

**COUNTRY POLICY AND INSTITUTIONAL ASSESSMENTS**

**2006 ASSESSMENT QUESTIONNAIRE**

**OPERATIONS POLICY AND COUNTRY SERVICES  
DECEMBER 11, 2006**



# COUNTRY POLICY AND INSTITUTIONAL ASSESSMENTS

## 2006 ASSESSMENT QUESTIONNAIRE

### CONTENT

<b>Background</b> .....	1
<b>CPIA Process</b> .....	2
<b>2006 Criteria</b> .....	4
1. Macroeconomic Management .....	6
2. Fiscal Policy .....	7
3. Debt Policy.....	8
4. Trade .....	10
5. Financial Sector.....	13
6. Business Regulatory Environment.....	16
7. Gender Equality .....	19
8. Equity of Public Resource Use .....	21
9. Building Human Resources.....	23
10. Social Protection and Labor .....	27
11. Policies and Institutions for Environmental Sustainability .....	31
12. Property Rights and Rule-based Governance .....	32
13. Quality of Budgetary and Financial Management .....	34
14. Efficiency of Revenue Mobilization .....	37
15. Quality of Public Administration.....	39
16. Transparency, Accountability, and Corruption in the Public Sector .....	41



## COUNTRY POLICY AND INSTITUTIONAL ASSESSMENTS 2006 ASSESSMENT QUESTIONNAIRE

1. The Country Policy and Institutional Assessment (CPIA) assesses the quality of a country's present policy and institutional framework. "Quality" refers to how conducive that framework is to fostering poverty reduction, sustainable growth, and the effective use of development assistance. The CPIA ratings are used in the IDA allocation process and several other corporate activities.<sup>1</sup>

### **Background**

2. The Bank initiated country assessments in the late 1970s to help guide the allocation of IDA lending resources. The CPIA consists of a set of criteria representing the different policy and institutional dimensions of an effective poverty reduction and growth strategy. The criteria have evolved over time, reflecting lessons learned and mirroring the evolution of the development paradigm. In 1998, the criteria were substantially revised: coverage was expanded to include governance and social policies, the number of criteria was set at 20 (where it remained until 2004), and the ratings scale was changed from a 5 to a 6 point scale. To strengthen the comparability of country scores, specifically across Regions, the ratings process was revised to include the benchmarking step. In 2001, following a thorough review of the CPIA by a Bank working group that benefited from the conclusions of an Operations Evaluation Department (OED) report prepared in the context of an evaluation of the implementation of the IDA10-12 replenishment agreements<sup>2</sup>, further changes were introduced. These changes included establishing a written record, providing detailed guidance for criteria with several subcomponents, broadening of the set of benchmark countries, revising the content of the criteria, and explicitly defining the rating levels 2, 3, 4 and 5 (previously only the 2 and 5 rating levels were fully defined).<sup>3</sup>

3. ***The 2004 CPIA Panel.*** In the context of the Board deliberations on CPIA disclosure, in early 2004 the Bank assembled an external Panel to review the ratings and methodology.<sup>4</sup> The Panel concluded that the CPIA criteria focus on the right set of issues and produce robust results, but it also found unnecessary overlap in some of the criteria and outlined steps to address some methodological and process issues. The Panel broadly

---

<sup>1</sup> See for example, *Global Monitoring Report 2004: Policies and Actions for Achieving the MDGs and Related Outcomes*.

<sup>2</sup> *OED IDA Review: Review of the Performance-Based Allocation System, IDA10-12* (CODE2001-0012), February 15, 2001.

<sup>3</sup> These changes in the CPIA process and methodology were discussed with the Board's Committee on Development Effectiveness (CODE) in July 2001.

<sup>4</sup> *Panel of Experts Review of Country Policy and Institutional Assessments (CPIA) – Revised Terms of Reference* (OM2004-0003/2), February 10, 2004.

supported the CPIA practice of rating *implemented* rather than *intended* policy actions, and it strongly favored disclosure of the ratings for IDA-eligible countries.<sup>5</sup>

4. **2004 Revisions.** Revising the CPIA methodology to reflect the Panel's recommendations involved the Regions, Networks, and Central Departments. Some of the criteria were deleted and others were combined and streamlined.<sup>6</sup> As a result of these revisions, the 2004 CPIA consisted of 16 criteria. The contents of each criterion were reviewed and the rating levels 1 and 6 of the rating scale were explicitly defined in a manner consistent with the 2 to 5 levels. The Networks took the lead in testing the revised criteria using 2003 data to ensure, to the extent possible, comparability of the scores across years. In addition, statistical analysis corroborated earlier findings that informed the choice of the CPIA weights: it showed that using statistically (principal components) derived weights for the CPIA would yield essentially the same results as the equal weighting. An equal weighting procedure has, moreover, the added advantage of simplicity and transparency. Accordingly, beginning with CPIA 2004, equal weights are attached to each of the four clusters, a procedure that is broadly in line with the earlier approach.<sup>7</sup>

### **CPIA Process**

5. The ratings process involves two key phases. In the benchmarking phase a small, representative sample of countries drawn from all Regions is rated; in the second phase, staff rate the remaining countries using benchmark countries' scores as guideposts.

6. **Benchmarking Phase.** The benchmarking phase helps ensure that, given the criteria, the ratings are set at the right level and are consistent across countries and Regions. The Bank's six Regions, the Networks, and Central Departments assist in selecting a representative sample of countries that covers all six Regions, includes IBRD and IDA-eligible borrowers, good as well as poor performers, and has a ratings distribution similar to the overall distribution of the CPIA country scores. The set of benchmark countries is reviewed every year, taking into account the need to both maintain some continuity in the sample and to refresh it. At the onset of each year's exercise, the set of benchmark countries is communicated to the Regions and Networks, along with the timetable for the exercise.

7. **Benchmarking Review Process.** For each of the benchmark countries, country teams propose ratings for each criterion, accompanied by written justifications. The proposals and the write-ups are vetted by the respective Regional Chief Economist, and then reviewed by

---

<sup>5</sup> These recommendations together with Management follow-up actions were discussed with Executive Directors at an informal Board meeting on June 29, 2004. See *Country Policy and Institutional Assessments: An External Panel Review – Panel Recommendations and Management Follow-up*, (SecM2004-0304), June 15, 2004.

<sup>6</sup> From the 2003 criteria Q4, Management and Sustainability of the Development Program, and Q15, Monitoring and Analysis of Poverty Outcomes and Impacts, were deleted. The financial and private sector criteria were consolidated into a single criterion each: the Financial Sector and the Business Regulatory Environment criteria, respectively. See *Country Policy and Institutional Assessments: An External Panel Review – Panel Recommendations and Management Follow-up*, (SecM2004-0304), June 15, 2004.

<sup>7</sup> A detailed discussion of the changes introduced in the CPIA and a summary of the results of the analytic work undertaken on the choice of weights is contained in *Disclosing IDA Country Performance Ratings (IDA/R2004-0210)*, August 9, 2004.

the Networks and Central Departments. The final ratings are determined at a meeting in which representatives from the Regions, Networks, and Central Departments review the proposed ratings for all the criteria and for all the benchmark countries. Using the CPIA criteria as the anchor, the country teams' submissions, Bank-wide comments, available external indicators and other relevant supporting documentation (which may include analysis that was developed outside the Bank) guide the discussion of the ratings for the benchmark countries. At the conclusion of the benchmarking phase, these ratings are "frozen" and the second phase of the CPIA exercise begins.

### **BOX 1. 2006 CRITERIA**

#### **A. Economic Management**

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

#### **B. Structural Policies**

4. 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 Labor
11. Policies and Institutions for Environmental Sustainability

#### **D. Public Sector Management and Institutions**

12. Property Rights and Rule-based Governance
13. Quality of Budgetary and Financial Management
14. Efficiency of Revenue Mobilization
15. Quality of Public Administration
16. Transparency, Accountability, and Corruption in the Public Sector

8. *Second Phase.* The steps followed in the second phase are similar to those in the benchmarking phase. Country teams prepare ratings proposals that are accompanied by a written justification. These proposals are reviewed within the respective Region by the Chief Economist and then submitted to a Bankwide review by the Networks and Central Departments. Throughout this process the ratings of the benchmark countries are used as guideposts to help ensure consistency of the ratings among countries in a Region and across Regions. Given the large number of countries reviewed at this stage, virtual communication usually replaces a physical meeting to finalize the ratings.

## Criteria

9. The 16 CPIA criteria are grouped into four clusters: Economic Management, Structural Policies, Policies for Social Inclusion and Equity, and Public Sector Management and Institutions (Box 1). The specific contents of each of the criteria are presented in the next section.

10. **Rating Scale.** For each criterion, countries are rated on a scale of 1 (low) to 6 (high). A 1 rating corresponds to a very weak performance, and a 6 rating to a very strong performance. Intermediate scores of 1.5, 2.5, 3.5, 4.5 and 5.5 may also be given.

11. **Country Scores.** Country scores should reflect a variety of indicators, observations, and judgments that are based on country knowledge originated in the Bank, analytic work or policy dialogue, or work done by partners, and relevant publicly available indicators. Country scores should take the following into account:

- **Quality of policies and institutions.** The CPIA assesses the quality of a country's policy and institutional framework – that is the extent to which that framework supports sustainable growth, poverty reduction, and the effective use of development assistance.
- **Policies and institutions versus outcomes.** The criteria focus on policies and institutional arrangements, the key elements that are within the country's control, rather than on actual outcomes (for example, growth rates) that are influenced by elements outside the country's control. Good policies and institutions are expected to lead, over time, to favorable growth and poverty reduction outcomes, notwithstanding possible yearly fluctuations due to external factors.
- **Scoring against the criteria.** Countries should be rated on their current status in relation to the criteria and to the benchmark countries. The agreed ratings for the benchmark countries will be provided to the staff before the start of the second phase of the exercise. The proposed ratings should focus on the level of performance assessed against the criteria, rather than the degree of improvement since last year.
- **Policy actions and implementation.** The ratings should depend on actual policies, not on promises or intentions. In some situations, steps such as passage of specific legislation can represent a breakthrough that merits consideration in the ratings. However, the manner in which such actions are factored into the ratings should be carefully assessed, because the impact of the legislation depends on its implementation.

12. **Write-ups.** Country teams' rating proposals should be accompanied by a write-up using the format provided by OPCS, that briefly provides the rationale for the proposed rating for each of the 16 criteria. When a criterion contains more than one dimension, the write-up should provide a separate rationale for each of them, together with the each dimension's proposed score. To obtain the criterion's overall score, country teams should follow the instructions provided in the criterion on how to weigh the scores for the different dimensions.

13. **Country Context.** 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 developmental neutral; 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.

14. **Guideposts.** 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 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.<sup>8</sup>

15. **Overall Score.** The 16 items to be assessed are grouped into four clusters (Box 1). Each of the four clusters has a 25 percent weight in the overall rating. Within each cluster, all criteria receive equal weight, although components within a criterion may be weighted differently. The overall score is obtained by calculating the average score for each cluster, and then by averaging the scores of the four clusters. The CPIA can then be interpreted as representing an overall country score that considers each of the four clusters to be equally relevant even if some of the clusters contain more criteria than others.

16. **Disclosure.** On September 7, 2004, the Board approved the disclosure of the CPIA ratings for IDA-eligible countries. Beginning with the results of the 2005 exercise, for all IDA eligible countries the numerical scores for all the CPIA criteria, as well as the overall score, are disclosed as the IDA Resource Allocation Index (IRAI). This disclosure policy does not affect the IBRD countries.

### **Detailed 2006 Criteria**

17. The detailed contents of the 16 criteria of the CPIA, and instructions for applying them, are presented below. For some criteria an annex provides further guidance to facilitate the calculation of the country score, and to help ensure the consistency of scores across countries and regions. The CPIA 2006 criteria are the same as the CPIA 2005 criteria.

---

<sup>8</sup> Some of the criteria contain sub-criteria intended to assist staff to arrive at the overall score for a specific criterion. Here again, staff need to apply professional judgment to ensure that taking account external indicators and relevant cross country comparisons, the score obtained by averaging the sub-criteria scores reflects a realistic assessment of country performance against the overall criterion.

### ***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:**

- PREM/DEC Indicators on Macroeconomic and Fiscal Policies;
- IMF Article IV Consultation; other relevant reports.

- |  |   |
|--|---|
| <ol style="list-style-type: none"> <li>1</li> <li>2</li> <li>3</li> <li>4</li> <li>5</li> <li>6</li> </ol> | <p>For a prolonged period of time, 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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>For a prolonged period of time 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.</p> |
|--|---|

## 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:

- PREM/DEC Indicators;
- IMF Article IV Consultation and other relevant reports.

- 1 For a prolonged period of time 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 insufficient to support medium-term growth.
- 2 Fiscal balance will 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 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 an extended period of time, 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 is conducive to minimize budgetary risks and ensure long-term debt sustainability. The criterion evaluates the extent to which external and domestic debt 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 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.

#### **Guideposts:**

- PREM/DEC Indicators on Access to Capital;
- [World Bank's Debt Reporting System \(DRS\) – reporting status ratings.](#)

- 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. Trade**

This criterion assesses how the policy framework fosters trade in goods. Two areas are covered: (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 is a weighted average of the scores for the two components: (a) trade restrictiveness (0.75) and (b) customs/trade facilitation (0.25).

**Note: As a criterion with multi-dimensions, a rating for each dimension should be provided in the write-up along with its justification.**

#### **Guideposts:**

- [Simple average tariff rates from IMF](#);
- Tariff dispersion from tariff schedules in WITS;
- Diagnostic Trade and Integration Studies (where current);
- Investment Climate Assessments (where current);
- 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
  - 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 nontransparent, discretionary, and discriminatory. Tariff setting process is unpredictable, favors 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
  - 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
  - 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
  - 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 nondiscriminatory 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**
  - 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>9</sup> These indicators should not be analyzed in isolation, but rather as a set to determine the overall rating.<sup>10</sup>

**Note: As a criterion with multi-dimensions, a rating for each dimension should be provided in the write-up along with its justification.**

### **Guideposts:**

- World Development Indicators;
- World Business Environment Survey;
- IMF Financial Statistics;
- World Bank Data on Credit Reporting from FSE and PSD;
- Microfinance Data from CGAP and the Microfinance Bulletin;
- Available FSAP data, including data from Basel Core Principle reviews.

---

<sup>9</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>10</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.

- 1
  - 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.
  - 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.
  - 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.
- 2
  - a. Banking sector highly vulnerable to shocks in the medium term. Share of NPLs and level of capital at risk 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 (labor 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.

**Note: As a criterion with multi-dimensions, a rating for each dimension should be provided in the write-up along with its justification.**

### 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;
- See also Annex A guidelines.

<http://rru.worldbank.org/doingbusiness/>

Checklist for Business Regulatory Environment ([Annex A](#))

#### 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

- [Heritage Foundation: Index of Economic Freedom—Regulatory Quality](#)
- International Country Risk Guide (ICRG)—Investment Profile Component  
Available via JOLIS databases:  
Click on this [Link](#), scroll down to International Country Risk Guide and click on CountryData.com
- 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 labor market controls and rigidity of labor 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 labor 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 labor 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; (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 *human capital development* dimension, the focus is on primary completion and access to secondary education, access to health care during delivery and to family planning, and adolescent fertility rate. For *access to economic and productive resources*, the focus is on labor force participation, land tenure and property and inheritance rights. For *status and protection under the law*, the focus is on individual and family rights and personal security (violence against women, trafficking, or sexual harassment) and political participation. Each dimension (i.e., a, b, and c) is rated separately; in the overall rating, the three dimensions receive equal weight.

**Note: As a criterion with multi-dimensions, a rating for each dimension should be provided in the write-up along with its justification.**

### Guideposts:

To facilitate the rating process, [Annex B](#) provides guidelines, an excel spreadsheet with outcome indicators, and a template with questions for regional or country staff to answer.

- |   |  |
|---|--|
| 1 | <ul style="list-style-type: none"> <li>a. Significant differences exist in female to male primary completion rates and enrollment in secondary education. Substantial gaps exist in access to delivery care and family planning services, and the adolescent fertility rate is high. Policies and laws are obstacles to gender equality in education and do not provide access to delivery care and family planning services. There have been no recent efforts to make laws or policies more supportive of gender equality in education, to improve delivery care and access to family planning services, and to reduce adolescent fertility.</li> <li>b. Significant gender disparities exist in participation 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.</li> <li>c. The law gives men and women different individual and family rights (requesting a divorce, child custody, obtaining individual identity cards or a passport). Violence against women (including such practices as female genital mutilation, trafficking, or sexual harassment) 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 national level. Laws and policies are obstacles to women’s participation in national government, and there were no recent efforts to make them more supportive of gender equality in this respect.</li> </ul> |
| 2 | <ul style="list-style-type: none"> <li>a. Same as 1a), except that there have been recent efforts to make laws or policies more supportive of gender equality in education, to increase access to delivery care and family planning services or to reduce adolescent fertility .</li> <li>b. Same as 1b), except that there have been recent efforts to make formal laws and policies more supportive of gender equality.</li> <li>c. Same as 1c), except that there have been recent efforts to make laws and policies more supportive of gender equality in this respect.</li> </ul>   |

- 3** a. Significant differences prevail in female to male primary completion rates and enrollment in secondary education; substantial gaps exist in access to delivery care and family planning services, particularly at the regional urban/rural levels, and adolescent fertility rate is high. 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 enforcement.
- b. Significant gender disparities exist in participation in the labor force, 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 enforcement.
- c. The Law gives men and women equal individual and family rights (requesting a divorce, child custody, obtaining individual identity cards or a passport). Violence against women (including female genital mutilation, trafficking, or sexual harassment) is common but it is considered a crime. The law, however, is weakly enforced because there are no mechanisms for enforcement. Significant gender disparities exist in political participation at the national level. Laws and policies provide for gender equality in participation in national government, but are weakly enforced because there are no mechanisms for enforcement.
- 4** a., b., and c. same as 3, except that there are also 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. Small differences in primary completion rates or female to male enrollment in secondary education. High access to delivery care and family planning services, and low adolescent fertility rate. Policies and laws that specifically address gender equality in education, access to delivery care and family planning services are broadly enforced. However, there are no active programs or institutions to increase access to education, delivery care or family planning services, or to ensure that adolescent fertility rate remains low.
- b. Few or small gender disparities exist in participation in the labor force, 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. The Law gives men and women equal individual and family rights (requesting a divorce, child custody, obtaining individual identity cards or a passport). Extremely few or no cases of violence against women, which is considered a crime. Relatively few gender disparities exist in political participation at the 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** There are no gender differences in human capital development, access to productive and economic resources, and status and protection under the law. 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 promote greater gender equality or prevent an increase in gender inequalities.

## **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>11</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.

**Note: As a criterion with multi-dimensions, a rating for each dimension should be provided in the write-up along with its justification.**

### **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;
- 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.

---

<sup>11</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.

- |          |  |
|----------|--|
| <b>1</b> | <p>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.</p> <p>b. The overall incidence of revenues is very regressive and does not reflect national poverty reduction priorities.</p>   |
| <b>2</b> | <p>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.</p> <p>b. The overall incidence of revenues is largely regressive and does not reflect national poverty reduction priorities.</p>   |
| <b>3</b> | <p>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</p> <p>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.</p>   |
| <b>4</b> | <p>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.</p> <p>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.</p>   |
| <b>5</b> | <p>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.</p> <p>b. There are few, if any, egregious regressive taxes. Revenue generation generally aligned with national poverty reduction priorities.</p> |
| <b>6</b> | <p>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.</p> <p>b. There are no egregious regressive revenue sources. Revenue generation aligned with national poverty reduction priorities.</p>                                  |

## 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>12</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.

**Note: As a criterion with multi-dimensions, a rating for each dimension should be provided in the write-up along with its justification.**

### 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>
- HNPSStats: <http://wbwebapps5.worldbank.org/wwwextweb/devdata/edstats/temp/hnpnewstandard/default.htm>
- Tool for assessing the quality of public health services: <http://www1.worldbank.org/publicsector/bnpp/Preventhealth.htm>
- UNICEF: <http://www.childinfo.org/>
- WHO: <http://www3.who.int/whosis/menu.cfm>

<sup>12</sup> HIV/AIDS, tuberculosis, and malaria are the communicable diseases prioritized in MDG #6.

- [WHO database](#)
- [UNAIDS database](#)
- [UNAIDS publications](#)
- US Bureau of the Census (HIV/AIDS database): <http://www.census.gov/ipc/www/hivaidsd.html>

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 Labor

This criterion assesses government policies in the area of social protection and labor 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 labor standards<sup>13</sup>; regulations to reduce segmentation and inequity in labor markets; active labor 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>14</sup>

Labor market issues are also covered in criterion 6 (Business Regulatory Environment), where the focus is on the effects of labor 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 labor market programs (e.g., retraining and public works).

Criterion 10 is a composite indicator of five different areas of social protection and labor policy: (a) social safety net programs; (b) protection of basic labor standards; (c) labor 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.

**Note: As a criterion with multi-dimensions, a rating for each dimension should be provided in the write-up along with its justification.**

### Guideposts:

- HDN online *Core Labor Standards Toolkit*;
- Summary indicators of labor market regulations in the World Bank *Doing Business Database*;
- Pension Position Paper;

---

<sup>13</sup> Each of the four core labor standards corresponds to two International Labor Organization (ILO) Conventions adopted by representatives of governments, employers, and workers from ILO member countries. These conventions are: Forced Labor (No. 29), Abolition of Forced Labor (No. 105); Minimum Age (No. 138), Worst Forms of Child Labor (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>14</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 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.

- Local Development Strategy;
- HDNSP Safety Nets website.

- 1
  - 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.
  - b. The ILO conventions on core labor standards have not been ratified nor legislation that conforms with them passed.
  - c. Labor 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.
  - d. Government policies and programs impede development of community initiatives or local accountability mechanisms.
  - 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.
- 2
  - 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.
  - b. The government has ratified ILO Convention 182 on the Worst Forms of Child Labor, 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 labor standards are not enforced.
  - c. There remain labor 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 labor market programs (e.g., retraining, public works) and very few workers benefit from them.
  - d. No government policies or programs exist to encourage or support communities' own development initiatives
  - 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.
- 3
  - 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 leakages exist. Systems are being developed to monitor performance.
  - b. The government has ratified ILO Convention 182 on the Worst Forms of Child Labor 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. Labor market regulations are increasingly appropriate to balance social protection and job creation, yet they are weakly enforced. Active labor 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 labor markets by providing incentives for early withdrawal from the labor 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 Labor 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. Labor market regulations are broadly appropriate and enforced for an increasing number of workers. Active labor 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 labor standards and has put in place policies and programs toward the application of these standards.
  - c. Labor market regulations are well-designed and effectively enforced. Active labor 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 labor standards and is implementing these through its policies and programs. Government policy encourages civil society and local government actions to reduce child labor, including appropriate incentives for children to remain in school.
  - c. Labor 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 labor markets.

## ***11. Policies and Institutions for Environmental Sustainability***

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.

### **Guideposts:**

- Fill out CPIA Environment Score Survey spreadsheet in [Annex C](#) to arrive at a score from 1 to 6 (need PassKey userid and password to access this Annex).

- 1 For both pollution and natural resource issues: Regulations and policies are lacking. Environmental information is not published. Environmental Assessment (EA) legislation is lacking. No data are available for priority setting. Sector ministries do not incorporate environmental concerns.
- 2 For both pollution and natural resource issues: Regulations and policies are partial, inadequate or inappropriate. Implementation is ineffective. Public information is limited. EA system exists but is ineffective. Limited data exist but no priority setting takes place. Sector ministries do not incorporate environmental concerns.
- 3 For both pollution and natural resource issues: Regulations and policies cover some issues but effectiveness is limited. Implementation is weak. Public information is limited. EA system exists, but capacity and quality is low. Limited data exist but priority setting is weak. Consideration of environmental issues in sector ministries is minimal.
- 4 For both pollution and natural resource issues: Regulation and policies are in place but important gaps exist. Implementation is weak. Harmful subsidies exist. Very limited public information is available. EA is applied regularly in selected areas but gaps exist. Priorities are set but only partially adhered to. Sector ministries have basic knowledge of environmental issues.
- 5 For both pollution and natural resource issues: Regulations and policies cover most issues. Implementation is effective in some areas. Harmful subsidies are limited. Some public information is available. The public is consulted on some issues. EA is applied but effectiveness is limited. Priorities are set and generally adhered to. Sector ministries have limited capacity to deal with environmental issues and some inter-ministerial coordination takes place.
- 6 For both pollution and natural resource issues: Regulations and policies are comprehensive. Implementation is effective. No harmful subsidies exist. Public information is widely available. The public is consulted on most environmental issues. EA is effective and findings are acted upon. Priorities are adhered to and reflected in interventions. Environmental concerns are integrated in sector policies and inter-ministerial coordination is effective.

## ***12. 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 three dimensions should be rated separately: (a) legal basis for secure property and contract rights; (b) predictability, transparency, and impartiality of laws and regulations affecting economic activity, and their enforcement by the legal and judicial system; and (c) crime and violence as an impediment to economic activity. For the overall rating, these three dimensions should receive equal weighting.

**Note: As a criterion with multi-dimensions, a rating for each dimension should be provided in the write-up along with its justification.**

### **Guideposts:**

PRMPS Governance Indicators (see the below link):

<http://www-wbweb.worldbank.org/prem/prmps/publicsector/indicators.htm>

- 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 changed frequently, unpredictably and non-transparently to benefit a select few. The judiciary is an arm of the executive, and favoritism pervades the judicial system. Corruption in the judicial system is endemic. Judicial decisions are not publicly available.
  - c. The state is unable or unwilling to protect the lives and property of its citizens in most or all of its territory. The police are often a source of crime and violence against citizens.
- 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 change unpredictably, for example through frequent and unpublicized executive decrees. Merit plays little or no role in judicial appointments. Laws and regulations are selectively enforced (e.g. against the political opposition), and their application and enforcement is regularly influenced by bribes. Judicial decisions are not publicly available.
  - c. The state is ineffectual in protecting citizens' lives and property against crime and violence in a significant part of its territory. Most victims do not bother to report crimes to the police.
- 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 and time-consuming to use. Delays are common, but generally are not pretext for bribes. Judicial decisions are sometimes publicly available.
  - c. The state is able to provide a modicum of protection against crime and violence. Most citizens view the police on balance as an impediment to crime and violence rather than a source.
- 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 not changed arbitrarily, and are publicly available. Mechanisms exist to resolve conflicts of rules. Bribe-seeking by judges or clerks is rare. Courts may be costly and time-consuming to use, but judicial decisions are publicly available.
  - c. The state is able to protect the lives and property of most citizens from crime and violence most of the time. The police are generally trusted by citizens and viewed as reasonably honest and effective.
- 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 determined through transparent political or administrative processes, and are publicly announced. Low-cost means are available for pursuing small claims. Application of laws and regulations is impartial and predictable. Citizens can pursue claims against the state without fear of retaliation.
  - c. A well-functioning and accountable police force protects citizens and their property from crime and violence. When serious crimes occur, they are generally reported to the police and investigated.
- 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.

### ***13. 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; (b) effective financial management systems to ensure that the budget is implemented as intended in a controlled and predictable way; and (c) timely and accurate accounting and fiscal reporting, including timely and audited public accounts and effective arrangements for follow up. Each of these three dimensions should be rated separately. For the overall rating for this criterion, these three dimensions should receive equal weighting.

**Note: As a criterion with multi-dimensions, a rating for each dimension should be provided in the write-up along with its justification.**

#### **Guideposts:**

- [PEFA Performance Measurement Framework](#).
- 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>
- PRMPS Governance Indicators (see the below link):

<http://www-wbweb.worldbank.org/prem/prmps/publicsector/indicators.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. There is no forward look in the budget, nor any meaningful consultation with spending ministries. No consistent budget classification system is used. More than 50 percent of public resources from all sources do not flow through the budget.
  - b. Expenditures across broad budget categories have little or no relationship to the amounts budgeted. There is practically no monitoring and reporting of public expenditures. Payment arrears exceed 10% of total expenditures, or cannot be determined.
  - c. There is no reconciliation of cash accounts with fiscal records. No regular, in-year fiscal reports are produced. 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.
- 2
  - a. There is no discernible link with government policies or priorities, and no forward look in the budget. The budget is formulated without meaningful consultation with spending ministries. No consistent budget classification system is in use. Significant fiscal operations (e.g., extra-budgetary expenditures and donor funded projects of 25-50 percent of total spending by value) are excluded from the budget.
  - b. Actual expenditures often deviate significantly from the amounts budgeted (e.g., by more than 30 percent overall or on many broad budget categories). There is no adequate system of budget reporting and monitoring. Payments arrears exceed 10% of total expenditures.
  - c. Reconciliation of banking and fiscal records is undertaken less frequently than monthly, and discrepancies are often left unexplained. In-year fiscal reports are largely useless, due to lengthy delays or inaccurate data. There are significant delays (more than three years) in the preparation of the public accounts. The accounts are not (professionally) audited or submitted to the legislature in a timely way, and no actions are taken on budget reports and audit findings.
- 3
  - a. Policies or priorities are explicit, but are not linked to the budget. There is no forward look in the budget. The budget is formulated in consultation with spending ministries. The budget classification system does not provide an adequate picture of general government activities. A significant amount of funds controlled by the executive is outside the budget (e.g., 10-25%), and a number of donor activities bypass the budget.
  - b. Expenditures deviate from the amounts budgeted by more than 20 percent overall, or on many broad budget categories. Budget monitoring and control systems are inadequate. Payment arrears are 5-10% of total expenditures.
  - c. Reconciliation of banking and fiscal records is undertaken less frequently than monthly, or discrepancies are not always accounted for. In-year budget reports are prepared quarterly less than 8 weeks after the end of the period, but their usefulness is undermined somewhat by inaccurate data or reporting only at high levels of aggregation. There are significant delays (e.g., more than 10 months) 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.
- 4
  - a. Policies and priorities are broadly reflected in the budget. Some elements of forward budget planning are in place. The budget is formulated in consultation with spending ministries, from a sufficiently early stage in the budget preparation process. The budget classification system is comprehensive, but different from international standards. Less than 10% of funds controlled by the executive are outside the budget.
  - b. Actual expenditures deviate from the amounts budgeted by more than 10 percent on many broad budget categories. Budget monitoring and control systems exist, but there are some deficiencies. Payment arrears may exist but are less than 5% of total expenditures.
  - c. Reconciliation of banking and fiscal records is undertaken satisfactorily, on a monthly basis. In-year budget reports are prepared quarterly less than 6 weeks after the end of the period, with reasonably accurate data, broken down to at least program or functional level. There are delays (e.g., more than 6 months) 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.
- 5
  - a. Policies and priorities are linked to the budget. Multi-year expenditure projections are integrated into the budget formulation process, and reflect explicit costing of the implications of new policy initiatives. The budget is formulated through systematic consultations with spending ministries and the legislature, adhering to a fixed budget calendar. The budget classification system is comprehensive and consistent with international standards. Off-budget expenditures are minimal, and transparent.
  - b. The budget is implemented as planned, and actual expenditures deviate only slightly from planned levels.

(by less than 10 percent on most broad categories). Budget monitoring occurs throughout the year based on well functioning management information systems. Payment arrears are negligible or non-existent.

- c. Reconciliation of banking and fiscal records is practiced comprehensively, properly, and in a timely way (daily or weekly). In-year fiscal reports are prepared at least quarterly, issued within 4 weeks of end of period, and provide accurate data on all budget items, with coverage of expenditures at both the commitment and payment stages. The public accounts are prepared within 6 months of the end of the fiscal year, and include full information on revenue, expenditure, and financial assets and liabilities. Accounts are audited in a timely, professional and comprehensive manner, and appropriate action is taken on budget reports and audit findings.
- 6.** Criteria for “5” on all three sub-ratings are fully met. In addition:
- a. Budget supporting documents are submitted to the legislature, with the annual budget, with information on macroeconomic assumptions, estimates of budgetary impact of major revenue and expenditure policy changes, and comparisons to previous budget outturns or estimated outturns.
  - b. Funds available to spending agencies or ministries are highly predictable within the budget year. In-year adjustments are infrequent, follow pre-specified guidelines, and are consistent with stated priorities.
  - c. The public has timely and inexpensive access to annual budget documentation, in-year and year-end reports, and external audit reports.

#### ***14. 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.

**Note: As a criterion with multi-dimensions, a rating for each dimension should be provided in the write-up along with its justification.**

##### **Guideposts:**

- WDI Table 5.6 on Tax Policies:

[Click here for WDI Tables and then select Section 6 – States and Markets](#)

- PRMPS Governance Indicators (see the below link):

<http://www-wbweb.worldbank.org/prem/prmps/publicsector/indicators.htm>

- |   |  |
|---|--|
| <p><b>1</b></p> <p><b>2</b></p> <p><b>3</b></p> <p><b>4</b></p> <p><b>5</b></p> <p><b>6</b></p> | <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> |
|---|--|

### ***15. 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.

**Note: As a criterion with multi-dimensions, a rating for each dimension should be provided in the write-up along with its justification.**

#### **Guideposts:**

- [Civil service wages and employment database](#)
- PRMPS Governance Indicators (see the below link):

<http://www-wbweb.worldbank.org/prem/prmps/publicsector/indicators.htm>

- 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.

## ***16. 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.

**Note: As a criterion with multi-dimensions, a rating for each dimension should be provided in the write-up along with its justification.**

### **Guideposts:**

PRMPS Governance Indicators (see the below link):

<http://www-wbweb.worldbank.org/prem/prmps/publicsector/indicators.htm>

- 1
  - 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.
  - b. Government decision-making is secretive. The public is prevented from participating in or learning about decisions and their implications.
  - c. The state has been captured by narrow interests (economic, political, ethnic, and/or military). Administrative corruption is rampant.
- 2
  - 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.
  - 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.
  - 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.
- 3
  - a. External accountability mechanisms such as inspector-general, ombudsman, or independent audit may exist, but have inadequate resources or authority.
  - 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.
  - c. Elected and other public officials often have private interests that conflict with their professional duties.
- 4
  - 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.
  - 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 behavior.
  - 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.
- 5
  - 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.
  - 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 fulfill critical oversight roles.
  - 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.
- 6
 

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.