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Is There a Case for Reforming the Country Policy and Institutional Assessment (CPIA) as an Aid Allocation Tool?

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The way countries finance their development has been a matter of debate for a very long time. This debate seeks to curve out socio-economic and political spaces for policy development. In Sub-Saharan Africa (SSA), the World Bank and the African Development Bank (AfDB), which are the major players in multilateral aid, have been re-defining aid conditionality since the early 1980s. There has been a move away from emphasis on structural adjustment where finance was provided in return for the promise of policy reforms to disbursement of funds conditional on the actual reforms that a country has achieved. The new practice is known as aid 'selectivity' or performance-based aid premised on the CPIA (Kararach, et al. 2012). Some commentators have even urged for the abolition of the CPIA tool altogether (Alexander, 2010). This Brief is a contribution to the debate on the effectiveness of the CPIA indices as 'selectivity tools' and the regular effort to come up with improved sets of indices for an effective system of grant and lending allocations by donors.

1 The CPIA: Uses and contradictions

The CPIA is derived from the subjective judgment of both the World Bank and AfDB on a country's performance on a set of macroeconomic, structural, social and governance criteria. The CPIA has 16 components, grouped in four clusters as shown in Box 1.

Despite the attempt of the World Bank to move beyond the structural adjustment periods in SSA, the CPIA still embodies well-known neo-liberal economic norms that sit uncomfortably with social and governance concerns. For example, the economic core of the CPIA reflects preferences for low inflation, a surplus budgetary position, minimal restrictions on trade and capital flows, promotes 'flexible' goods, labour and land markets, and the prohibition of directed/state rationed credit. These norms were strongly advocated for during the controversial structural adjustments policies of the 1980s and have been the subject of intensive debate since the 2007-2008 global financial crisis.

The imperatives in the social cluster of the CPIA are often inconsistent with the economic imperatives which pay little attention to the perilous effects of information asymmetry in the market mechanisms. The governance cluster is noteworthy of its undemocratic tendencies by imposing a one-size-fits-all formula on countries that exhibit a very wide range of socio-

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political and structural diversity (Kararach, 2011). Arguably, the social and governance priorities are simply added onto the predetermined and unaltered economic imperatives (Van Waeyenberge, 2008).The CPIA score drives a formula for aid allocations that is 16 times more sensitive to changes in policy and institutional variables than to changes in income per capita (Kanbur, 2005; Van Waeyenberge, 2008). This is because the World Bank attaches a 68% as weight to governance matters alone. One immediate consequence is that a developing country scoring in the top performance quintile of the CPIA recently received on average five-times as much World Bank aid per capita as countries in the bottom quintile (ACIR, 2012). The differential impact is also evident from the AfDB calculations which attach less weight to governance than the World Bank (see Table 1).

The other implication is that the quality of a country's policies and institutions is more important than a country's need for assistance (Rodrik, 2004). Hence, resources are directed to countries where they are expected to be most effective, not necessarily where they are most needed. Policy-performance based allocations equally shift the priorities of interventions away from poverty reduction and the need for sustainable human development.

IDA allocation process attempts to balance between "needs" and "performance" (World Bank, 2005). Needs are represented by national income per capita, GNI per capita. Performance is captured by a performance rating, whereby the allocation per capita for a country is a function of GNI per capita and the performance rating (Kanbur, 2005). The performance rating has a much higher weight than the measure of needs. This is why, among other reasons, developing countries need to have a greater interest in debating how the CPIA index is developed and used.

Box 1 The CPIA clusters and components

A. Economic Management
   i. Macroeconomic Management
   ii. Fiscal Policy
   iii. Debt Policy
B. Structural Policies
   i. Trade
   ii. Financial Sector
   iii. Business Regulatory Environment
C. Policies for Social Inclusion
   i. Gender Equality
   ii. Equity of Public Resource Use
   iii. Building Human Resources
   iv. Social Protection and Labour
   v. Policies and Institutions for Environmental Sustainability
D. Public Sector Management and Institutions
   i. Property Rights and Rule-based Governance
   ii. Quality of Budgetary and Financial Management
   iii. Efficiency of Revenue Mobilisation
   iv. Quality of Public Administration
   v. Transparency, Accountability and Corruption in the Public Sector

"The CPIA rating process currently sits uncomfortably with social and governance concerns".

"Policy-performance based allocations equally shift the priorities of interventions away from poverty reduction and the need for sustainable human development"

Table 1 ODA allocation scenario based on CPIA calculations of World Bank and AfDB

Country	CPIA rating World Bank (AfDB)	Net total ODA $ m	Net ODA multilateral $m
Uganda	3.9 (4.3)	1785.9	768.8
Benin	3.5 (3.9)	622.9	353.8
Factor	0.4 (0.4)	Allocation difference by a factor of 3	Allocation difference by a factor of 2

Source: ACBF (2012).

2 Criticisms of the CPIA as compiled by multilateral institutions

"CPIA approach has severe effects on low-income countries that remain highly dependent on aid"

The CPIA is a carrot and stick. The rewards through IDA resource allocations to 'good performing' countries are also supposed to provide a 'demonstration effect' by encouraging 'poor performing' countries to adopt the World Bank's and AfDB's predetermined 'good' policies and institutions. But this approach has severe effects on low-income countries that remain highly dependent on aid as their main form of overall development financing.

First, selective allocation of aid using the CPIA risks locking in an extensive policy agenda with ambiguous, if not adverse, repercussions for growth. For instance, the CPIA persistently precludes the various types of strategic interventions that were successfully deployed by the East Asian tiger economies.

Second, aid selectivity hampers the ability of poor countries to raise their investment rates and/or protect their pro-poor expenditures. In such countries, aid represents a significant proportion of national budgets and total investment. Yet the underlying structures of such economies mean that they are highly likely to have low CPIA scores.

"Because the allocation formula for aid is sensitive to small changes in CPIA scores, the uncertainty and volatility of aid flows can be exacerbated".

Third, CPIA-oriented aid delivery system can adversely affect the macroeconomic stability of countries with large aid/GDP ratios. Because the allocation formula for aid is sensitive to small changes in CPIA scores, especially for the governance criteria, the uncertainty and volatility of aid flows can be exacerbated.

Other limitations include:

a. *An Unproven Premise:* The CPIA advocates the same set of policies: aid effectiveness, poverty reduction, and growth in all countries yet the jury is still out on the empirical strength of the supposed links between effective aid and growth (see Burnside and Dollar (2000) and Collier and Dollar (2001, 2002)).

b. *One-size-fits-all:* Some of the CPIA criterion, for example for trade, does not adequately allow for country specificity (World Bank, 2010).

c. *Undercutting Democratic Practice:* By promoting one set of policies, the CPIA poses a risk to democracy because it shrinks national governments' capacity to respond to the policy preferences of their electorates.

d. *Lack of Responsiveness to Africa's Unique Priorities:* The CPIA does not adequately address issues vital to Africa's future, including: economic vulnerability to powerful exogenous shocks; MDGs; agriculture; manufacturing; and environmental/climate challenges (Alexander, 2010).

e. *Double Standards:* The richest countries in the world have been unable to achieve many of the "ideal" policies specified by the CPIA as is now clear from the global financial crisis – especially in the Eurozone.

f. *Subjective Rating Process:* The AfDB and the World Bank use the same CPIA criteria to assess the performance of the same African countries. Yet, the country ratings of the AfDB are generally higher than those of the Bank for most of the 16 CPIA criteria.

g. *Aid Concentration:* Two-thirds of IDA's assistance recently disbursed to Africa goes to only six countries (Nigeria, Ethiopia, Tanzania, DRC, Uganda and Mozambique). Also, assistance to fragile states is highly concentrated in a few countries creating a significant set of SSA countries with needs but little support (Alexander, 2010); and

h. *Complexity and Lack of Transparency:* The IDA allocation system is complex, with eight factors that, in addition to the CPIA, determine a country's IDA allocation. Given this complexity and the fact that the CPIA is built on confidential data, it is not possible for outsiders to verify the results and promote buy-in as well as being out of tune with the Paris Declaration, the Accra Agenda for Action and the protocols from Busan.

3 Some evidence from the CPIA processes in SSA

Since 2010, the ACBF supported a number of SSA countries in self-conducting the CPIA. The number of countries engaged in the exercise rose from 13 countries in 2010 to 17 countries in 2011. The approach was to ask think tanks and policy units in the selected countries to use the CPIA questionnaire administered by the World Bank and AfDB and assess their country's achievements on each of the key areas of assessment. An analysis of two years-worth of CPIA data comparing self-assessments by countries, the World Bank and AfBD was done.

The data for ACIR 2011 and 2012 (ACBF, 2011; 2012) indicate that the AfDB tends to give ratings that are similar on average to the World Bank but higher than country self-assessments. The variance amongst ratings is the highest for the AfDB, being twice as high as the World Bank and those from self-assessment. AfDB's assessments show more variability than the country self-assessments as well. The current lack of transparency in index construction makes the comparison of their CPIA indices difficult. One plausible technical source of variation is the differential weights that might have been allocated to the disaggregated components of the CPIA index. For instance, the World Bank attaches a weight of 68% to governance while AfDB uses 50%. It is evident that experts may disagree on the facts about a country as well as disagree about how those facts are to be weighted in forming the various sub-indices that go into the CPIA (Ravallion, 2010).

The differences between the ratings are discussed below. Three countries showed a big difference of 20% or more between the country self-assessments and the World Bank assessments in 2009 compared to five countries in 2010. In 2009 the big differences related to Cote d'Ivoire, Liberia, and Zimbabwe. In 2010, the big differences were for Cote d'Ivoire, Liberia, Niger, Tanzania and Zimbabwe. The large disagreements between the ratings in 2009 than in 2010 may indicate convergence over time between the ratings. Since feedback was provided to countries in 2009 on the differences between their self-assessments, one could argue that learning has not taken place or that adjustments on both sides of the ratings may be taking place, thus netting out any pattern in the observed differences. Benin is a case in point, where it had rated itself much harsher than the World Bank in 2009 and reversed to rate itself higher and agreeing that it is not a fragile state. Dissemination of the 2011 African Capacity Indicator (ACI) report in the country raised sensitivity how ratings are done and this could explain the switch.

"The large disagreements between the ratings in 2009 than in 2010 may indicate convergence over time between the ratings"

Country self-assessments have closer agreement with the AfDB ratings than with those of the World Bank. The World Bank may be adjusting for international comparisons and rating African countries on an international scale, which may explain their ratings. On the other hand, the countries and AfDB are closer to the ground and may have better information on the policy environment than the World Bank, explaining the relatively close agreements in their ratings.

The pattern of outliers indicates that there are a number of systematic biases, especially with respect to the type of country (fragile or non-fragile). This is seen in the percentage agreement by country type (Table 2).

"The pattern of outliers indicates that there are a number of systematic biases in current CPIA rating processes"

The results in Table 2 indicate that countries are shyer in rating themselves fragile than the World Bank and AfDB. All of these results indicate that it is very important to use multiple measures before classifying countries. A methodology that accounts for the systematic biases would largely adjust for this difference.

Table 2 Impact of Country Type on Differences in CPIA Assessments

Areas of Agreement	Non-Fragile States	Fragile States
Country Self Assessment and World Bank	74%	13%
Country Self Assessment and AfDB	84%	13%
World Bank and AfDB	100%	63%
Country Self Assessment, World Bank and AfDB	63%	13%

Source: ACBF/ACIR 2012 database.

4 Motivation for country self-assessments of the CPIA

"Development must be about people for it to be grounded and meaningful"

Development must be about people for it to be grounded and meaningful. A number of agencies argue for an inclusive and participatory approach to development, including in the process of developing a country's strategy, as in the participatory poverty reduction strategies (PRSPs) but more recently on the processes of assessing a country's performance, as in the African Governance Outlook (AGO). Development partners acknowledge the importance of participation and realise that development will involve broader questions of citizenship, sovereignty and globalization. In recent years, the focus on some of these issues has changed (Mohan, 2001). A growing number of agencies such as the African Capacity Building Foundation (ACBF) are seeking to build up the capacity of the state, private sector and civil society to empower all sections of society. This holistic approach to capacity building requires state-society 'synergy' (Evans, 1997; Ostrom, 1996) whereby partnerships produce more lasting development, encourage social inclusion and bolster citizenship. Despite pronouncements such as the Paris Declaration, the Accra Agenda for Action and the 4th High Level Forum (HLF4) on Aid Effectiveness in Busan in 2011, Fowler (1998) argues that NGOs and other development agencies are yet to form genuine partnerships where the northern partner does not have disproportionate influence. We argue governments should also have ownership of development policies including aid allocation. Greater local involvement in development discourse is paramount. The moral and political imperative is that 'local' problems have global causes so that the most useful thing that a relatively powerful non-local organisation can do is to use its political weight to raise awareness and campaign for reform of the institutions of global governance (Rayner, 2003).

"Despite pronouncements such as the Paris Declaration, NGOs and other development agencies are yet to form genuine partnerships"

The promotion of transparency and accountability, the need to make the various dimensions in decision making explicit and reviewed for completeness, and the monitoring and evaluation of the programme performance are some of the other governance motivations encouraging self-assessment of CPIA processes. There are arguably no credible outcome-based evaluations that have established that the CPIA-technique used by the multilateral banks has led to a technically or socially sound outcome that otherwise would not have been reached if alternative approaches such as self-assessments, African Peer Review Mechanism (APRM) or African Capacity Indicators (ACI) were adopted. Self-assessment would open the way for greater public scrutiny of the implementation of development assistance. Governments and partners with a stake in a project being assessed should view governance as a social license and source of legitimacy to operate. Democratic participation essentially enhances programme communication by removing resistance brought about by lack of information or understanding about specified intervention (Gaventa and Cornwall, 2000 and 200; Leach and Scoones, 2002; Self, 1975).

Despite the hegemony of the CPIA technique in aid policy making, the really thorny issues facing decision makers more often are aesthetic, ethical and political rather than scientific. Complex issues of governance are quickly reduced to issues of scientific uncertainty, which, at least in principle, seem as though they ought to be tractable through reasoned inquiry. Thus the reduction is not merely one of the political to the scientific, but a further reduction of science to the paradigm of risk and its assessment and management. Political economy questions then tend to drive policy formulations, reforms and implementations. Essentially, when doing self assessment and judging the quality of participation, it is important to not only assess who is included but also which group or perspective was not included, as omission is as important as commission in the quality of validating self-assessments (Agarwal, 2001). Self-assessment opens more room for SSA countries to engage in the agenda for aid allocations. The major philosophical question for everyone is, 'Whose reality counts?' The policy implications of the self-assessment approach are radical and guided by principles which include: (i) fostering decentralisation, democracy, diversity and dynamism, (ii) managing for diversity and complexity, and (iii) self-critical awareness and admitting and learning from errors.

5 Policy implications of CPIA scores derived via self-assessment

There are number of reasons that call for self-assessments and why they are recommended. We highlight at least five critical issues that help to improve the CPIA computation from the perspective of self-assessment.

1. *Enhanced country ownership:* There is consensus that development efforts have to be nationally owned to be relevant and sustainable as re-affirmed in Busan in 2011. For projects/programmes to succeed, there are needs for political commitment and leadership to demand change, seek performance-orientation and beneficiary-participation all of which redefine the power balances, for example in terms of gender and other factors impacting inclusion, in and around the projects (Acemoglu and Robinson, 2012).

2. *Greater accountability for outcomes and results:* Countries must be given opportunities for self-assessment to allow for greater inclusivity in the discourse on aid and development assistance as well as the utilization of such resources. The non-inclusivity of the state and citizens in SSA tended to produce significant shortcomings in that patrimonialism, dictatorship, corruption and conflict became the major characteristic of recent development history on the continent (Kedir, 2011). Self-assessment by countries/communities to derive the CPIA would give greater accountability for development outcomes and results.

3. *Strengthening participation and local leadership:* Participation as a mechanism for social inclusion and the creation of state legitimacy is powerful enough to see change in the way the CPIA scores are developed and executed in countries. Self-assessment by countries would open way for participation and social inclusion, greater ownership and credibility not just to the overall processes but the outcomes and results.

4. *Enhancing policy dialogue:* Self-assessment grants a country and community the opportunity to do retrospection and self-reflection. Such a process would considerably enhance the quality of policy dialogue and subsequent programmatic decisions.

"Despite the hegemony of the CPIA technique in aid policy making, the really thorny issues facing decision makers more often are not scientific".

"Self-assessment opens more room for SSA countries to engage in the agenda for aid allocations".

5. *Giving credibility and acceptance to CPIA-related processes:* There are significant principal-agent problems in the CPIA aid-allocation processes undermined by the nature of the relationship between donors and beneficiaries– the poor – that tends to be largely indirect and distant. This, in turn, leads to a very long and complex chain of principal-agent relationships. Self-assessments would arguably cut this rather long CPIA process chain and grant it greater credibility and acceptance.

"The CPIA rating matters a great deal because it has a significant influence on the allocation of IDA resources"

6. *The CPIA ratings matter:* The CPIA rating matters a great deal because it has a significant influence on the allocation of IDA resources. The current CPIA rating derivation process has implications for natural justice and democratic practice. Citizens need voice and inclusivity therefore requiring that the CPIA be complemented with other measures of performance. Self assessments help countries understand and own the results, and raise the likelihood of better matching reforms to evaluated policy gaps. Such better understanding could also improve the ownership of the proposed reforms and raise the speed and impacts of their implementation. All such positive feedback loops could greatly enhance the achievement of development results, especially those that come from long paths to transformation, whereby sustaining the reforms relies on political buy in. Adopting a triangulation approach would bring some sense of realism and better guide aid allocation.

"Citizens need voice and inclusivity"

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