

Country Policy and Institutional Assessment: A Review of Africa's Recent Performance*

Introduction

This note presents a review of policies and institutional quality in African countries over the 2001-08 period, as assessed by the World Bank's Country Policy and Institutional Assessment (CPIA) scores. Experience repeatedly shows that good policies and strong institutions lead to favorable growth and poverty reduction outcomes over the medium term, despite possible periodic fluctuations arising from internal and external factors. In this context, over the past decade, various efforts have been made (by the African Union, governments, and international partners) to improve economic policies and strengthen institutions in African countries. Therefore, assessing progress made so far, discussing key factors underlying the scores for selected cases, and identifying challenges going forward could be useful for all stakeholders involved in the development of Africa.

The CPIA is intended to capture the quality of a country's policies and institutions, and is measured annually for all countries borrowing from the World Bank. It has evolved into a set of 16 criteria that are grouped in four clusters: (i) economic management; (ii) structural policies; (iii) policies for social inclusion and equity; and (iv) public sector management and institutions. Ratings for each of the criteria reflect a variety of indicators, observations, and Bank staff judgments. For each of the 16 criteria, countries are rated on a scale of 1 (low) to 6 (high). These scores are averaged within each cluster to produce the cluster score. The scores depend on the level of performance in a given year assessed against the criteria, and not on changes in performance compared to the previous year. They depend on current policies and institutions, rather than on promises or intentions. The CPIA criteria were revised in 2004 to reflect the recommendations made by an external panel of experts, academics and policymakers from developing and developed countries.¹ Starting from 2005, the CPIA scores for IDA-eligible countries are published; however, the write-ups that provide the rationale for the ratings remain confidential.

This note combines analysis of broad CPIA trends across IDA-eligible African countries with experiences from selected country case studies to shed light on countries' relative performance in improving policies and institutions. The discussion is divided into four key questions: (a) How does Africa compare with other regions? (b) Which African countries have made the most progress and which remain trapped at the bottom? (c) Which dimensions of the CPIA seem slow to change, and (d) Is good performance on the CPIA linked to good economic outcomes?

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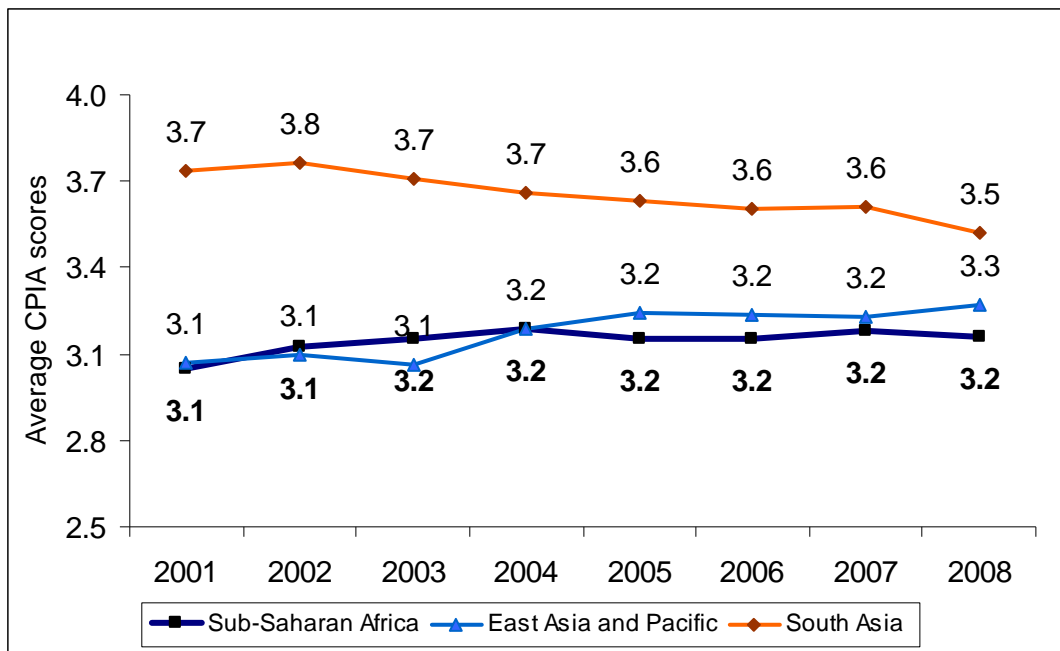
¹ One of the key revisions was to correct for upward drifts in the CPIA scores by improving and emphasizing the relative ranking of countries.

Four Key Questions:

- Q. How does Africa's assessment compare with other regions?

Over the past 8 years, when compared to other regions, Africa's progress is about average. Between 2001 and 2008, the average CPIA score for IDA-eligible countries in Africa has risen from 3.1 to 3.2. The total gain is 0.1, which is below the gains made by the East Asia and Pacific region. However, Africa performed better than South Asia, whose CPIA decreased by 0.2 over the same period. This conclusion stands even if scores over the 2004-8 periods are considered. Despite average progress, Africa's absolute score is below that of East Asia and South Asia.

Figure 1: Overall CPIA Trends Across Regions



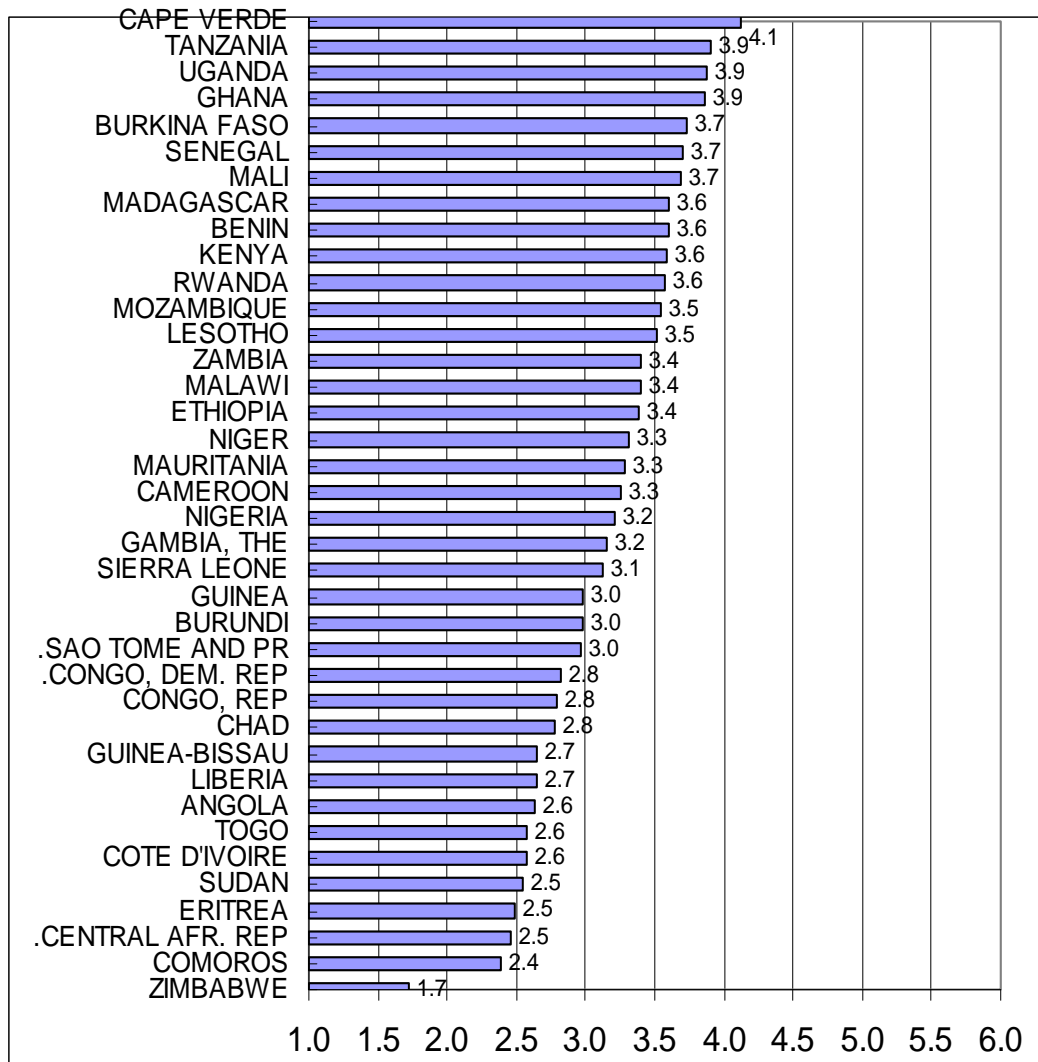
Source: CPIA datasheet. Averages for IDA-eligible countries as of 2008.

- Q. Within Africa, which countries gained on the CPIA scores and which lost?

Within Africa, countries' performance varies greatly. Although the potential CPIA score can vary from 1 to 6, the almost 40 IDA-eligible countries in Africa tend to have their CPIA scores falling between 2.5 and 4. Three key findings are (Figure 2): a few countries have consistently performed well on the CPIA score with average scores clustered around 4.0: Cape Verde, Tanzania (Box 1), Uganda, and Ghana. At the other extreme, a few countries, such as Zimbabwe, Comoros, Central African Republic and Eritrea, are

trapped at the lower end of the CPIA scores—scores, on average, below 2.5 for the past five years. Somalia (and until 2008 Liberia) is not rated for lack of data. Finally, CPIA scores higher than 4 require a very strong performance on economic policies and institutional quality, which are generally only met by the middle income countries.

Figure 2: 2004-2008 Average CPIA Ranking



Box 1: Tanzania--A Case of Consistently Strong Performance

Tanzania has one of the best CPIA ratings among IDA-eligible countries in Africa. It achieved, on average, a 3.9 score over 2004-08 on account of sound macroeconomic management, substantial structural reforms and improved public financing management. Tanzania is a good example of a virtuous cycle of large foreign assistance, prudent policies and reforms and good economic outcomes. The country's good performance on macroeconomic policies and structural reforms has earned the support of the international community, resulting in generous foreign aid including substantial debt relief under the enhanced HIPC Initiative. Strong donors' support, including World Bank and IMF-supported programs helped Tanzania implement prudent macroeconomic policies and speed up economic reform. For example, debt relief and foreign aid created much-needed fiscal space to finance priority spending. Most importantly, the key to Tanzania's success has been strong domestic ownership of the reform process.

Tanzania achieved an exceptional rating in the macroeconomic management cluster—a score of 4.5. Revenue mobilization has improved significantly: the revenue to GDP ratio increased from 12.6 percent in 2004 to 16.6 percent of GDP in 2008. In the same period, the share of public expenditures in GDP increased from 21.8 percent to 25.8 percent. The overall deficit net of grants remained around 4 percent of GDP and has been financed primarily from concessional borrowing. The increased expenditures were targeted to the provision of social services and infrastructure. This resulted in notable progress in school enrollment. The introduction of the Primary Education Development Program in 2001 and the abolition of primary school fees have increased net primary enrolment from 65 percent to 97 percent in 2008. Tanzania maintains a flexible exchange rate and the real exchange rate remained stable over the 2005-2008 period.

Tanzania also made considerable progress on other CPIA clusters. According to the Doing Business survey, Tanzania compares favorably on trade indicators to other countries in the region. Credit expansion continues and the size of the banking sector is increasing steadily. For example, credit to the private sector has increased from 8.9 percent of GDP in 2004 to almost 15 percent of GDP in 2008. However, substantial further progress is needed as over ¾ of the population do not have access to formal sources of credit. Significant progress was also made to improve the quality and delivery of public services. Large expansions in some basic service provision, such as education and basic public health facilities, are observable. However, lack of qualified personnel is a key constraint in effective service delivery. Finally, Tanzania is considered to have one of the best public financial management systems in the region. The 2007 Public Expenditure and Financial Accountability survey conducted for 23 sub-Saharan African countries shows Tanzania with the highest score, on par with 10 other countries.

On the Governance front, the Corruption Perception Index (2008) ranks Tanzania at 102 out of the 180 countries. If only considering Africa, Tanzania is ranked 16 out of 45 countries (15 out of 48 countries in Ibrahim Index of Governance 2008). The following

table shows how Tanzania not only has better average than the regional average, but it has progressed over the years.

Governance Indicators: Comparing Tanzania with the regional average

Governance Indicators	Year	Percentile	Governance Score	Regional Average Percentile
		(0-100)	(-2.5 to +2.5)	
Voice and Accountability	2007	43.8	-0.15	33.2
	2004	34.6	-0.46	
Political Stability	2007	39.9	-0.07	34.2
	2004	30.8	-0.44	
Government Effectiveness	2007	39.3	-0.42	26.8
	2004	42.2	-0.37	
Regulatory Quality	2007	39.3	-0.37	27.8
	2004	39	-0.41	
Rule of Law	2007	41.9	-0.45	28.3
	2004	41	-0.44	
Control of Corruption	2007	43	-0.45	30.7
	2004	29.6	-0.66	

Source: World Bank Institute Governance Indicators, 2008.

Despite, strong performance on key macroeconomic outcomes, Tanzania has had limited progress in poverty reduction. Inflation has been maintained at single digits despite some pickup last year owing to commodity prices, and economic growth is buoyant, averaging almost 7 percent over the last five years, which resulted in close to a [50] percent increase in per capita income. However, progress in poverty reduction has been slow. The results of the latest household budget survey indicate that the incidence of poverty declined from 35.7 percent in 2001 to 33.3 percent in 2007.

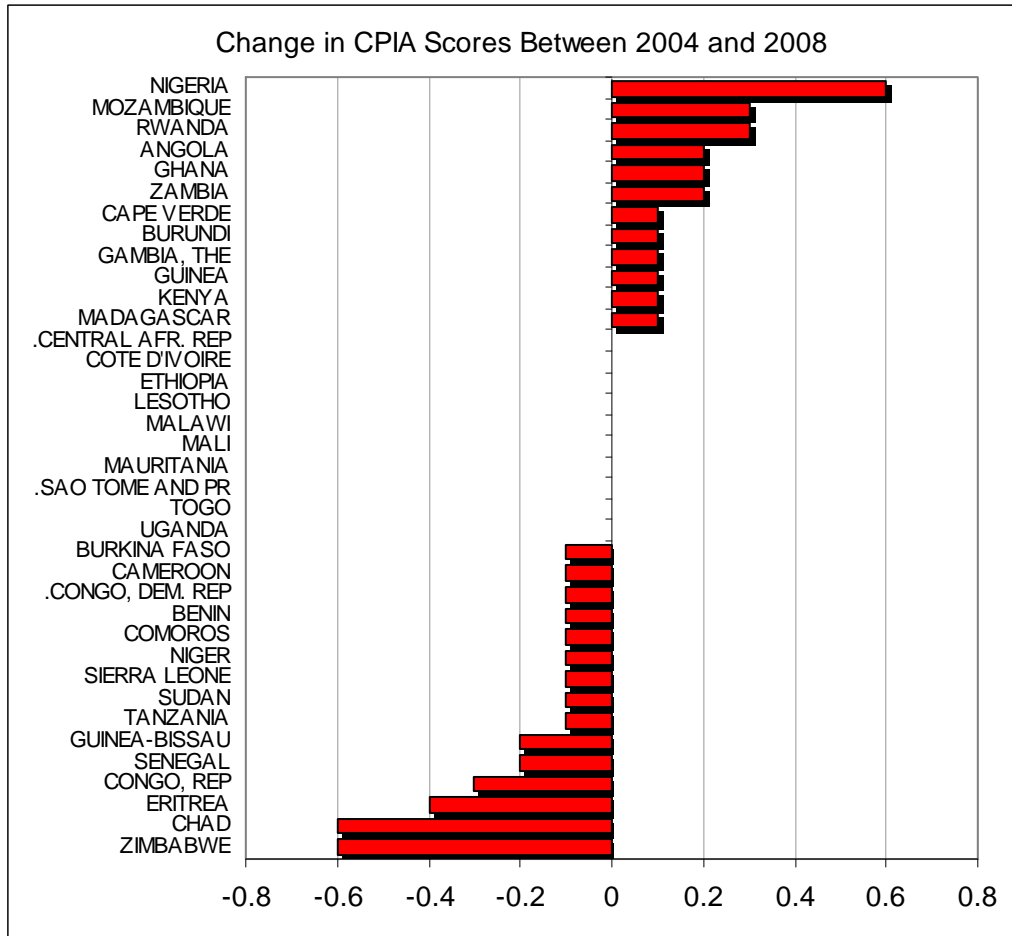
In general, CPIA scores change only gradually, but some countries experienced considerable improvements or worsening of their ratings. Over the last five years, the number of African countries with scores equal to or greater than the threshold of 3.5 for international good performance has risen from 12 in 2004 to 15 countries in 2008. Figure 3 lists countries with their cumulative gain or deterioration in CPIA scores between 2004 and 2008. The rest of this note will focus only on IDA-eligible African countries and will also differentiate between oil-exporting and other countries.²

Over the past five years, Ghana, Rwanda, Zambia, and Mozambique have made significant progress in economic and institutional quality—each of these countries achieved more than a 0.5 (or about a 20 percent) increase in their overall CPIA scores. Over the same period, Eritrea, Chad and Zimbabwe experienced a large deterioration in their CPIA score (over 25 percent cumulative). Countries like Central African Republic,

² Out of 39 IDA-eligible countries, 7 are oil exporters. Angola, Cameroon, Chad, Congo Republic, Cote D'Ivoire, Nigeria, and Sudan.

Ethiopia, Malawi, Mali, and Togo have been stable with very minor or no changes in their CPIA scores (Figure 3). Some good performers (e.g., Uganda) also did not realize any improvement, suggesting that progress is difficult once a country reaches the frontier for low-income countries (for example, getting a score above 4).

Figure 3: Cumulative Change in CPIA Scores



Source: AFRICA CPIA datasheet.

Among oil exporting countries, large variations in CPIA scores have been observed across the region with more countries having declines in their CPIA scores. While Nigeria and Angola had very positive improvements on their CPIA scores, the remaining seven countries experienced losses. While Nigeria gained by more than the 0.5 over 2004-08, another oil-exporting country, Chad, deteriorated on its CPIA score by more than 0.6 point (Box 2).

Many post-conflict countries made progress in improving economic policies and building institutions. For example, Angola and Rwanda have made great strides in improving their CPIA ratings, albeit starting from a very low base. Other post-conflict countries such as Republic of Congo have experienced worsening in CPIA ratings (see Box 3 for a comparison of Guinea and Guinea-Bissau).

Box 2: Chad--A Case Study of Missed Opportunities

Following its independence in 1960, Chad has experienced repeated civil wars over the past four decades. Since seizing power in 1990, Idriss Deby's government continued to face a series of unsuccessful coup attempts despite many elections. Civil unrest worsened particularly since the Darfur crisis in neighboring Sudan deepened and oil production came on stream. In this context, Chad not only had relatively low ratings on the CPIA indicators but its performance has been weakening further in recent years.

Managing petroleum revenue efficiently proved to be a challenge. The unilateral amendment by the government in the key provisions of the Petroleum Revenue Management Law in early 2006 impacted relations with donors, particularly the World Bank. Although a MoU was agreed later between the government and the Bank, its implementation has been less than satisfactory, partly due to excessive off-budget expenditures. In late 2008, the Bank withdrew from the oil sector after Chad pre-paid the loans it had received from the Bank for financing the oil pipeline project. The overall fiscal balance has been deteriorating and continued budget slippages made it difficult for the IMF to complete the reviews under the PRGF arrangement approved in early 2005.

Chad also receives low ratings on other CPIA clusters. Average tariffs on trade are higher than the regional average and trade is discouraged by long processing time (about twice as long as its comparators) and high shipping costs (about 3 times as much as the regional average). According to the Doing Business survey, Chad is ranked 176th out of 181. Chad's performance on the governance front is not only weaker than the region but also worsening over time (see Table below). All components of the World Bank Institute's governance index indicate a substantial worsening since 2003. Other sources also ranked Chad at the bottom for their governance indices. According to the Ibrahim index of African Governance (2008), Chad is ranked 46th out of 48 African countries; the Corruption Perception Index (2008) ranks Chad is at 173 out of 180 countries. If only African countries are considered, Chad is ranked at the bottom sharing the same score with Guinea and Sudan (excluding Somalia).

Governance Indicators: Comparing Chad with the regional average

Governance Indicator	Year	Percentile Rank	Governance Score	Regional Average Percentile
		(0-100)	(-2.5 to +2.5)	
Voice and Accountability	2007	9.1	-1.43	33.2
	2003	20.2	-1.05	
Political Stability	2007	6.3	-1.96	34.2
	2003	14.9	-1.23	
Government Effectiveness	2007	4.3	-1.45	26.8
	2003	19.4	-0.83	
Regulatory Quality	2007	12.1	-1.16	27.8
	2003	17.1	-0.94	

Rule of Law	2007	5.7	-1.4	28.3
	2003	14.8	-1.07	
Control of Corruption	2007	5.3	-1.22	30.7
	2003	9.2	-1.13	

Source: World Bank Institute Governance Indicators, 2008.

As a result of poor policies, weak institutions, and intermittent civil conflicts, macroeconomic outcomes have not shown sustained improvements. Following the initial boost from oil production in 2003-04, real GDP growth has been on a downward path. Given low income levels and savings, non-oil private investment remained low at about 5 percent of GDP in 2006-07 compared to the Africa regional average of 13 percent. Other development indicators are also depicting a rather pessimistic picture. Chad is one of the poorest countries in the world, with an HDI ranking of 170 out of 177 countries in 2007.

Another significant reduction has been in policies for social inclusion and equity (similar reduction to Zimbabwe (-0.7)). These are:

- The Government failed to improve the quality and composition of expenditures. Also, the alignment of public expenditures with poverty reduction priorities still remains uneven and weak.
- Public expenditures in the health sector show that due to leakage of government resources, the primary health care centers, which are the frontline providers, receive only a negligible proportion of the ministry's non-wage recurrent expenditure.
- On health indicators, the fertility rate (6.3 births per women in 2005, WDI, 2008) is still high with very low use of contraceptives (3 percent, WDI, 2008); Maternal mortality remains very high (1099 per 100, 000 live births).
- Chad's education indicators continue to be among the lowest in the world with strong disparities across gender and regions. The primary completion rate was about 44% (35% for girls) in 2007/08.

Guinea-Bissau and Guinea: A tale of two opposite macroeconomic paths

Prolonged conflict and political instability have severely affected Guinea-Bissau.

Adverse developments resulted in a substantial decline in Guinea-Bissau's rating on the macroeconomic management cluster of the CPIA—the cluster score declined from 2.8 in 2004 to 1.8 in 2008. The 1998 civil war, the 2003 coup and subsequent civil unrest led to serious deterioration in physical infrastructure, weakened capacity, and unsustainable fiscal deficits. Repeated efforts to rebuild capacity and address the economic problems (for example, after parliamentary elections in 2004 and presidential elections in 2005) have not been successful, partly reflecting continued political tensions and delays in donor support. The uncertain environment discourages private sector investment, which is very low at less than 3 percent of GDP. Consequently, per capita income has declined in most years between 2004 and 2008.

A difficult economic and political environment resulted in large and unsustainable fiscal balances. Public revenue is stagnant at around 16 percent of GDP while wage expenditures have increased substantially, partly to build political stability for the country. The large build-up of both domestic and external payment arrears is another key problem. The political turmoil also caused the erosion in donors' support, which has been a key source of financing of the budget. Shortfalls in donor assistance led to a large financing gap to be filled with expensive commercial borrowing and accumulating further arrears. *Guinea-Bissau's debt is clearly unsustainable.* In 2008, external debt was estimated at US\$1.4 billion, or about 320 percent of GDP.

On the other hand, Guinea made substantial progress in improving macroeconomic management and implementing prudent fiscal policies despite some intermittent lapses. After achieving strong growth the 1990s (on average about 4.5 percent a year), real GDP growth slowed to an average annual rate of about 2.5 percent during 2000-04. In the later period, the fiscal deficit almost doubled and the monetary policy became highly accommodative of this weak fiscal stance, resulting initially in a large depreciation of the currency and high inflation. Subsequently, restrictions on the exchange rate led to the development of a parallel market. Guinea's macroeconomic management ratings in 2004 were 2.3.

In 2005, a number of policy actions were taken by a new economic team to stabilize the economy—and these efforts were supported by an IMF staff-monitored program. Fiscal policy was tightened and monetary policy primarily focused on price stability. Consequently, the overall fiscal deficit declined from almost 6 percent of GDP in 2004 to close to zero in 2005. The exchange rate was unified and after the depreciation of the Guinean franc, the real exchange rate reached its equilibrium level. These improvements resulted in an improved score on the macroeconomic cluster, which jumped to 2.7. However, in 2006, macroeconomic performance again stalled. High inflation returned and expansionary fiscal policy led to further weakening of the currency.

In 2007, once more, a prudent fiscal and monetary stance was adopted to stabilize the economy. The government restricted spending within the revenue envelope and the central bank brought reserve money growth under control. As a result, the fiscal deficit improved by 4 percent of GDP from the level in 2006 and inflation declined to 23 percent in 2007 compared to 35 percent the previous year. The Guinean franc appreciated by over 40 percent in real terms, and the premium on the parallel market was eliminated. The score on the macroeconomic management cluster of the CPIA improved to 3.0. In 2008, Guinea continued to implement its macroeconomic stabilization policies that started in 2007, despite the change of government in June 2008. Fiscal policy was geared to maintaining a balanced budget and inflation declined further. However, the future of the policy stance appears to be uncertain after the military coup of December 23, 2008.

➤ Q. Which of the indicators saw greater improvement across the region?

Except for the economic management indicators, the scores for other CPIA clusters did not improve over the past five years (figure 4). The indicators for “economic management” have, on average, been the highest scores in the region, and saw substantial improvement at the same time. On the other hand, the public management and institutions cluster has, on average, the lowest score and did not improve over the same period. Similarly, the indicators for structural and social inclusion/equity policies also remained stagnant in this period.

Figure 4: Average CPIA Scores by Cluster for African countries

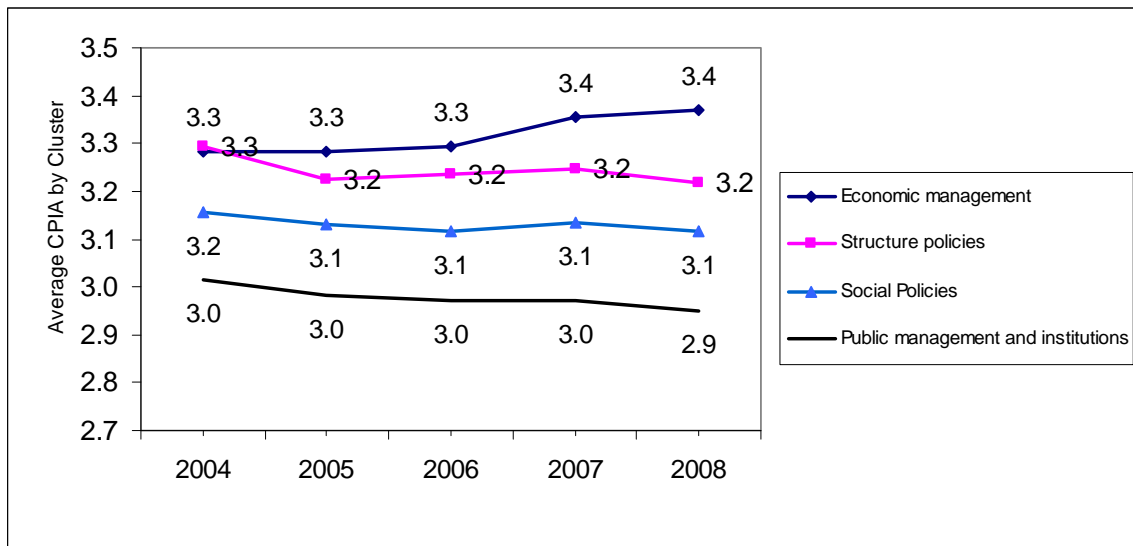
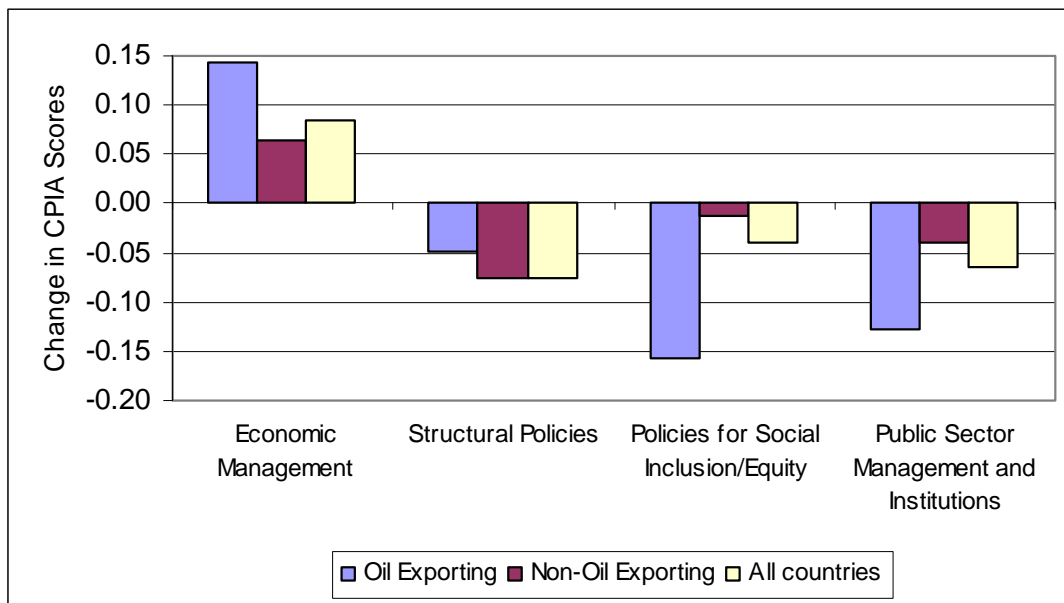


Figure 5 displays clearly that, with the exception of macroeconomic management, recent developments in policies and institutions are not encouraging. When the average scores

are computed for oil-exporting and non-oil countries, one finds that oil-exporting countries experienced greater improvements in their economic policy environment than did the non-oil countries, primarily on account of their debt position (Table 1). The performance is reversed on other dimensions of the CPIA: structural policies, policies for social inclusion, and public sector management and institutions. On these dimensions, oil-exporting countries' ratings have declined over the past five years, while the non-oil countries' performance did not change much. Most countries (30 in total) failed to improve transparency, accountability, and governance indicators. For non-oil exporting countries, more positive developments took place in their policies for social inclusion, especially in building human resources, and the equitable use of public resources. On the structural policy indicators, both groups improved their financial sector environment, while they failed to improve their business regulatory environment and trade indicators.

Figure 5: Comparison of CPIA Scores for Oil and Non-Oil Exporting Countries



As noted earlier, except for economic management, all other policies and institutions appear not to have improved. In particular, public sector management has more countries with decreasing scores than increasing scores. Further examination of the performance on the public sector governance indicators (Table 1) indicates that oil exporting countries tend to have problems with budget management and quality of public administration while this is not the case for non-oil exporting countries. However, both types of countries have relatively more difficulty with respect to improving the ratings on transparency and reducing corruption.

Table 1: CPIA Ratings: Changes between 2004 and 2008

	IDA-eligible African Countries		
	All	Oil Exporters	Non-Oil Countries
1 Macroeconomic Management	0.04	-0.14	0.10
2 Fiscal Policy	0.08	0.07	0.10
3 Debt Policy	0.14	0.50	0.00
Overall Economic Management	0.09	0.14	0.06
4 Trade	-0.09	-0.07	-0.06
5 Financial Sector	-0.01	0.07	-0.05
6 Business Regulatory Environ.	-0.12	-0.14	-0.11
Overall Structural Policies	-0.08	-0.05	-0.08
7 Gender Equality	-0.04	-0.14	-0.02
8 Equity of Public Resource Use	-0.07	-0.21	-0.03
9 Building Human Resources	0.05	-0.14	0.10
10 Social Protection & Labor	0.00	0.14	-0.03
11 Pol. & Instit. for Environ. Sustainability	-0.15	-0.43	-0.08
Overall Policies for Social Inclusion/Equity	-0.04	-0.16	-0.01
12 Property Rights & Rule-based Govern.	-0.04	-0.07	-0.03
13 Quality of Budget & Financial Mgt.	-0.08	-0.50	0.03
14 Effic.of Revenue Mobilization	-0.04	0.00	-0.02
15 Quality of Public Admin.	-0.04	0.00	-0.05
16 Transparency, Accountability & Corruption	-0.12	-0.07	-0.13
Overall Public Management & Institutions	-0.06	-0.13	-0.04

Table 2: Summary of CPIA Performance by Clusters

CPIA Clusters	Number of Increase>0	Number of Decrease<0	Number of increase>0.5	Number of Decrease<-0.5
Economic Management	19	10	5	2
Structural Policies	10	21	1	2
Policies for Social Inclusion	13	15	0	2
Public Sector Management	8	17	0	1
Overall	15	20	1	2

Note: Total countries included are 37.

>0 include countries that had positive improvement on their overall CPIA scores, while <0 includes countries that experienced a decrease in overall CPIA scores between 2004 and 2008.

>0.5 includes countries that gained more than 0.5 points on their overall CPIA scores and <-0.5 means countries lost more than 0.5 point on their overall CPIA scores.

Table 2 summarizes the dynamics of all four clusters of the CPIA ratings over 2004-08. Except for the macroeconomic management indicators, all other clusters appeared to have deteriorated more often than they improved. For example, twice as many countries received a downgrading in rating on structural policies than the number of countries that got a positive assessment. Given that the rating also reflect to some degree Bank staff's judgment (partly because not all 16 criteria of the CPIA can be assessed quantitatively), we also report results on large (>0.5) changes in the ratings. Overall, the rating for only three countries changed more than 0.5. Nigeria improved by 0.6 on account of substantial upgrades on macroeconomic management and structural policies. Chad and Zimbabwe experienced large downgrades in the ratings. As noted earlier, the macroeconomic management cluster is the more varying dimension of the CPIA ratings. A total of seven countries' ratings changed by more than 0.5 (it could have been 8 cases had Zimbabwe not already reached the lowest rating of 1). The ratings for five countries have increased: Angola, Guinea, Mauritania, Nigeria and Zambia. Chad and Guinea-Bissau are the cases with significant deterioration in the macroeconomic management cluster.

➤ Q. Is good performance on CPIA indicators linked to good economic outcomes?

Finally, economic performance among SSA countries during 2000-06 tends to be highly correlated with the quality of policy as reflected by the CPIA (see Figure 3). Countries with CPIA scores of greater than 3.5 by 2006 tend to have higher growth and lower inflation than those with scores of less than 3.5 (excluding Zimbabwe). The low income countries (excluding middle income and oil exporting countries) with good policy and institutional environment are in fact doing very well – growth averaged 5.1 percent and inflation was 6.9 percent.

Figure 3: Economic Performance of African Countries by Quality of Policy (2000-06)

