corruption and implement sanctions transparently.</li> <li>b. The reasons for decisions, and their results and costs, are clear and communicated to the general public. Citizens can obtain government documents at nominal cost. Both state-owned (if any) and private media are independent of government influence and fulfil critical oversight roles.</li> <li>c. Conflict of interest and ethics rules for public servants are observed and enforced. Top government officials are required to disclose income and assets, and are not immune from prosecution under the law for malfeasance.</li> </ul> |
| <b>6</b> | <p>Criteria for “5” on all three sub-ratings are fully met. There are no warning signs of possible deterioration, and there is widespread expectation of continued strong or improving performance.</p>   |

