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The Country Policy and Institutional Assessment and Official Development Assistance:

A cross-country analysis

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Abstract

To improve the effectiveness of the Official Development Assistance (ODA), the World Bank has used conditionalities related to recipient countries' performance in delivering sound policies and strong institutions. These are measured by the World Bank Country Policy and Institutional Assessment (CPIA). Keeping income level constant, a higher CPIA score should lead to larger levels of ODA flowing to the country. We study the relationship between a country's CPIA score and the aggregate ODA it receives using a panel dataset from the World Bank World Development Indicators that includes all the countries eligible for the World Bank concessional resources between 2005 and 2019. Using linear and nonlinear specifications and controlling for country and time fixed effects, we find that aggregate ODA flows are positively correlated with the recipient country's CPIA score. Aid allocations reward better governance rather than countries' performance in other policy areas.

Key words

aid selectivity; conditionality; aid allocation; fragile states; governance; World Bank's CPIA

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List of Abreviations

CPIA Country Policy and Institutional Assessment.

CPR Country Performance Rating.

DAC Development Assistance Committee.

FCSs Fragile and Conflict-affected States.

FY Financial Year.

GNI Gross National Income.

IBRD International Bank for Reconstruction and Development.

IDA International Development Association.

IMF International Monetary Fund.

LDCs Least Developed Countries.

LICs Low Income Countries.

LMICs Low Medium Income Countries.

MDBs Multilateral Development Banks.

MDGs Millenium Development Goals.

ODA Official Development Assistance.

OECD Organisation for Economic Co-operation and Development.

PBA Performance Based Allocation.

SDG Sustainable Development Goal.

UMICs Upper Middle Income Countries.

UN United Nations.

WB World Bank.

WDI World Development Indicators.

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Why Should I Read This Research?

The Covid-19 crisis, the increase in state conflict and fragility, and the pending consequences of climate change have revived the debate in the international development community about the outlook for Official Development Assistance (ODA). How will multilateral development banks and bilateral donors sustain support for the poorest countries which rely on concessional development finance to reduce poverty, tackle inequality and mitigate state fragility?

To this day, only seven countries have reached the target of 0.7 per cent of gross national income for ODA adopted on October 24, 1970 at the United Nations General Assembly, thus limiting the availability of concessional funds. To deal with the scarcity of development aid resources, the World Bank (WB) has been at the forefront of redefining the conditionality of ODA disbursements since the early 2000s. The approach is grounded in the notion that aid only has a positive impact on growth and poverty reduction when disbursed in an efficient policy and institutional environment (Burnside & Dollar, 2000). Under 'selectivity' or Performance-Based Allocations (PBA), aid is rationed on the basis of deviation from an ideal country model, captured in the World Bank Country Policy and Institutional Assessment (CPIA) (Van Waeyenberge, 2009). Though pre-Covid, extreme poverty had been on a decreasing trend, it was actually rising in fragile and conflict-affected states and the OECD (2020) anticipated that by 2030, some 80% of the world's poor would be living in fragile contexts. This empirical observation directly contradicts the logic of the performance-based allocation system. Indeed, fragile states are characterised by weak institutions, poor policy quality and unstable governance (IMF) which raises the question: To what extent is an ODA allocation system allegedly designed to reward good governance and strong institutions fitted to this new geography of poverty?

To tackle this puzzle, we investigate the relationship between a country's CPIA score and the aggregate ODA it receives, which so far has not been confronted to cross-country panel data. Using a variety of controls and fixed effects, we isolate the effect of CPIA score on ODA received. To refine the analysis, we decompose the index to test how the scores obtained in its different policy components impact aid allocations. Using linear, piecewise linear, quadratic and quantile regression methods, we investigate the sensitivity of aid allocations to a country's policy performance and rely on an extensive dataset representative of the geographic diversity of ODA recipient countries.

Our empirical work shows that the aggregate ODA flows received by a country are positively correlated with its CPIA score. The relationship is robust over time and points to an alignment of major multilateral development banks and bilateral donors with the World Bank's CPIA and PBA system. This might create inefficiencies in aggregate ODA allocations with overcrowded aid darlings on the one hand and neglected aid orphans on the other hand. Furthermore, decomposing the CPIA into its Clusters reveals that Cluster D (public sector management and institutions) is the only Cluster which displays a strong and positive relationship with ODA while the other Clusters (Economic, Structural and Social policies) are negative or non-significant. We interpret this as evidence that ODA allocations reward better governance rather than countries' performance in other policy areas. This bias towards better governance might create a vicious cycle whereby poor Cluster D performers are stuck in a low-ODA trap, thus reinforcing the gap between aid orphans and aid darlings.

Our work contributes to a better understanding of the relationship between a country's policy and institutional performance and the ODA it receives. Our findings on aggregate ODA allocations question the suitability of the current aid allocation system to reach the poor in fragile and conflict-affected states. The inelasticity of aid flows to policy performance in areas such as gender equality and climate change is equally troubling and raises concerns about the sustainability of concessional funds. This paper provides insights for policymakers seeking to adapt the ODA allocation system to the most pressing issues of our decade and are committed to leaving no one behind.

1 Introduction

When it comes to the achievement of Sustainable Development Goal (SDG) number one, "End poverty in all of its form everywhere" (UN, 2015), the Covid-19 pandemic is expected to result in a "reversal of decade's worth of development gains" (Sumner et al., 2020) and to push between 71 and 100 million people into extreme poverty (WB, 2020). Prior to the pandemic, the trend of extreme poverty reduction was promising. From 1990 to 2015, the proportion of the world's population living in extreme poverty dropped from nearly 36 per cent to about 10 per cent (WB, 2018). Despite significant progress, 682 million people, a majority of which are located in Sub-Saharan Africa, were still living in extreme poverty and in 2020, global extreme poverty rose for the first time in over twenty-five years. While recent research had already warned against the threat of climate change and state fragility for poverty reduction, the Covid-19 pandemic exacerbated these risks and disproportionately hit the most environmentally and politically vulnerable countries. In this context, there is a shared global responsibility to make sure the recovery from the pandemic is sustainable and targeted to the people living in greatest poverty.

Ever since the Bretton Woods Conference and the creation of the World Bank (WB) and the International Monetary Fund (IMF), Official Development Assistance (ODA) has been a critical source of revenue for developing countries. ODA is defined by the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) as government aid that promotes and specifically targets the economic development and welfare of developing countries. Total annual ODA reached an average of USD 161.2 billion in 2020 (OECD), and during the Third International Conference on Financing for Development in Addis in 2015, world leaders committed to achieving the target of 0.7 per cent of gross national income for official development assistance and stepping up efforts to eradicate extreme poverty globally by 2030. Nonetheless, many countries still fall short on their commitments and the demand for ODA far exceeds the supply. To deal with the scarcity of development aid resources, the WB has been at the forefront of redefining the conditionality of ODA disbursements. This approach is grounded in the notion that aid only has a positive impact on growth and poverty reduction when disbursed in an efficient policy and institutional environment (Burnside & Dollar, 2000). Under 'selectivity' or Performance Based Allocation (PBA), aid is rationed on the basis of deviation from an ideal country model, captured in the Country Policy and Institutional Assessment (CPIA) (Van Waeyenberge, 2009). Adopted by most Multilateral Development Banks (MDBs) and donor countries, the CPIA is an index designed to assess the conduciveness of a country's policy and institutional framework to poverty reduction, sustainable growth, and the effective use of development assistance (World Bank Independent Evaluation Group, 2010).

The literature is mixed regarding the relevance of the CPIA to ensure aid effectiveness. Pointing to its inability to predict future growth (Cagé, 2014), its bias towards a one size fits all neo-liberal policy approach (Ledeneva, 2009), and its lack of consideration for structural vulnerability (Guillaumont et al., 2017), scholars emphasise the need to take into account additional criteria in aid allocation formulas. Against this background, this thesis proposes to depart from the normative view and consider the CPIA as a prism through which we can observe crucial features of ODA disbursement processes across recipient countries. Though several studies have shown that WB's ODA disbursements are highly responsive to the quality of policies (Dollar & Levin, 2006) (Annen & Knack, 2018), few analyses have been done of the policy and governance selectivity of aggregate ODA flows. Moreover, the extent to which the WB CPIA and PBA system is used among multilateral and bilateral donors has not been documented so far. In the light of these considerations, this thesis addresses the following question: Is there a relationship between a country's policy and institutional assessment by the World Bank, on one hand, and the aggregate net official development assistance it receives, on the other hand? If there is a relationship, what is its nature across the distribution of CPIA scores, across countries and over time?

This research question is investigated by looking at the relationship between a country's CPIA score and the aggregate ODA it receives, using a panel dataset from the WB World Development Indicators (WDI) that includes all the countries eligible for the WB concessional resources between 2005 and 2019. To our knowledge, this paper is the first cross-country analysis of the effect of CPIA on aggregate ODA flows. Using linear, piecewise linear, quadratic and quantile specifications and controlling for country and time fixed effects, we find that the aggregate ODA flows received by a country are positively correlated with its CPIA score. A 0.45 point - one standard deviation - increase in CPIA rating (measured on a 1 to 6 scale) increases Net ODA received by 21%. The relationship is non-linear across the distribution of CPIA scores and the positive effect of each additional increase in CPIA score on Net ODA received is larger for countries with a higher CPIA. This relationship is robust over time and points to an alignment of major multilateral development banks and bilateral donors with the WB CPIA and PBA system. This might create inefficiencies in aggregate ODA allocations with overcrowded "aid darlings" (Bigsten & Tengstam, 2015) on the one hand and neglected "aid orphans" (Ibid) on the other hand. Furthermore, the CPIA consists of 16 criteria grouped in four equally weighted clusters: Economic Management (Cluster A), Structural Policies (Cluster B), Policies for Social Inclusion and Equity (Cluster C), and Public Sector Management and Institutions (Cluster D) (WB, 2021). Decomposing the CPIA into its Clusters reveals that Cluster D is the only Cluster which displays a strong and positive relationship with ODA while the other Clusters are negative or non-significant. A 0.47 (one standard deviation) increase in CPIA Cluster D increases Net ODA received by 36%. We interpret this as evidence that ODA allocations reward better governance rather than countries' performance in other policy areas. This bias towards better governance might create a vicious cycle whereby poor Cluster D performers are stuck in a low-ODA trap, thus reinforcing the gap between aid darlings and aid orphans. This is all the more puzzling in the context of fragile states, which, according to the World Bank classification are mostly located in Sub-Saharan Africa, where we find the relationship between CPIA and ODA to be strong and positive, while it is non-significant in East Asia and Pacific, Latin America and the Caribbean, and South Asia. Furthermore, the overwhelming importance of Cluster D creates an incentive for recipient countries to focus their efforts on governance at the expense of other policy areas. This trade-off is puzzling because some of the policies covered by Cluster A, B and C such as fiscal policy, financial sector, social protection and labor and gender equality are key to put developing countries on a sustainable growth path and achieve the SDGs. The findings of this thesis imply relevant policy recommendations to adapt the CPIA and the ODA allocation system to the context of fragile states and to the achievement of the SDGs.

The remainder of the paper is structured as follows. Section 2 provides background on ODA and the CPIA. Section 3 reviews the literature. Section 4 describes our hypotheses, empirical specifications and the data. Section 5 presents the main empirical results. Section 6 discusses additional evidence including regressions for sub-samples and sub-periods, as well as regressions with lags and leads. Section 7 concludes and discusses the policy implications of our results.

2 Background on Official Development Assistance and the Country Policy and Institutional Assessment

2.1 Official Development Assistance

2.1.1 The Birth of ODA

Given the diversity of interests and objectives at play in the field of development co-operation, the need for basic qualitative norms and common practices has long been recognised (A. Wood, 2008). In 1960, the Development Assistance Committee at the OECD took up this cause. The DAC initially formed as a forum for consultations among aid donors on assistance to less-developed countries (OECD, 2006) and adopted in March 1961 the Resolution on the Common Aid Effort which recognised the need to grant economic, financial and technical assistance to developing countries. The establishment of the OECD DAC Committee led to an extraordinary surge of development institutions, which laid the foundation of the current aid system. The World Bank International Development Association (IDA) was launched in September 1960 with fifteen signatory countries and an initial subscription of USD 900 million, to provide soft loans to poorer developing countries. In 1968, Canada was the first country to create an external aid office; the Canadian International Development Agency. It was followed by the Japanese Overseas Economic Cooperation Fund and the Swedish International Development Authority. In a similar vein, the United Nations (UN) General Assembly designated the 1960s as the "United Nations Development Decade" and set two specific objectives: achieve by 1970 an annual rate of growth of 5% in developing countries (1) and increase substantially the flow of international assistance and capital to developing countries (2). In the late 1960s, the OECD DAC started acting as the ODA custodian agency, setting the rules and conventions, gathering the details and data on aid transaction flows via its Credit Reporting System (CRS) database, and publishing global monitoring and evaluation reports. The DAC currently comprises 29 member countries: Australia, Canada, Iceland, Japan, New Zealand, Norway, Republic of Korea, Switzerland, United States of America, 20 European Union (EU) members and the EU. In 1969, the DAC adopted the concept of ODA as the "gold standard" of foreign aid, thus separating it from "Other Official Flows". In its most recent definition, ODA consists of "disbursements of loans made on concessional terms and grants by official agencies of the members of the DAC, multilateral development banks, and by non-DAC countries to promote economic development and welfare in countries and territories in the DAC list of ODA recipients" (OECD, 2021). The list is updated every three years and is based on per capita income. The activities to be considered as "promoting development and welfare" were broadened significantly over time to include new items such as the cost of refugees in donor countries, imputed costs of students from developing countries, internally paid interest subsidies and promotion of development awareness (WB, 2021). According to the DAC, to qualify as ODA, aid funding must have a grant element of at least:

- 45 per cent in the case of bilateral loans to the official sector of Least Developed Countries (LDCs) and other Low Income Countries (LICs) (calculated at a rate of discount of 9 per cent)
- 15 per cent in the case of bilateral loans to the official sector of Low Medium Income Countries (LMICs) (calculated at a rate of discount of 7 per cent)
- 10 per cent in the case of bilateral loans to the official sector of Upper Middle Income Countries (UMICs) (calculated at a rate of discount of 6 per cent)
- 10 per cent in the case of loans to multilateral institutions (calculated at a rate of discount of 5 per cent for global institutions and multilateral development banks, and 6 per cent for other organisations, including sub-regional organisations)

As far as disbursements are concerned, the World Bank (2021) proposes a classification of donors and flows:

- "Bilateral donors include individual governments and their development agencies.
- Bilateral flows are either directly distributed from donor countries to recipient countries, or to multilateral organisations with donor-imposed restrictions on their use (i.e., earmarked for a specific sector, theme, country, or region, also referred to as non-core or multi-bi flows).
- Multilateral donors include international institutions with governmental membership which conduct all or a significant part of their activities in favor of development and aid recipient countries. They include multilateral development banks (e.g., the WB), regional development banks, United Nations agencies, as well as multinational groupings (e.g., certain European Union and Arab agencies).
- Contributions by bilateral donors to multilateral donors are considered multilateral flows if they are pooled with other contributions and disbursed at the discretion of the agency (i.e., without any use of restrictions or non-earmarked, also referred to as core flows)."

2.1.2 Stepping up ODA Efforts to Face the Socio-Economic Challenges of the 20th Century

The first attempt to put a quantitative target on ODA efforts dates back to 1968. The then President of the World Bank Group, Robert S. McNamara established the Pearson Commission on International Development to review twenty years of development assistance practices and urge countries to step up their efforts. More specifically, the Commission's final report recommended raising ODA contributions to 0.7 per cent of donors' national income. The 0.7% ODA/GNI target was adopted by the UN General Assembly in 1970, and expected to be reached by 1975 and in no case later than 1980 (Pearson et al., 1969). However, to this day, only 7 countries (Denmark, Germany, Luxembourg, Norway, Sweden, the United Kingdom and the Netherlands) have reached or exceeded the target despite repeated re-endorsement at the highest level during international development conferences. The adoption in 2000 of the UN Millenium Development Goals as a universal commitment to reduce poverty and improve the lives of the people in developing countries by 2015 gave a new dimension to development aid. ODA became an essential public policy (UN, 2012) and a necessary and complementary source to finance the global development agenda (OECD, 2012). This role was re-assessed during the Third International Conference on Financing for Development in Addis in 2015 which laid down the new framework to finance the post-2015 development agenda, namely the SDGs. In particular, the 2030 Agenda identified 17 SDGs, spanning 169 targets, which aim to end extreme poverty, reduce economic inequalities, improve infrastructures and tackle climate change and biodiversity loss, among others. The expansion of the international development agenda significantly increased the estimated costs and total investment needs in developing countries, thus putting back the questions of the scarcity and the effectiveness of ODA flows at the center of the debate on financing for development.

2.1.3 Aid Effectiveness in the International Development Community

Aid effectiveness has been a long-time preoccupation for the international development community. The end of the Cold War lessened Western donors' desire to use aid out of strategic self-interest and opened the door to initiatives for greater aid effectiveness. In the late 1980s, the DAC institutionalised regular reviews of the financing and policy orientations of multilateral development institutions. Likewise, the Monterrey Consensus that resulted from the International Conference on

Financing for Development, held in Mexico in 2002, recognised that "Effective partnerships among donors and recipients are based on the recognition of national leadership and ownership of development plans" and that bilateral and multilateral donors need to improve the coordination of their aid (UN, 2003). Beyond these early developments, the landmark international agreement on aid effectiveness is the Paris Declaration. Endorsed on March 2, 2005 and reaffirmed in Accra in 2008 at ministerial-level forums convened by the OECD, the declaration consisted in an action-oriented roadmap designed to improve the delivery and use of aid and aimed at getting the best impact out of aid resources (Groff, 2011). While acknowledging that recipient countries' deficient institutions were partly to blame for a lack of effectiveness in the past, it most importantly affirmed that donors also needed to change their practices in order to make aid more effective. Over 100 donors and developing countries committed to the declaration, and to holding each other accountable for implementing its principles (OECD, 2012a). Specifically, the Paris Declaration outlines five principles for making aid more effective, which the OECD summarises as follow:

- "Ownership: Developing countries set their own development strategies, improve their institutions and tackle corruption.
- Alignment: Donor countries and organisations bring their support in line with these strategies and use local systems.
- Harmonisation: Donor countries and organisations co-ordinate their actions, simplify procedures and share information to avoid duplication.
- Managing for results: Developing countries and donors focus on producing—and measuring—results.
- Mutual accountability: Donors and developing countries are accountable for development results."

The Paris Declaration also established a monitoring system to assess development stakeholders' progress towards more effective development co-operation. Although the Paris Declaration enjoyed political support up to the High-Level Meetings in Accra in 2008, and in Busan in 2011, its role in shaping donors' actions has faded. As Brown (2020), explains, "faced with a rapidly changing development context, including the rise of non-OECD donors and non-state actors, as well as the growing importance of private financial flows, the international dialogue was reoriented in 2011 towards development effectiveness and responsibility for the process shifted from the Western-dominated OECD to the newly created 'multi-stakeholder' Global Partnership for Effective Development Cooperation (GPEDC)." The broader agenda and extended participation weakened the norm and the reliance on the Paris Declaration principles became scant.

2.1.4 Aid Effectiveness in the Context of Fragile States

During the Fourth High Level Forum on Aid Effectiveness in December 2011, fragile states, donor countries and development institutions adopted the New Deal for Engagement in Fragile States, a milestone framework intended to improve policy intervention and ODA delivery in fragile contexts. Since the early 2000s and the adoption of the Millenium Development Goals (MDGs), fragile states have become increasingly important to the global poverty reduction and development agenda. Home to one-third of the world's poor in 2010, fragile states are projected to be home to 80% of the world's extreme poor by 2030 (OECD, 2020). They are also key contexts for the achievement of the SDGs. According to the OECD (2020), fragile states are home to 222.7 million primary school-age children not in primary school, 70% of infant deaths, 65% of people without access to safe water and 132 million of undernourished people. Viewed as potentially destabilising to their neighbours and regions, they have also received increasing attention from donors merging

development and security agendas (Ellison, 2016).

The combined impact of global shocks such as the economic recessions, climate change and more recently the Covid-19 crisis, is increasing pressure in many Fragile and Conflict-affected States (FCSs). Confronting these multifaceted socio-economic challenges requires urgent and coordinated responses across the development community and ODA is a critical resource for FCSs. According to the OECD (2020), "more net bilateral ODA – USD 76 billion – went to fragile contexts in 2018 than ever before, and in extremely fragile contexts, ODA amounted to 11.5 times the level of foreign direct investment (FDI) and 2.5 times the amount of remittances." However, the financial pressures weighing on donor countries following the Covid-19 economic downturn, raise concerns about the volumes of ODA flows available for FCSs in the upcoming years.

2.2 The World Bank and the Country Policy and Institutional Assessment

2.2.1 Background on the World Bank: a Primary Actor in the Aid Effectiveness Debate

The International Development Association

Established in 1960, IDA is the agency of the World Bank in charge of ODA flows. To serve its purpose, IDA has two main missions: (1) to provide finance to countries that cannot borrow because of low-income, high debt and lack of creditworthiness, and (2) to help countries improve their policies and grow wealthier to transition towards the World Bank's hard-term lending window, namely, the International Bank for Reconstruction and Development (IBRD). Since 1987, a key criterion for IDA eligibility has been whether or not a country is below a certain threshold of per capita income, measured in current US dollars. This "operational threshold" was established for the purpose of rationing scarce IDA funds. It was originally set at $580, and has been adjusted annually only for inflation. In Financial Year (FY)2022, the threshold is set at $1,205. The other criterion for IDA eligibility is lack of creditworthiness, defined as the inability to service new external debt at market interest rates over the long term (WB, 1989).

Once a country has exceeded the IDA income threshold for three consecutive years and is deemed creditworthy by the WB staff, it is considered on track for "graduation" from IDA. If it fills these two criteria, a country becomes eligible for IDA-IBRD blended facilities. The IBRD is the World Bank agency in charge of lending to governments of middle-income and creditworthy low-income countries. The decision to graduate a blend country to IBRD-only status is based on an assessment of the country's macroeconomic prospects, risk of debt distress, vulnerability to shocks, institutional constraints, and levels of poverty and social indicators (WB, 2021). Graduation from IDA implies a gradual increase in lending costs from the World Bank. IDA countries with a per capita income below the threshold enjoy the most concessional borrowing terms, with a 40-year maturity, 10-year grace period, and interest and service charges of 0.75% (Moss & Majerowicz, 2012). Once a country starts graduation, it loses access to the most concessional terms of IDA funds and after staying three years above the income threshold, it shifts to the blended IDA-IBRD instruments. Ultimately, within about five years of crossing the threshold, a country will typically graduate from IDA and move into the IBRD. Since IDA's founding in 1960, 46 countries have graduated and nine "reverse graduates" have re-entered IDA a few years after graduation (WB, 2021).

Aid Effectiveness at the World Bank

As a major stakeholder in the aid effectiveness debate, the World Bank has been at the forefront of redefining the conditionality of ODA disbursements. The World Bank's approach is grounded in the pioneering work of two of its economists, Burnside and Dollar (2000), who looked at the allocation problem of a utility-maximising donor organisation seeking to apportion a given volume of aid between several recipient countries characterised by different policy environments and poverty levels. The authors find that holding the level of poverty constant, aid should increase with the quality of policy. The implication of this statement is twofold; a country is always rewarded for a better institutional environment and, conversely, always punished for poor institutions. The notion that aid only has a positive impact on growth and poverty reduction when disbursed in an efficient policy and institutional environment laid the ground to the adoption of the PBA system by the IDA, the World Bank's agency in charge of ODA flows. Under the PBA system, aid allocation depends on a recipient's need and its ability to use aid effectively. The former is typically proxied by income per capita while the latter is estimated thanks to the CPIA, an index instituted by the World Bank in the 1980s and adopted by most Multilateral Development Banks and donor countries ever since.

2.2.2 Background on the World Bank Country Policy and Institutional Assessment

The CPIA consists of a set of criteria designed to assess the conduciveness of a country's policy and institutional framework to poverty reduction, sustainable growth, and the effective use of development assistance (WB Independent Evaluation Group, 2010). Though the CPIA is computed for all the client countries of the World Bank, the scores are only disclosed for IDA-eligible countries, including blend countries, that is, countries that are currently eligible for funding from both IDA and IBRD. The CPIA enters the calculation of Country Performance Rating (CPR) and has been used since 1977 to guide the allocation of IDA lending resources. Since its introduction, the methodology for the CPIA has changed both qualitatively and quantitatively, mirroring the evolution of the development paradigm. Presently, the CPIA consists of 16 criteria, detailed in Figure A1 of the appendix, grouped into four clusters; economic management (Cluster A), structural policies (Cluster B), social inclusion and equity (Cluster C), and public sector management and institutions (Cluster D), weighted equally to derive the overall CPIA rating. Though the CPIA is built as a linear combination of the four clusters, they are granted different weights in the IDA resource allocation formula. Since the beginning of fiscal year 2009, IDA has made transparent the weights of the clusters used in the IDA allocation formula—24 per cent on the first three CPIA clusters combined and 68 per cent on the fourth (governance) cluster, with the remaining 8 per cent weighted on portfolio performance (WB, 2021). The emphasis is put on the governance cluster which has eight and a half times the weight of each of the three other clusters in the formula.

To sum up, two mashup indices are produced from the CPIA. In Ravallion (2012), a "mashup indice" is defined as a composite index for which the producer is only constrained by the availability of data in choosing what variables to include and their weights. One of these mashup indices is simply an equally weighted sum of the four cluster-specific indices, with equal weights on their subcomponents and is mainly used for presentational purposes (Ravallion, 2012) as well as to assess low income countries' debt carrying capacity in the IMF-WB Debt Sustainability Framework. The other is the IDA allocation index and puts a weight of 0.68 on the governance cluster of the CPIA and 0.24 on the mean of the three other clusters. The remaining weight goes to the Bank's assessment of the country's "portfolio performance"). According to Ravallion (2012, p.6), "this governance-heavy mashup index based on the CPIA is used to allocate the World Bank's concessional lending across IDA eligible countries." In recent years, the African Development Bank and the Asian Development Bank have been undertaking a similar CPIA exercise to guide their aid allocation decisions.

3 Related Literature

3.1 Literature on Aid Effectiveness

The literature on aid effectiveness, which primarily focuses on the impact of aid on growth, has generated a lot of controversies. Humphreys et al. (2007) argue that aid is the most effective tool in the war against poverty as it creates economic growth, builds state capacity and improves access to public services. However, Djankov et al. (2008) and Deaton (2013) argue that foreign aid is ineffective and even harmful to developing countries because it leads to a 'Dutch disease' problem, due to its macroeconomic impact on the exchange rate and competitivity as well as a deterioration of political and economic institutions, through its governance impact (Younger, 1992). Following the seminal paper by Burnside and Dollar (2000), in which the authors find that aid has a positive impact on growth in developing countries with good policies but has little effect in the presence of poor policies, another group of scholars argues that foreign aid is effective, provided certain conditions such as good governance and strong institutions are met. They adopt a more tempered approach and try to disentangle the recipient country's characteristics as well as domestic policies and institutions which enhance the effectiveness of foreign aid (Chauvet & Guillaumont, 2011) (Page & Pande, 2018).

In an attempt to properly identify a causal relationship between aid and growth, scholars have focused on different types of instruments, such as the population size of the recipient country (Barro & Lee, 2005), political connections with donors (Bjørnskov & Schröder, 2013), and participation in United Nations (UN) Human Rights Treaties (Magesan, 2013). A more sophisticated approach consists in the use of interacted instruments, which combine a time-variant variable that affects the amount of aid given by a donor and a time-invariant variable that captures the proximity between the donor country and the recipient country. Nunn & Qian (2014) use US wheat production, interacted with the proportion of years a country receives a positive amount of US food aid in 1971-2006 as the instrument for the amount of aid received by a country in a given year, while Dreher & Langlotz (2020), interact donor government fractionalisation with a recipient country's probability of receiving aid. Finally, Galiani et al. (2017), use a quasi-experiment approach exploiting the crossing of the World Bank's IDA income threshold from below between 1987 and 2010 and find a positive, significant, and economically sizable effect of aid on growth.

Despite substantial methodological progress, findings on the effects of ODA remain mixed. Results vary from a negative or null impact (Rajan & Subramanian, 2008), to positive (Addison et al., 2017), or heterogeneous (Clemens et al., 2012). Furthermore, the aid effectiveness debate has linked aid impact with donor interests (McGillivray et al., 2006), donor quality (Minasyan et al., 2017) and aid type (Clemens and al., 2012). Overall, no consensus has been reached on the effect of aid on recipient countries' economic growth. Disagreement in the literature leads to some economists calling for the scaling up of aid (Sachs, 2006), (McGillivray, 2011), and others warning about its potentially disastrous effects (Easterly, 2007), (R. M. Wood & Sullivan, 2015).

In the late 1990s and early 2000s a series of influential papers (Alesina Dollar, 2000), (Burnside Dollar, 2000), (Jones al., 2004), used cross-country growth regressions to show that the impact of aid was conditional on the quality of the receiving country's institutions and policies. This literature had a damaging effect on FCSs where the quality of policies and institutions is poor. The idea that a good policy environment was a necessary condition for effective aid resulted in a paradigm shift towards selectivity (Hout, 2004). At an institutional level, the foundations for this shift were laid out in the WB's Assessing Aid report (1998, p.15) which stated "we recommend that aid be allocated on the basis of poverty and economic management. Among countries with similar poverty levels but different policy regimes, more finance should go to countries with better management". However, as more donors engaged in aid selectivity, scholars such as Marysse et al. (2007) were concerned that it

could result in a "fallacy of composition" problem where all donors use the same criteria, risking an extreme scenario of aid darlings (characterised by diminishing returns) and aid orphans (subjected to risks of deeper instability and poverty). Which countries are considered under- or over-aided depends to a great extent on the preferred model of aid allocation (Ellison, 2016). However, one clear message to emerge from the literature was that FCSs receive proportionately less aid than other low-income countries (McGillivray, 2005).

To address these concerns, the mid-2000s saw a surge in research and discussion on the aid-selectivity model and policy performance.

3.2 Literature on the Country Policy and Institutional Assessment

In evaluating the relevance of the existing indicators measuring policy performance, the literature has primarily focused on the World Bank's CPIA. Ravallion (2016) questions the policy relevance of this "mashup index of development", defined as a composite index for which the producer is only constrained by the availability of data in choosing what variables to include and their weights. Using Granger causality tests[1], Kurtz & Schrank (2007) analyse the World Bank's coding of "good governance" and find weak support for the notion that "better governance" is connected with successive improvements in growth. Other studies focus specifically on the CPIA. While Gelb et al. (2004) show that CPIA ratings are quite strongly associated with medium-run growth performance, The WB Independent Evaluation Group (2010) finds that it is difficult to establish an empirical link between the CPIA and growth outcomes. Using a cross-country panel dataset over 146 countries between 1977 and 2008, Cagé (2014) shows that while the CPIA is correlated with current growth, it is not a good predictor for future growth. Müller et al. (2020) warn against the real-world repercussions of committing a 'cardinal fallacy' when treating the ordinal performance rankings of the CPIA as cardinal measurements. Using a stylised variant of the World Bank IDA PBA framework they demonstrate that even a slight change in the arbitrarily chosen numerical scale for the ordinal performance rankings would have led to a reallocation of IDA funding of about $750 million in 2017. As exemplified by these diverging statements, the literature is mixed regarding the relevance of the CPIA to measure the impact of aid on growth and to assess aid effectiveness.

Aware of the unsatisfactory use of the CPIA as a measure of performance, another literature seeks to find alternative indicators. Collier & Dollar (2004) call for "outcome-based aid" to meet the MDGs. In the same spirit, Kanbur (2005) argues that the CPIA relies too heavily on a uniform model supposed to work in development policy and suggests instead, to introduce outcome variables in the IDA allocation formula. In a more recent paper, Gaarder & Bartsch (2015) develop a sophisticated principal-agent model of development agencies' and recipients' interactions where recipient countries are in charge of contracting development agencies to provide socio-economic outcomes while development agencies commit to real improvements in the designated outcomes. Going further, Cogneau & Naudet (2007) propose an alternative allocation based on the principle of equality of opportunity, thus taking into account structural growth handicaps rather than the quality of past policies. Similarly, A. Wood (2008) presents a more general model of optimal allocation of aid in which donors take into account current as well as future poverty. Furthermore, Amprou et al. (2007), argue in favor of an "augmented PBA" where the measurement of performance by policy indicators is adjusted for low levels of human capital and the vulnerability to exogenous shocks.

[1] The Granger causality test is a statistical hypothesis test for determining whether one time series is useful for forecasting another. (Rossi, 2013)

Finally, a number of studies have criticised the WB PBA model and its core ideology put forward by the Collier and Dollar (2000) policy selectivity model. McGillivray (2006), advocates for the extension of the Collier-Dollar model to include the degree to which aid is fungible across sectors and whether or not the country is emerging from conflict. Other scholars argue against Collier and Dollar's poverty-efficient model and propose to base calculations of optimal aid allocation on the estimated amounts needed to achieve the SDGs across individual countries (Ellison, 2016). A last criticism of the poverty-efficient model points to the ethical issues involved in basing allocation solely on the efficiency of aid rather than considering the initial conditions faced by individual countries. Cogneau and Naudet (2007) highlight the structural disadvantages - over which countries have no control - affecting CPIA scores, and therefore aid allocation. They elaborate an "equal opportunity model" which aims to distinguish the variables of 'effort' and 'structural disadvantage' in order to equalise the opportunities for getting out of poverty for countries facing different disadvantages but making the same degree of effort. Therefore, the model offers some possibility for FCSs to receive more aid.

To contribute to the aid effectiveness and CPIA literature, this paper intends to depart from the normative view and consider the CPIA as a prism through which crucial features of ODA disbursements can be observed.

4 Hypotheses, Empirical Specifications and Data

4.1 Hypotheses

Because the World Bank is a critical actor in the international development landscape, we make the hypothesis that ODA allocation decisions made by multilateral development banks and bilateral donors follow the World Bank PBA system, in which aid allocations depend both on a recipient's need and its ability to use aid effectively. The former is typically proxied by income per capita while the latter is estimated thanks to the CPIA. Since the PBA disbursement system is allegedly designed to reward good policies and institutions, we predict that an increase in a country's CPIA score increases the Net ODA it receives. The relationship between CPIA scores and Net ODA received should be stable across countries and over time.

Our hypotheses (H) can be summarised as follow:

H1: ODA allocations follow the WB performance-based allocation system, as such there is a positive relationship between a country's CPIA score and the aggregate volume of ODA it receives. All else equal, countries with a higher CPIA score should receive more ODA.

H2: The relationship between CPIA scores and ODA received should be stable across countries and over time.

4.2 Empirical Specifications

4.2.1 Linear Specifications

We estimate an ODA allocation model assuming that ODA flows depend positively on the CPIA score of a country i and negatively on its GNI per capita. We use the following log-linear specification of the ODA allocation model:

$$Log(NetODAreceived)_{i,t} = \alpha + \beta_1^1 CPIA_{i,t} + \beta_2^1 Log(GNI/capita)_{i,t} + \lambda_i + \gamma_t + \varepsilon_{i,t} \qquad (1)$$

The dependent variable is the logarithm of Net ODA received as a share of a country i's GNI in the World Bank's fiscal year t. The independent variable of interest is the CPIA score of a country i at time t. To capture the true effect of the CPIA score on the ODA received, we control for the logarithm of GNI per capita as well as country fixed effects λ_i and year fixed effects γ_t. The inclusion of recipient fixed effects controls for any time-invariant recipient characteristics that may influence aid allocations: estimates of poverty- and policy-selectivity are then informed only by changes over time within countries in aid, GNI per capita, and CPIA. Parameters β_1^1 and β_2^1 are the coefficients in the model and $\varepsilon_{i,t}$ is the error term which is normally distributed with a zero mean. We assume in the rest of the paper that the error terms are not correlated with explanatory variables and fixed effects. For ODA allocations to follow the WB performance-based allocation system and for a country's CPIA score to be positively correlated with the volume of ODA it receives as stated in our first hypothesis (**H1**), we expect the sign of β_1^1 to be positive. Furthermore, for ODA allocations to be poverty-sensitive, we expect the sign of β_2^1 to be negative, that is an increase in a country's GNI per capita decreases the ODA it receives.

As explained in the previous section, the CPIA is a linear combination of four clusters. To investigate whether the effect of CPIA Clusters on Net ODA received is also linear, we decompose the CPIA index in clusters in our baseline log-linear specification to obtain:

$$Log(NetODAreceived)_{i,t} = \mu + \beta_1^2 ClusterA_{i,t} + \beta_2^2 ClusterB_{i,t} + \beta_3^2 ClusterC_{i,t} + \beta_4^2 ClusterD_{i,t} + Log(GNI/capita)_{i,t} + \lambda_i + \gamma_t + \varepsilon_{i,t} \quad (2)$$

Cluster A, Cluster B, Cluster C and Cluster D respectively cover economic, structural, social inclusion and equity, and public governance and institutions policies. For ODA allocations to reward good policy performance in the different CPIA Clusters, we expect the signs of β_1^2, β_2^2, β_3^2 and β_4^2 to be positive. A positive sign implies that a one unit increase in the related Cluster increases the volume of ODA received.

To understand the effect of poverty needs proxied by a country's GNI per capita on ODA allocations, we introduce a piecewise linear specification allowing for two different regimes depending on whether a country is below or above the IDA income eligibility threshold for year t:

$$\begin{aligned} Log(NetODAreceived)_{i,t} &= \chi + aCPIA_{i,t} + controls_{i,t} + \varepsilon_{i,t} \ , \ log(GNI/capita)_{i,t} \leqslant IDAEligibilityThreshold_t \\ Log(NetODAreceived)_{i,t} &= \chi + bCPIA_{i,t} + controls_{i,t} + \varepsilon_{i,t} \ , \ log(GNI/capita)_{i,t} > IDAEligibilityThreshold_t \end{aligned} \quad (3)$$

We are also interested in possible interactions between a country's CPIA score and its GNI per capita. To that extent, we test for discontinuities in Net ODA received at the IDA income eligibility threshold.

$$\begin{aligned} Log(NetODAreceived)_{i,t} = \upsilon &+ \beta_1^3 (CPIA_{i,t} * BelowIDAThreshold_{i,t}) \\ &+ \beta_2^3 (CPIA_{i,t} * AboveIDAThreshold_{i,t}) \\ &+ Log(GNI/capita)_{i,t} + \lambda_i + \gamma_t + \varepsilon_{i,t} \end{aligned} \quad (4)$$

We include two interaction terms between CPIA score and whether a country's GNI per capita is below or above the IDA income eligibility threshold.

- 'Below IDA threshold$_{i,t}$' is a variable that takes the value 1 when a country i at time t has a GNI per capita in current US$ below the IDA income eligibility threshold for year t and 0 otherwise.
- 'Above IDA threshold$_{i,t}$' is a variable that takes the value 1 when a country i at time t has a GNI per capita in current US$ above the IDA income eligibility threshold for year t and 0 otherwise.

4.2.2 Non-Linear Specifications

There are several ways to test for the non-linearity in the relationship between CPIA score and ODA allocations.

First, we consider a quadratic model such that:

$$\begin{aligned} Log(NetODAreceived)_{i,t} = \omega + \beta_1^4(CPIA_{i,t} - 3.35) + \beta_2^4(CPIA_{i,t} - 3.35)^2 \\ + Log(GNI/capita)_{i,t} + \lambda_i + \gamma_t + \varepsilon_{i,t} \end{aligned} \tag{5}$$

$(CPIA_{i,t} - 3.35)$ is the linear term where 3.35 is the median CPIA score for our sample, to which we add squared $(CPIA_{i,t} - 3.35)$ to test for non-linearity in the relationship. The coefficient of interest is β_2^4 which captures the effect of the quadratic term. If β_2^4 is positive, the slope of the relationship between CPIA and ODA becomes more positive as CPIA score increases, that is a better CPIA performer receives more ODA for each additional improvement in CPIA. The quadratic term also allows us to test if a quadratic model fits best the relationship between CPIA and ODA by adding explanatory power to the model.

Second, we introduce a piecewise linear specification allowing for different regimes depending on whether a country has a CPIA score below or above the median score which is 3.35 in our sample.

$$\begin{aligned} Log(NetODAreceived)_{i,t} &= \pi + aCPIA_{i,t} + controls_{i,t} + \varepsilon_{i,t}\ ,\ CPIA_{i,t} \leqslant 3.35 \\ Log(NetODAreceived)_{i,t} &= \pi + bCPIA_{i,t} + controls_{i,t} + \varepsilon_{i,t}\ ,\ CPIA_{i,t} > 3.35 \end{aligned} \tag{6}$$

There are two regimes: "before" (to the left of) the threshold: $CPIA_{i,t} \leq 3.35$, and "after" (to the right of) the threshold: $CPIA_{i,t} > 3.35$. Controls include GNI per capita, country and year fixed effects. The effect of CPIA score on Net ODA received is non-linear if the coefficients a and b are different depending on whether CPIA is below or above 3.35. The non-linear relationship between CPIA and ODA received is consistent with the performance-based allocation logic if, for the threshold score CPIA=3.35, we have $a < b$ and both a and b are significantly different from 0.

Finally, we turn to a quantile analysis to test for kinks and jumps throughout the distribution of CPIA quantiles' scores. Following the existing literature on CPIA (Dasgupta, 2009), (Fankhauser, 2010), we run our main specification on CPIA quartiles subsamples. Looking into kinks and jumps allows us to investigate whether crossing a CPIA quartile threshold leads to a discrete change (i.e, a jump) or a kink in the volume of ODA received.

4.3 Data

4.3.1 Data and Sample

We use official panel data on Net ODA received as a share of Gross National Income (GNI), CPIA scores, CPIA Clusters' scores, GNI per capita in current US$, and a set of country fixed and time fixed characteristics from the World Bank's World Development Indicator database for the period 2005 to 2019.

We restrict ourselves to 2005-2019 as the World Bank only started disclosing CPIA scores in 2005 and has not yet published the 2020 data. Our sample includes countries for which the World Bank discloses CPIA scores; that is low- and middle-income- economies, eligible for the World Bank's IDA support and IDA-IBRD blended facilities between 2005 and 2019. To account for the different steps of IDA graduation, countries from our sample fall under three lending regimes from the World Bank: "IDA only", "IDA-IBRD blended", "IBRD". The last category comprises a set of countries that are at the end of their graduation process and will soon lose complete access to concessional funding. Over the time period, some countries graduate from IDA while other countries become eligible. As a result, the number of observations per year is not fixed and ranges from 70 to 79. Table A1 in the appendix provides a count of the number of observations for each year. In total, our sample comprises 1,107 observations.

Following much of the previous literature (White al.,2000), (Gupta, 2006), aid is measured by total net ODA disbursements as a share of GNI, in current US dollars. Net ODA consists of disbursements of loans made on concessional terms and grants by official agencies of the members of the OECD DAC, by multilateral institutions, and by non-DAC countries to promote economic development and welfare in countries registered in the DAC list of ODA recipients. It includes loans with a grant element of at least 25 per cent. World Bank GNI estimates are used for the denominator.

The GNI per capita is in current US$ converted from national currencies using the World Bank Atlas method[2], divided by the midyear population. The choice of the Atlas method GNI per capita is relevant as it is used by the World bank to determine the borrowing eligibility of its client countries.

The CPIA consists of 16 criteria grouped into four clusters; economic management (Cluster A), structural policies (Cluster B), social inclusion and equity (Cluster C), and public sector management and institutions (Cluster D), weighted equally to derive the overall CPIA rating. Countries of our sample are rated annually by the World Bank's staff on a 1 to 6 scale.

[2] "The Atlas method applies a conversion factor that averages the exchange rate for a given year and the two preceding years, adjusted for differences in rates of inflation between the country, and through 2000, the G-5 countries (France, Germany, Japan, the United Kingdom, and the United States). From 2001, these countries include the Euro area, Japan, the United Kingdom, and the United States." (WB WDI Database, accessed January 2022)

4.3.2 Descriptive Statistics

Table 1: Summary Statistics

Statistic	N	Mean	Std. Dev.	Min	Pctl(25)	Pctl(75)	Max
NetODAreceived(ShareofGNI)	1,107	8.654	9.019	0.093	3.283	11.117	89.199
CPIA	1,107	3.295	0.451	1.400	2.992	3.642	4.442
CPIAClusterA	1,107	3.444	0.641	1.000	3.000	3.917	5.500
CPIAClusterB	1,107	3.341	0.484	1.500	3.000	3.667	5.000
CPIAClusterC	1,107	3.306	0.483	1.500	3.000	3.700	4.300
CPIAClusterD	1,107	3.088	0.472	1.600	2.800	3.400	4.200
GNIpercapita	1,107	1,958.627	1,876.900	140	695	2,555	10,950

Note : This table provides the baseline means, standard deviation, minimum and maximum values as well as the first and fourth quartile of the variables evaluated in the paper for the 1,107 observations of our sample. The 25th percentile is the value at which 25% of the observations lie below that value. The 75th percentile is the value at which 75% of the observations lie below that value.

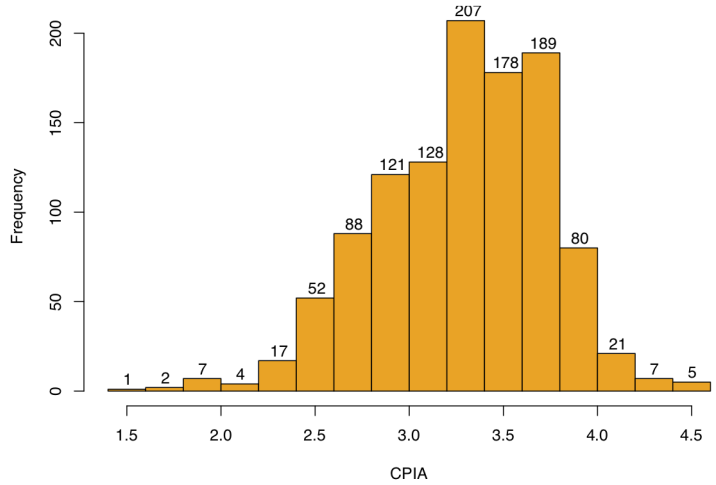

Figure 1: Histogram of CPIA Scores (2005-2019)

Note: Figure 1 represents a histogram of CPIA scores. The x axis shows the CPIA scores in our sample and the Y axis shows their frequency, that is the number of occurrences for each CPIA score.

Table 2: GNI per Capita and Net ODA Received, Region Averages (2005-2019)

Region	N	GNI/capita	Net ODA received per year (% of GNI)
East Asia and Pacific	193	2,536	14
Europe and Central Asia	107	2,470	4.22
Latin America and Caribbean	128	4,671	4.15
Middle East and North Africa	14	1,695	3.73
South Asia	107	2,094	5.42
Sub-Saharan Africa	558	1,019	9.42

Table 3: CPIA and Clusters, Region Averages (2005-2019)

Region	N	CPIA	Cluster A	Cluster B	Cluster C	Cluster D
East Asia and Pacific	193	3.21	3.38	3.21	3.14	3.11
Europe and Central Asia	107	3.65	4.01	3.67	3.69	3.23
Latin America and Caribbean	128	3.54	3.59	3.69	3.53	3.37
Middle East and North Africa	14	3.10	3.23	3.25	3.06	2.88
South Asia	107	3.39	3.41	3.40	3.53	3.21
Sub-Saharan Africa	558	3.19	3.34	3.24	3.20	2.97

Note : Table 2 and table 3 present the mean values of our variables of interest for region sub-samples, using the World Bank country classification. Middle East and North Africa has a very small number of observations (1 country over the 2005-2019 time period) because most countries from the region are upper middle or high income countries, not eligible to IDA concessional funding.

Table 1 lists the number of observations, the mean values, variances and value range of the Net ODA received as a share of GNI, GNI per capita, overall CPIA score, and CPIA Clusters scores. Over the period 2005-2019 in a sample of IDA and IDA-IBRD eligible countries, Net ODA received in current US $ represents on average 8.7% of a country's GNI. The standard deviation is large, 9.019 and the volume of ODA received ranges from representing 0.09% of India's GNI in 2012 to 78% of Liberia's GNI in 2010. CPIA scores are calculated on a scale from 1 to 6, 1 being the lowest and 6 the highest. For the sample and period under review, the mean CPIA score was 3.3 with a standard deviation of 0.4. The minimum score was 1.4 and the maximum 4.4. Using the Atlas method, the average GNI per capita for the period and sample under review is US$ 1,959 with a large standard deviation of 1,877. GNI per capita ranged from US$ 140 in Burundi in 2005 to US$ 10,950 in St. Lucia in 2018. For reference, the FY2022 IDA eligibility threshold is set at US$1,205. Figure 1 shows the distribution of CPIA scores is skewed to the right with a peak occurring between 3.25 and 3.75. Though CPIA scores are measured on a 1 to 6 scale, our sample is limited to a 1.5 to 4.5 scale, with a few countries scoring below 2.5 and above 4.

Computing mean values for region sub-samples in tables 2 and 3 reveals that Sub-Saharan Africa has the smallest mean GNI per capita and the second-highest volume of Net ODA received as a share of GNI. Apart from the Middle East and North Africa, which can be ignored due to its very low number of observations, Sub-Saharan Africa also has the lowest mean CPIA and CPIA Cluster D score. Latin America and the Caribbean has the highest mean GNI per capita and the lowest ODA to GNI ratio. The region also has the second-highest CPIA score and the highest CPIA Cluster D score.

5 Results

5.1 Linear Specifications

5.1.1 Baseline Specifications

Table 4: CPIA, CPIA Clusters and Net ODA Received

	DV: Net ODA received (% of GNI)			
	log(NetODAreceived(ShareofGNI))			
	(1)	(2)	(3)	(4)
CPIA	0.425***	0.400***		
	(0.082)	(0.082)		
CPIA Cluster A			0.036	0.038
			(0.043)	(0.043)
CPIA Cluster B			−0.171**	−0.158**
			(0.071)	(0.071)
CPIA Cluster C			−0.048	−0.093
			(0.086)	(0.087)
CPIA Cluster D			0.650***	0.645***
			(0.095)	(0.095)
GNI per capita (log)	−0.810***	−0.828***	−0.808***	−0.798***
	(0.070)	(0.101)	(0.069)	(0.100)
((log)GNI/capita−(log) IDA eligibility threshold$_t$)∗ Dummy for GNI/capita above IDA eligibility threshold$_t$		−0.108**		−0.139**
		(0.108)		(0.107)
Dummy for GNI/capita above IDA eligibility threshold$_t$		−0.173***		−0.157***
		(0.054)		(0.053)
Constant	7.166***	7.348***	7.122***	7.154***
	(0.417)	(0.591)	(0.414)	(0.583)
Observations	1,107	1,107	1,107	1,107
Adjusted R^2	0.879	0.880	0.883	0.884
Note:				*p<0.1; **p<0.05; ***p<0.01

Note : Robust standard errors in parentheses. IDA eligibility threshold$_t$ is a variable that takes the value of the IDA income eligibility threshold for each year from 2005 to 2019. IDA income eligibility threshold were accessed through an "Access to information" request submitted to the World Bank and are listed in table A3 in the appendix. Variables included in the model but not reported in the table: country fixed and time fixed effects. Column 1 looks at the relationship between a country's CPIA score and the aggregate ODA it receives. Column 2 adds an interaction between a country's GNI per capita and its poverty group (based on whether a country is below or above the IDA income eligibility threshold for year t). Column 3 and 4 replicate the analysis on CPIA Clusters scores instead of aggregate CPIA scores.

Table 4 presents the main results for equation 1. Column 1 provides the coefficients of the relationship between CPIA, GNI per capita and Net ODA received. Countries with a higher CPIA score and a lower GNI per capita receive significantly more Net ODA as a share of their GNI. Coefficients on (log of) GNI per capita is interpretable as elasticity, so a 1% increase in GNI per capita reduces Net ODA received by 0.8%. A 0.45 point - one standard deviation - increase in CPIA rating (measured on a 1 to 6 scale) increases Net ODA received by 21% ($e^{0.425*0.45}$). We interpret these coefficients as evidence that ODA allocations are sensitive to both the poverty needs and the policy and institutional quality of a country.

In Column 2, we allow for two different poverty severity regimes, comparing the effect of GNI per capita on ODA received for countries below and above the IDA income eligibility threshold. Though the effect of a country's GNI per capita on the ODA it receives is not the main focus of this paper, we examine whether the ODA data follows different linear trends across income groups, comparing countries with a GNI per capita below and above the IDA income eligibility threshold for year t. The coefficients (0.828 and 0.936) are similar in magnitude but the difference between the two poverty severity regimes is significant (i.e, the coefficient for the interaction term is significant). A 1% increase in GNI per capita leads to a 0.83% and 0.94% decrease in ODA received for countries below and above the IDA threshold respectively. The coefficient for the dummy threshold is also significant, which points to a jump in ODA received at the IDA eligibility threshold. Having a GNI per capita above the IDA eligibility threshold, decreases ODA by 0.17%. This is consistent with Galiani et al.'s claim (2017), that as countries get closer to IDA graduation, other donors also cut their aid substantially. They find that the total aid to GNI ratio drops, on average, by 59%. We interpret this as evidence that aggregate ODA allocations are sensitive to the eligibility for concessional aid from the WB IDA.

In Column 3, decomposing the CPIA index in a linear combination of its clusters, reveals that Net ODA received is sensitive to both cluster B (structural policies) and cluster D (public sector management and institutions) while the coefficients for cluster A (economic management) and cluster C (social inclusion and equity) are non-significant. Cluster B is negatively correlated with Net ODA received; a 0.48 (one standard deviation) increase in Cluster B score decreases ODA by 8.5% ($e^{0.171*0.48}$). This result is puzzling as it goes against the core principle of the CPIA and PBA formula which is designed to reward better policy performers. Cluster B covers policies affecting trade, the financial sector, and the business environment and is tightly linked to the notion of the creditworthiness and income level of a country. Looking into our sample, we find that countries in the top two Cluster B quartiles are overwhelmingly lower (199) and upper (165)- middle-income countries (364) against only 125 low-income countries. As a consequence of their higher income, CPIA cluster B top performers disproportionately belong to the "IBRD" and "blend" lending categories, that is, the group of countries considered close to IDA graduation, who have lost access to the purely concessional funding of IDA. To sum up, being a Cluster B top-performer puts a country closer to IDA graduation, which in turn negatively affects ODA flows. As a conclusion, the unobserved confounding variables, affecting both the performance in cluster B and the closeness to IDA graduation, are likely to bias the effect of Cluster B. One way to account for this noise in the independent variable is to run our main specification in a sample of countries who only have access to IDA concessional resources. Table A2 in the appendix tends to confirm our intuition; when considering IDA-only countries, the negative coefficient for Cluster B vanishes and becomes non-significant. To explain the negative relationship between Cluster B score and ODA, one could also argue that because low Cluster B performers are primarily low-income countries, a poverty-sensitive donor might see a weak score as an opportunity for ODA to decrease poverty. However, since we control for countries' GNI per capita, the negative coefficient associated with Cluster B solely captures poor performance in structural policies, independent of whether a country is low- or middle-income. As far as Cluster D is concerned, its coefficient is highly significant and large in magnitude. A 0.47 (one standard deviation) increase in CPIA Cluster D increases Net ODA received by 36% ($e^{0.650*0.47}$). This effect

is substantial, both on a standalone basis and comparatively to other clusters. We interpret this as evidence that Cluster D is driving on its own the positive relationship between CPIA and ODA. These findings are consistent with the WB performance-based allocation formula in which the score obtained by a country in Cluster D is given eight and a half times the weight of each of the three other clusters in the formula (WB, 2010). However, this thesis considers aggregate ODA flows from multilateral and bilateral donors to IDA recipient countries, and not only those disbursed by the World Bank. Finding a prevalence of Cluster D at the aggregate ODA flows level is evidence that total ODA disbursements seem to follow the WB allocation system and are biassed in favor of better governance.

In Column 4, we replicate the poverty sensitivity test from column 2, replacing the CPIA by its clusters and find similar results. A 1% increase in GNI per capita leads to a 0.80% and 0.94% decrease in ODA received for countries below and above the IDA threshold respectively.

5.1.2 Testing for Interactions between a Country's CPIA and its GNI per Capita

Table 5: CPIA Score and Net ODA Received controlling for IDA Eligibility Threshold

	DV: Net ODA received (% of GNI)		
	log(NetODAreceived(ShareofGNI))		
	(1)	(2)	(3)
CPIA∗BelowIDAthreshold	0.404***		
	(0.087)		
CPIA∗AboveIDAthreshold	0.421***		
	(0.103)		
Above IDA threshold	0.124		
	(0.302)		
CPIA		0.515***	0.335**
		(0.107)	(0.140)
GNI/capita (log)	−0.896***	−1.103***	−0.782***
	(0.074)	(0.104)	(0.110)
Constant	7.746***	8.484***	6.327***
	(0.455)	(0.582)	(1.001)
Observations	1,107	474	633
Adjusted R^2	0.880	0.895	0.864
Significance levels		*p<0.1; **p<0.05; ***p<0.01	

Note : Robust standard errors in parentheses. Above IDA threshold is a dummy variable that takes the value 1 when a country has a GNI per capita above the IDA income eligibility threshold for year t, 0 otherwise. Variables included in the model but not reported in the table: country fixed and time fixed effects. Column 1 interacts a country's CPIA score with its income group (below or above the IDA eligibility threshold) to test whether the importance of CPIA score for aggregate ODA allocations is sensitive to the poverty needs of a country. Columns 2 and 3 run our main regression (Eq1) on two sub-samples: a sub-sample of country with GNI per capita at time t below (column 2) and above (column 3) the IDA income eligibility threshold at time t.

Table 5 looks into possible interactions between a country's GNI per capita and CPIA score to investigate whether the poverty severity in a country affects the importance of good policy performance as a criterion for ODA allocations. In Column 1, the coefficients for the interaction terms *CPIA*BelowIDAThreshold* and *CPIA*AboveIDAThreshold* are 0.404 and 0.421 respectively. A 0.45 increase in CPIA score increases ODA received by 20% ($e^{0.404*0.45}$) for countries with a GNI per capita below the IDA income eligibility threshold and 21% ($e^{0.421*0.45}$) for countries with a GNI per capita above the IDA income eligibility threshold. Though the coefficient for $CPIA * AboveIDAThreshold$ is slightly larger in magnitude than that of $CPIA * BelowIDAThreshold$, the coefficient for the dummy variable *Above IDA threshold* is non-significant. This implies no significant change in the relationship between CPIA and ODA depending on the income group of a country. We interpret this as evidence that the poverty severity of a country (i.e, whether countries belong to the lower or higher income group of our sample) does not change the importance of policy performance as a criterion for ODA allocations. In appendix, we look into the interaction between CPIA and the poverty severity in a country annually, for the period 2005-2019, using the IDA eligibility threshold for each year. Table A3 lists the IDA income eligibility thresholds from 2005 to 2019 and table A4 presents our results. We find no significant difference in the importance of CPIA for ODA allocations between income groups. Irrespective of whether a country is below or above the IDA income threshold, donors seem to always reward better performance. To test this finding, we decompose our sample in two sub-samples below (Column 2) and above (Column 3) the IDA threshold. As expected, the relationship between CPIA and Net ODA received is similar across the two income groups.

5.2 Non-Linear Specifications

5.2.1 Quadratic and Piecewise Linear Specifications

Table 6: CPIA Non-Linear Effects (CPIA Threshold equals 3.35)

	DV: Net ODA received (% of GNI)			
	log(NetODAreceived(ShareofGNI))			
	(1)	(2)	(3)	(4)
(CPIA-3.35)	0.515***			
	(0.090)			
(CPIA-3.35)^2	0.178**			
	(0.076)			
CPIA		0.202*	0.239*	0.879***
		(0.112)	(0.128)	(0.150)
(CPIA-3.35)∗Dummy for CPIA above 3.35		0.714***		
		(0.198)		
Dummy for CPIA above 3.35		−0.038		
		(0.049)		
GNI/capita (log)	−0.802***	−0.809***	−0.956***	−0.683***
	(0.070)	(0.070)	(0.104)	(0.101)
Constant	8.514***	7.734***	8.467***	3.511***
	(0.428)	(0.464)	(0.619)	(0.904)
Observations	1,107	1,107	554	553
Adjusted R^2	0.880	0.880	0.868	0.897
Significance levels	*p<0.1; **p<0.05; ***p<0.01			

Note : Robust standard errors in parentheses. 3.35 is the median CPIA score for our sample. Dummy for CPIA above 3.35 is a variable that takes the value 1 when a country i has a CPIA score above 3.35 at time t. Variables included in the model but not reported in the table: country fixed and time fixed effects. Column 1 fits a quadratic model to analyse the relationship between CPIA and ODA. Column 2 uses a piecewise linear form to test for discontinuity in aid allocation at the median CPIA score for our sample (3.35). Column 3 and 4 run our main regression (Eq1) on two sub-samples: a sub-sample of country with CPIA score at time t below 3.35 (Column 3) and a sub-sample of country with CPIA score at time t above 3.35 (Column 4).

Table 6 investigates whether the relationship between CPIA score and ODA received displays non-linearity. To account for the non-linear effects of CPIA, we select the median CPIA score of our sample: 3.35[3]. In Column 1, we use a quadratic functional form to explain ODA received by a country. The coefficient for the quadratic term is positive and significant at the 10% level. The positive effect of each additional increase in CPIA score on Net ODA received is higher for countries with a higher CPIA (i.e, countries sitting in a higher quantile). Also, for $CPIA < 3.35 - [(0.515)/(2 * 0.178)] = 1.9$, the relationship between CPIA and aid is negative. For countries with a CPIA score between 1.4 (lowest CPIA score in our sample) and 1.9, a higher CPIA score has a negative effect on Net ODA received, while it is positive for CPIA above 1.9. The coefficient for $(CPIA - 3.35)^2$ is 0.178 and the coefficient for $(CPIA - 3.35)$ is 0.515. So the relationship between CPIA and ODA fitted by the quadratic model is as follows: $ODA = 0.515 * (CPIA - 3.35) + 0.178 * (CPIA - 3.35)^2$. Hence, $dAid/dCPIA = 0.515 + 2 * 0.178 * (CPIA - 3.35) = -0.678 + 0.356 * CPIA$. Let us imagine a country with a CPIA score of 3. If CPIA goes up by 0.1, its ODA will increase by 4% (-0.0678+ 0.0356*3).

In Column 2, we use a piecewise linear form to test for discontinuity in aid allocation at the median CPIA score for our sample (3.35). The piecewise linear model allows us to examine whether the ODA data follows different linear trends across CPIA scores by modelling the regression in pieces. We allow for two different relationships between CPIA and ODA received, comparing countries with a CPIA score below or above 3.35. For countries with a CPIA between 1.4 and 3.35, a 0.1 point increase in CPIA leads to a 2% increase in ODA received whereas countries with a CPIA score above 3.35 experience a 9.2% increase in ODA received when they improve their score by 0.1 point. The difference is significant because the coefficient for the interaction term $(CPIA_{i,t} - 3.35) * DummyforCPIA_{i,t}above3.35$ is significant. However, the coefficient for the dummy for $CPIA_{i,t}$ *above 3.35* is non-significant, thus indicating no jump in the volume of ODA received at CPIA equals 3.35. To further account for the non-linear effect of CPIA on ODA received across the CPIA score distribution, we run our main specification on the two subsamples below (column 3) and above (column 4) the 3.35 threshold. The results confirm our observations from the quadratic and piecewise linear specification, that is, the impact of each additional increase in CPIA score on ODA received is higher in countries with a higher CPIA.

The non-linearity in the relationship between CPIA score and ODA flows is consistent with the WB performance-based formula designed to reward better CPIA performers with a higher volume of ODA. However, this paper considers ODA flows from all multilateral and bilateral donors who are members of the OECD DAC and not only those disbursed by the WB. Finding this non-linearity in aggregate ODA flows data indicates that most multilateral and bilateral donors use an allocation system similar to that of the WB. Since 2004, MDBs have harmonised around the WB's CPIA (Inter-American Development Bank, 2020) after an independent panel assembled by the WB to review the CPIA recommended harmonisation in order to reduce the burden on country counterparts and staffs of the institutions and in view of the small value added in having similar, highly correlated methodologies among MDBs ("CPIA: An External Panel Review", April 2004). In table A5 in the appendix, we compute Pearson correlation coefficients and find the African Development Bank and Asian Development Bank country policy assessments to be highly correlated with the CPIA score. Though the Inter-American Development Bank does not disclose its ratings publicly, the Bank reformed the CIPE in 2010 to harmonise the criteria with the IDA CPIA (IADB, 2020). On that account, we can expect to find a similar correlation for this institution as well.

[3]For the piecewise linear specifications, we tried additional thresholds at 2.5/3/3.25/3.75 and found similar results, that is the benefit from a unit increase in CPIA score on Net ODA received is higher for countries above any CPIA threshold of choice.

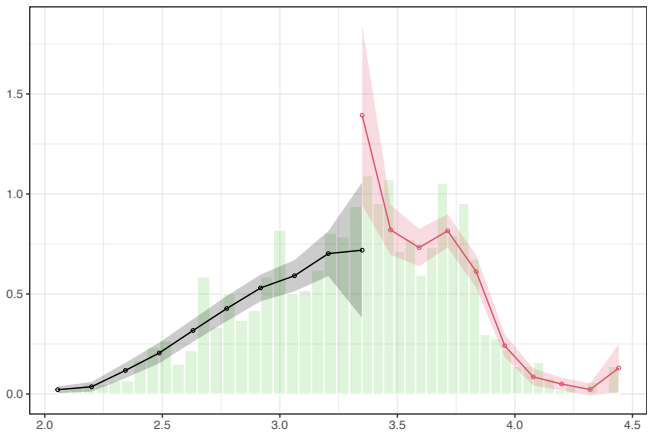

Figure 2: Mc Crary Test for Bunching at CPIA equals 3.35

Note : There are 1,107 country-year observations from countries who were eligible to IDA between 2005 and 2019. The green histogram pictures the density of CPIA scores for country-year observations. The lines and shaded areas show the McCrary density test. Though there seems to be a discontinuity at the CPIA threshold, this gap fits within the 95% confidence intervals on both sides so there appears to be no significant difference in the distribution of CPIA scores around the cutoff point of 3.35.

Finally, we test for evidence of CPIA score manipulation. Figure 2 displays a green histogram that shows the density of CPIA scores. All countries that were ever eligible to IDA between 2005 and 2019 are included, and each CPIA value in each country-year is treated as a separate observation. If many governments undertake actions to manipulate their CPIA score and stay above the CPIA threshold of 3.35, we should observe significant "bunching" of observations just above the threshold, relative to the number of observations just below it. Specifically, we would expect the bin just to the right of the 3.35 CPIA threshold to be abnormally high relative to the neighboring bins. If there is no bunching, the number of observations in each bin should cross the threshold of 3.35 smoothly. In the green histogram of figure 2, there is no visual evidence that countries bunch right above the CPIA threshold. A formal test confirms this result. Using a density test proposed by McCrary (2008), we find no significant evidence of bunching. The lines in figure 2 are a density graph that shows the fitted kernel density functions at both sides of the threshold. Despite some discontinuity when the density function crosses the CPIA threshold, the difference is not statistically significant and the gap fits within the 95% confidence intervals on both sides, as pictured by the shaded areas. We can conclude to no CPIA score manipulation at a CPIA score of 3.35.

The green histogram in figure 2 shows a jump in the number of observations at a CPIA score of 3. Conversely, Gelb et al. (2004) show that the difficulty and ambiguity to assign a clear CPIA score in some cases, can lead to a tendency to bunch around the middle ratings of 3 to 3.5 (i.e, moderately unsatisfactory to neutral scores). Following their work, we proceed to an additional check for structural breaks and score manipulation at a CPIA score of 3 set out in the appendix. Table A6 uncovers the same non-linear patterns as that identified for a CPIA score of 3.35, namely, the positive effect of each additional increase in CPIA score on Net ODA received is higher for countries with a higher CPIA. In figure A2, the Mc Crary test for bunching confirms the absence of score manipulation at CPIA equals 3.

5.2.2 Quartile Specifications

Table 7: CPIA and Net ODA Received (CPIA Quartile Sub-Samples)

	DV: Net ODA received (% of GNI)				
	log(NetODAreceived(ShareofGNI))				
	(1)	(2)	(3)	(4)	(5)
CPIA	0.746***	−0.027	0.634*	0.563**	0.426***
	(0.187)	(0.274)	(0.358)	(0.243)	(0.145)
Max(CPIA - 2.99,0)∗Q2 CPIA					−0.454
					(0.301)
Dummy for CPIA above 2.99					−0.117*
					(0.066)
Max(CPIA - 3.35,0)∗Q3 CPIA					0.617
					(0.455)
Dummy for CPIA above 3.35					0.049
					(0.063)
Max(CPIA - 3.64,0)∗Q4 CPIA					0.159
					(0.421)
Dummy for CPIA above 3.64					0.093
					(0.070)
GNI/capita (log)	−1.291***	−0.800***	−0.753***	−0.598***	−0.811***
	(0.169)	(0.133)	(0.150)	(0.157)	(0.069)
Constant	9.056***	5.997***	3.048**	4.007***	7.145***
	(0.918)	(1.212)	(1.424)	(1.385)	(0.521)
Observations	277	277	278	275	1,107
Adjusted R^2	0.856	0.892	0.912	0.889	0.881
Significance levels					*p<0.1; **p<0.05; ***p<0.01

Note: Robust standard errors in parentheses. Dummy for CPIA above x is a dummy variable that takes the value 1 when a country has a CPIA score above the threshold X at time t. X takes the value of 2.99, 3.35 and 3.64 which are the thresholds from CPIA Q1 to CPIA Q2, CPIA Q2 to CPIA Q3 and CPIA Q3 to CPIA Q4, respectively. Q1, Q2, Q3, Q4 are dummy variables that take the value 1 if a country belongs to the xth quartile and 0 otherwise. Variables included in the model but not reported in the table: country fixed and time fixed effects. Column 1, 2, 3, 4 run our main specification (Eq1) on the four quartile sub-samples. Column 5 uses a piecewise linear regression to investigate kinks and jumps at CPIA quartile thresholds.

Table 7 investigates whether the WB PBA system applies to aggregate ODA flows. If it is the case, we expect countries with better policies and stronger institutions to receive more ODA, that is, the relationship between CPIA and ODA should be non-linear across CPIA quantiles. We test this hypothesis by checking whether being in a higher CPIA quantile translates into more ODA flowing to the country. To neutralise the poverty needs of countries and focus on the effect of a better CPIA score on ODA flows, we control for GNI per capita. Following the existing literature on CPIA (Buys et al., 2009), (Müller et al., 2020), we decompose our sample into CPIA quartiles. The quantiles are as follow:

- Q1: CPIA from 1.4 to 2.99
- Q2: CPIA from 2.99 to 3.35
- Q3: CPIA from 3.35 to 3.64
- Q4: CPIA from 3.64 to 4.44

Columns 1 to 4 show the results for our baseline regression (Eq1) in each CPIA quartile sub-sample. The relationship between CPIA score and Net ODA received is found to be positive and significant in all quartiles but the second. The relationship is also linear, except for column 2. For countries in the second quartile, we cannot reject the null hypothesis that an improvement in the CPIA score has no effect on the ODA received. The coefficient for CPIA is the largest in magnitude in the first quartile sub-sample where a 0.1 point increase in CPIA score increases ODA received by 7.5%. In the third and fourth quartiles, a 0.1 point increase in CPIA score increases ODA received by 6.3% and 5.6% respectively. The decomposition of our sample in quartiles confirms the positive relationship between CPIA and aggregate ODA across the distribution of CPIA scores, except for the second quartile where scores range from 2.99 to 3.35.

Column 5 looks into kinks and jumps at CPIA quartile thresholds. The coefficients for the dummy variables allow us to investigate whether crossing a CPIA quartile threshold leads to a discrete change (i.e., a jump) in the volume of ODA received. For ODA flows to follow a performance-based logic, we would expect the coefficients to be positive. Nonetheless, the coefficient for *Dummy for* $CPIA_{i,t}$ *above 2.99* is negative and significant at the 10% level, while the other coefficients are non-significant. Countries with a CPIA score just above the 2.99 threshold receive 11.7% less ODA than countries just below the 2.99 threshold. This negative coefficient is puzzling and imply that crossing the CPIA threshold from the first to the second quartile, decreases the volume of ODA received by a country. However, this pattern does not hold true for the other quartiles' thresholds. The coefficients for *Dummy for* $CPIA_{i,t}$ *above 3.35* and *Dummy for* $CPIA_{i,t}$ *above 3.64* are positive, but small in magnitude: 0.049 and 0.093 respectively. Crossing the threshold from the second to the third quartile increases ODA received by 4.9%, while crossing the threshold from the third to the fourth quartile increases ODA by 9.3%. Though crossing a higher CPIA threshold does not seem to create a large jump in the volume of ODA received by a country, we still find the positive change in ODA to be higher for countries in a higher quartile (i.e $0.093 > 0.049$). Nevertheless, the coefficients are non-significant and prevent us from rejecting the null-hypothesis that crossing a higher CPIA quartile threshold has no effect on the amount of aid received by a country.

In column 5, the coefficients for the interaction terms $Max(CPIA - Threshold, 0) * QxCPIA$ explore whether quartile thresholds induce kinks in the relationship between CPIA and ODA. A kink means a change of slope in the relationship between CPIA and ODA at a given quartile threshold. The coefficient on $Max(CPIA - 2.99, 0) * Q2CPIA$ indicates that the slope in the second quartile is 0.454 lower than the slope in the first quartile (i.e, 0.426). For countries in the second quartile, a 0.1 point increase in CPIA yields a 0.28% decrease in ODA received (i.e, (-0.454+0.426)*0.1=-0.0028). This coefficient very much relates to that of column 2 where we run our baseline regression on a

sub-sample of countries in the second quartile. The coefficients for $Max(CPIA-3.35,0)*Q3CPIA$ and $Max(CPIA-3.64,0)*Q4CPIA$ are both positive and large in magnitude, thus suggesting that the slope for CPIA becomes much steeper in the third and fourth quartile. This tends to confirm our findings from the quadratic specification, that is, the benefit of a one-unit increase in CPIA on ODA received increases with CPIA scores. However, a limit of this interpretation is that the coefficients for the interaction terms $Max(CPIA-Threshold,0)*QxCPIA$ are non-significant with large standard errors. Therefore, we cannot reject the null hypothesis that being in a higher CPIA quartile than Q1 does not affect the ODA received by a country. The results in Column 5 do not allow us to conclude that aggregate ODA allocations follow a performance logic based on a country's CPIA score.

Table A8 and table A9 in the appendix extend the quartile analysis to CPIA Clusters. Our results point to no significant jumps in the volume of ODA received when crossing a higher quartile threshold. For Clusters B, C and D, the slope of the Cluster score is much steeper in the fourth quartile. The coefficient is especially large in magnitude and significant for Cluster D (0.761). These findings suggest that the marginal benefit of a one unit increase in Clusters B, C and D scores on ODA received is higher for countries in the fourth quartile.

To sum up, the quadratic and piecewise linear specifications in table 6 showed that the positive effect of CPIA on ODA received increases with CPIA scores, which implies that holding poverty level and other country characteristics constant, a better CPIA performer receives more ODA for each additional improvement in CPIA. Turning to the quartile analysis makes it harder to conclude to a performance-based allocation of ODA resources. While we do find non-linearities similar to that identified with the quadratic form, the coefficients for kinks and jumps in table 7 column 5 are non-significant and do not allow us to reject the null-hypothesis that being in a higher quartile than Q1 does not affect the volume of ODA received. A possible justification is the existence of confounding variables that impact both the CPIA score and the income level of a country, which in turn determines the eligibility for IDA pure concessional resources (i.e, IDA only) and the dependence on ODA. Perhaps countries that perform better in the policy areas covered by the CPIA and sit in a higher quartile are wealthier and less dependent on ODA flows. To partially test this hypothesis, table A7 in the appendix presents the mean GNI per capita and ODA received in the different quartile sub-samples. Countries in the first CPIA quartile have the lowest average GNI per capita and ODA represents on average a 7 to 8 percentage points higher share of their GNI per capita than for countries in higher quartiles. This gives credit to the postulate that donors do not solely rely on CPIA scores when allocating ODA, but consider additional factors such as the poverty level of a country (Bourguignon & Platteau, 2018), geopolitics (Berthélemy, 2006) and donor interests (Lewis, 2003).

Chapter 5 proposed an extensive analysis of the relationship between the CPIA score of a country and the aggregate ODA it receives using linear, piecewise linear, quadratic and quantile forms. In the next section, we summarise the results.

5.3 Discussion of Results

Table 4 and table 5 present the results for the linear specifications. In table 4, we find a positive relationship between a country's CPIA score and the ODA it receives. This provides evidence to support our first hypothesis (**H1**). Nonetheless, a decomposition of the CPIA score in Clusters shows that the relationship is only positive for Cluster D (public sector management and institutions), while being negative for Cluster B (structural policies), and non-significant for Clusters A (economic policies) and C (social policies). Cluster D seems to be driving on its own the positive relationship between CPIA and ODA. These findings are consistent with the WB performance-based allocation formula in which the score obtained by a country in Cluster D is given eight and a half times the weight of each of the three other clusters in the formula (WB, 2010). However, this paper considers ODA flows from all multilateral and bilateral donors who are members of the OECD DAC and not only those disbursed by the World Bank. Finding a prevalence of Cluster D at the aggregate ODA flows level is evidence that total ODA disbursements seem to rely on the CPIA and to follow the WB PBA system. While donors seem to reward better governance, the non-significant coefficients for Clusters A and C suggest that this does not come at the expense of penalising poor performers in economic and social policies. The negative coefficient for Cluster B goes against the performance-based allocation logic and seems to be the consequence of confounding variables that affect both the performance in Cluster B policies (trade, financial sector and business environment) and the closeness to IDA graduation, thus creating an unobserved bias in the coefficient. Table A2 in the appendix tends to confirm our intuition since replicating the analysis on a sample of IDA-only countries makes the negative coefficient for Cluster B vanishing. Considering poor Cluster B performers are primarily low-income countries while top Cluster B performers are mainly middle-income countries, one could argue that poverty-sensitive donors might see a weak Cluster B score as an opportunity for ODA to decrease poverty and, conversely, an improvement in Cluster B score as a decrease in poverty and ODA needs. However, since we control for countries' GNI per capita, the negative coefficient associated with Cluster B solely captures poor performance in structural policies, independent of whether a country is low- or middle-income. In table 4, we find GNI per capita to be negatively correlated with ODA received. We interpret this as evidence that ODA allocations are sensitive to the poverty needs of a country. Furthermore, analysing the effect of crossing the IDA income eligibility threshold on the relationship between a country's GNI per capita and the ODA it receives, shows that aggregate ODA flows are sensitive to recipient countries' eligibility for the concessional resources from the WB IDA. This is consistent with Galiani et al.'s claim (2017), that as countries get closer to IDA graduation, other donors also cut their aid substantially. However, when interacting a country's CPIA score with its GNI per capita in table 5, we find that irrespective of whether a country is below or above the IDA income threshold, donors seem to always reward better CPIA performance.

Table 6 and table 7 present the non-linear specifications. In Table 6, the quadratic specification reveals a non-linear relationship between CPIA score and ODA across the distribution of CPIA scores. The positive effect of each additional increase in CPIA on ODA received is not linear across the distribution of CPIA scores and increases as CPIA score increases. In other words, the increase in the volume of ODA received, from a one-unit improvement in CPIA score, is larger for countries with a higher CPIA score. We then turn to a piecewise linear model to test for discontinuity in aid allocation at the median CPIA score for our sample (3.35). The results confirm our observations from the quadratic specification, that is, the impact of each additional increase in CPIA score on ODA received is larger in countries with a higher CPIA. The non-linearity in the relationship between CPIA and ODA is consistent with the WB PBA formula designed to reward better policy performers, that is, grant more ODA to countries with a higher CPIA score. However, this paper considers aggregate ODA flows and not only those allocated by the WB. Using Pearson's correlation, we show that finding this non-linear relationship at the aggregate ODA flows level is a consequence of harmonisation of country policy scores and performance-based allocation systems across the major

development banks (African Development Bank, Asian Development Bank, Inter-American Development Bank) to align with that of the WB. As a consequence the relationship between CPIA and ODA is non-linear across the distribution of CPIA scores and a better CPIA performer receives more ODA for each additional improvement in its CPIA score. In table 7, investigating kinks and jumps in the relationship between CPIA and ODA at CPIA quartiles thresholds makes it harder to conclude to a performance-based allocation of ODA resources. Indeed, despite finding non-linearities similar to that identified with the quadratic model, in the form of the slope of the relationship between CPIA and ODA becoming much steeper in the third and fourth quartiles, the coefficients for kinks and jumps are non-significant and do not allow us to reject the null-hypothesis that being in a higher quartile than Q1 does not affect the volume of ODA received. The absence of a significant discontinuity in ODA flows when crossing a specific CPIA threshold rules out the possibility to use CPIA as an Instrumental Variable (IV) for aid in future research. In addition, it gives credit to the argument that donors do not solely rely on CPIA scores when allocating ODA, but consider additional factors such as the poverty level of a country (Bourguignon & Platteau, 2018), geopolitics (Berthélemy, 2006) and donor interests (Lewis, 2003).

Our second hypothesis (**H2**) requires to test the robustness of the relationship between CPIA score and ODA received across countries and over time and will thus be discussed in the next section.

6 Additional Evidence and Robustness Checks

6.1 Testing the Robustness of the Relationship between CPIA Score and ODA Received Over Time

Since the early 2000s the PBA system has been increasingly criticised for its lack of flexibility and unsuitability to deal with small, large, fragile, conflict-affected and post-conflict countries (Guillaumont & Wagner, 2014). The heterogeneity of IDA members' situations led the World Bank to add an extended list of exceptions and special funds to the PBA to address the needs of those specific cases. While the PBA formula is transparent, those procedures are not, even though they are likely to introduce non-linearity in ODA allocations. Before turning to the data, let us present concrete examples of these new aid facilities.

A major difficulty in the implementation of the PBA came from the special needs of fragile states. To reward good policies and sound institutions, the PBA allocates more aid to countries whose CPIA score is higher. Besides, in tables 6 and 7 we found the relationship between CPIA and ODA to be non-linear across the distribution of scores: the positive effect of each additional increase in CPIA score on Net ODA received is higher for countries with a higher CPIA. Considering that fragile states are characterised by low CPIA scores and face difficulties to improve their policy and institutional environment due to rent-seeking behaviours and instability, a strict application of the PBA would leave fragile states behind. To make the PBA consistent with the needs of fragiles states, the WB IDA and MDBs more broadly, have set up various special funds and procedures to make ODA flow into these countries. As an example IDA19 which covers the 2021 to 2023 time period, came with the creation of a new envelope of allocations for countries facing risks of fragility, conflict and violence (FCV), called the IDA19 FCV. Another weakness of the PBA system arises when dealing with very small countries, such as Small Island Developing States (SIDS) or very large countries such as India. Since allocation shares under a PBA system increase proportionally with population, special treatments have been set up for capping the allocations to very large countries which otherwise would have attracted too many resources whilst minimum allocations have been set up for small countries. Finally, the development and proliferation of earmarked funds directed by donors towards specific locations, themes, activities and operations and used by MDBs to disburse concessional financing might have reduced even more the significance of the PBA and hence the relationship between the CPIA and ODA received. According to the OECD (2020), between 2000 and 2010 alone, the volume of earmarked contributions from DAC countries to multilateral organisations rose from USD 2.7 billion to USD 16.1 billion. Since then, it has continued on an upward trend, reaching USD 24 billion in 2018.

Scholars such as Guillaumont (2010) and McGillivray (2017) argue that these amendments to the ODA allocation system led to a diluted and highly non-linear version of the original PBA. To that extent, it is important to test whether the positive relationship between CPIA score and ODA received is driven by specific time-periods and most importantly if the relation has weakened in recent periods.

Table 8: CPIA Importance Over Time

	DV: Net ODA received (% of GNI)		
	log(NetODAreceived(ShareofGNI))		
	(2005-2011)	(2012-2014)	(2015-2019)
CPIA	0.611***	−0.539*	0.731***
	(0.152)	(0.316)	(0.281)
GNI/capita (log)	−1.276***	−0.236	−0.995***
	(0.134)	(0.273)	(0.205)
Constant	9.592***	6.321***	7.352***
	(0.815)	(1.894)	(1.279)
Observations	520	230	357
Adjusted R^2	0.893	0.951	0.917
Significance levels	*p<0.1; **p<0.05; ***p<0.01		

Note: Robust standard errors in parentheses. After testing for multiple time-periods we retain a decomposition of our sample in three time-periods: 2005-2011; 2012-2014; 2015-2019. Variables included in the model but not reported in the table: country fixed and time fixed effects. In column 1, 2 and 3 we run our baseline equation (Eq1) on the three time-periods sub-samples.

In table 8 we run our main regression on three sub-samples corresponding to three time periods: 2005-2011; 2012-2014; 2015-2019. The 2012-2014 period corresponds to a change in top-management at the World Bank. Hence, we decompose our sample in pre- and post-management change time periods. Apart from column 2, the relationship between CPIA and ODA is positive and significant over time and provides evidence to support our second hypothesis (**H2**). The negative coefficient for the 2012-2014 time period is puzzling. Multiple internal changes at the WB during this period might partly explain the anomaly found in the data. First, IDA undertook two major changes to its allocation formula. In 2012, the institution introduced the Crisis Response Window (CRW) intended to provide IDA countries with a dedicated source of additional resources to respond to the impact of severe economic crises or natural disasters. This exceptional funding window might have created non-linearity in IDA disbursements. In 2014, the CPR exponent in the PBA allocation formula - which had been set up to 5 from 2005 to 2014 - was reduced to 4. This was intended to increase IDA engagement in the poorest countries, notably in FCSs, most of which have low per-capita GNI levels, while preserving the principle of performance orientation in the allocation system (WB, 2017). Such a change to the PBA formula can be expected to have decreased the importance of the CPIA in aid allocation decisions. Second, the World Bank experienced a change in management, since on April 16th 2012, Jim Kim became the 12th president of the World Bank Group. His unconventional background as a physician and anthropologist prompted speculation about how he would do business and the changes this would entail for the day to day operations of the bank (Das et al., 2017). Finally, 2014 was a major year for graduation from IDA with Angola, Armenia, Bosnia and Herzegovina, Georgia and India losing access to the World Bank's concessional window. Other donors often view graduating from IDA as a signal that countries are less in need of aid and Galiani et al. (2017), estimate the total aid to GNI ratio to drop on average by 59% after IDA graduation. As a consequence, the graduation from major recipients such as India might create noise in the data in the 2012-2014 time period. In column 3, the coefficient for 2005 to 2019 goes against the argument of a weakening importance of CPIA score in recent years. If anything, the effect of CPIA is larger than for the 2005-2011 period.

6.2 Testing the Robustness of the Relationship between CPIA Score and ODA Received Across Regions

Table 9: CPIA and Net ODA Received (Region Sub-Samples)

	DV: Net ODA received (% of GNI)				
	log(NetODAreceived(ShareofGNI))				
	(EAP)	(ECA)	(LAC)	(SA)	(SSA)
CPIA	−0.302	0.819***	0.416	0.148	0.549***
	(0.241)	(0.268)	(0.602)	(0.406)	(0.100)
GNI/capita (log)	−0.833***	−1.131***	−0.473	−0.022	−1.253***
	(0.132)	(0.249)	(0.295)	(0.353)	(0.102)
Constant	7.967***	7.209***	3.237	3.756*	7.208***
	(1.242)	(1.861)	(2.738)	(2.047)	(0.737)
Observations	193	107	128	107	558
Adjusted R^2	0.888	0.891	0.600	0.920	0.848
Significance levels	*p<0.1; **p<0.05; ***p<0.01				

Note: Robust standard errors in parenthesis. Variables included in the model but not reported in the table: country fixed and time fixed effects. In column 1-6, we run our baseline equation (Eq1) on each region sub-sample. We voluntarily drop the Middle East and North Africa region due to an insufficient number of observations (1 country) over the 2005-2019 time-period.

To look into how the relationship between CPIA scores and Net ODA received compares between different regions, we divide our sample into regional sub-samples, using the WB's region classification. Our four regions of interest are:

- East Asia and Pacific (EAP)
- Europe and Central Asia (ECA)
- Latin America and the Caribbean (LAC)
- South Asia (SA)
- Sub Saharan Africa (SSA)

In Table 9, we run our main specification in each region sub-sample. In EAP, LAC and SA, we find no significant relationship between CPIA and ODA received. The relationship is however substantial and statistically significant in ECA and SSA. The analysis in region sub-samples reveals that the relationship between CPIA and ODA received is mainly driven by aid allocation patterns in two regions (ECA and SSA) which goes against the prediction of our second hypothesis (**H2**). For ECA recipient countries, a 0.1 point increase in CPIA score increases ODA received by 8%. For SSA recipient countries, a 0.1 point increase in CPIA score, increases Net ODA received by 5.5%. The disproportionate importance of the CPIA score in SSA is problematic since the region also happens to be home to the most fragile and conflict-affected contexts. Table A15 in the appendix lists IDA countries considered as fragile using the World Bank classification. Out of the 31 countries classified as fragile by the World Bank in 2019, 18 of them were located in SSA, thus accounting for 58% of the total sample of fragile countries.

6.3 Further Robustness Checks

Our identification strategy predicts ODA flows using the CPIA score from the same fiscal year. CPIA scores for IDA-eligible countries are disclosed in June by the World Bank, while bilateral and multilateral donors plan their ODA allocations anytime between January and December. A limit of our results could be that, from January to June, donors planning their ODA allocations, only have access to CPIA scores from the year before. This time discrepancy is not likely to dramatically change our results since according to the World Bank (2020), changes in CPIA at a country-level from one year to the next are slim, reflecting the fact that changing institutions is a lengthy and complex process. As an example, between 2014 and 2015, the change of the overall CPIA score ranged between -0.1 and +0.1 for most of the countries and remained unchanged for 44 countries. Still, we test for the robustness of our results by introducing lagged CPIA scores in our main specification. The results for one-year and two-year lags are presented in Table A10 and Table A11 of the appendix. We find a positive relationship between ODA and CPIA, and ODA and Cluster D (public sector management and institutions), lagged one and two years. For the other clusters, the relationship is non-significant. These results confirm our main findings: aggregate ODA allocations follow the World Bank PBA system and display a positive relationship between CPIA score and ODA received, however, this positive relationship is mainly driven by the score obtained in Cluster D.

An additional weakness of our results may come from the identification strategy adopted in this paper. A general problem of non-experimental analyses is that biases, due to omitted variables and reverse causality, cannot be ruled out. As a consequence, the positive relationship between CPIA and ODA, identified in this paper, cannot be interpreted as causal. A primary concern would arise if the ODA received by a country had a direct impact on its CPIA score. Considering that the policy and governance reforms rewarded by a higher CPIA score take time for a country to implement, we argue that this is unlikely. Still, to rule out reverse-causality, we conduct a placebo test, by introducing lead CPIA and Cluster scores in our main specification. The results for one-year and two-year leads are presented in table A12 and table A13 of the appendix. We find a positive relationship between ODA, CPIA and Cluster D with one year lead but no significant relationship between ODA and CPIA scores with two-year leads. The positive relationship between ODA and CPIA_{t+1} is not sufficient to make the case for reverse causality and comes from the fact that the CPIA is autocorrelated. Autocorrelation represents the degree of similarity between a given time series and a lagged version of itself over successive time intervals. While CPIA scores do change over time, those changes take time and scores are quite stable from one year to the next. Using Pearson's correlation we find CPIA_t and CPIA_{t+1} to be highly correlated (i.e, a correlation coefficient of 0.97). This explains the positive relationship between ODA and CPIA_{t+1}. Furthermore, there is most likely a latency between the reception of ODA resources by a country and their effective use and impact on policy reforms. Conversely, for ODA to have a causal impact on CPIA, we would need to find a positive and significant relationship between ODA and CPIA_{t+2}. Table A13 shows no significant relationship between ODA and CPIA scores with two-year leads, thus supporting the case against a direct impact of ODA on the CPIA. As a final robustness check against reverse causality, table A14 in the appendix presents a placebo test in first differences. For ODA to have a direct effect on CPIA, we would expect the past volume of ODA (i.e ODA_t-ODA_{t-1}) to have a positive impact on future CPIA score (i.e CPIA_{t+1}-CPIA_t). However, in table A14, we find the first-differences coefficient to be non-significant. This is further evidence against reverse causality between CPIA and ODA.

To allocate IDA concessional funds, the World Bank uses a re-weighted CPIA index called the Country Performance Rating (CPR). As a more operational index than the CPIA, the CPR could potentially be a better predictor of ODA allocation patterns. Though CPR scores are not made publicly available, IDA has made transparent the weights of the clusters used in the IDA allocation formula: 24 per cent on CPIA Clusters A, B, C combined and 68 per cent on CPIA Cluster D.

Using the cluster ratings from our database and the CPR formula[4], we compute a CPR score for each country-year observation of our sample. We then perform the Pearson's correlation between the CPR and the CPIA, and find the coefficient to be 0.99. Due to this high correlation, concerns about discrepancies between CPIA and CPR scores are irrelevant.

As a final test for discontinuities in the relationship between CPIA and ODA, Figure A3 in the appendix plots the residuals of our main specification against CPIA scores. The graph does not show any jumps or kinks other than those reported by the quadratic and piecewise linear regressions. We can thus conclude to no significant jump in the relationship between CPIA and ODA across the distribution of CPIA scores.

[4] $CPR = 0.24 * (CPIAClusterA + B + C) + 0.68 * (CPIAClusterD)$

7 Conclusions and Policy Recommendations

This thesis explored the effect of the CPIA score of a country on the aggregate ODA it receives. The research question was the following: Is there a relationship between a country's policy and institutional assessment by the World Bank, on one hand, and the aggregate net official development assistance it receives, on the other hand? If there is a relationship, what is its nature across the distribution of CPIA scores, across countries and over time?

To answer this question, we elaborated hypotheses regarding the effect of the WB CPIA on aggregate ODA and constructed a database comprising 1,107 IDA-eligible countries over the 2005 to 2019 time-period. We investigated the relationship between CPIA and ODA using linear, piecewise linear, quadratic and quantile methods and controlled for country and time fixed effects. To our knowledge, this paper is the first cross-country analysis of the effect of CPIA on aggregate ODA flows. Taking the CPIA as a prism to observe ODA disbursements reveals crucial features of donors' behaviour as well as potential trade-offs for recipient countries seeking to optimise their CPIA scores.

We find a positive relationship between a country's CPIA score and the ODA it receives. The relationship is robust over time and points to an alignment of major multilateral development banks and bilateral donors with the WB CPIA and PBA system. This intuition is confirmed by the non-linearity in the relationship between CPIA and ODA across the distribution of CPIA scores: the positive effect of each additional increase in CPIA score on Net ODA received is higher for countries with a higher CPIA. This pattern is consistent with the WB PBA allocation system, designed to reward better CPIA performers. At the aggregate ODA level, this is further evidence of donors' alignment on the WB's aid allocation practices. For recipient countries, it implies that the CPIA score is not solely important in their relationship with the WB but also sends a signal to other concessional donors who seem to factor the CPIA score in their aid allocation decisions. This finding also fuels the aid darlings and aid orphans' debate. If most donors align on the WB policy selective aid allocation model, this might result in overcrowded aid darlings on the one hand and neglected aid orphans on the other hand, thus lowering the efficiency of ODA. This is all the more problematic as we find that irrespective of the poverty needs of a country, donors seem to always reward better CPIA performance.

An interesting contribution of this paper lies in the decomposition of the CPIA into its Clusters. Indeed, we find that Cluster D (public sector management and institutions) is the only Cluster which displays a strong and positive relationship with ODA, while Cluster B (structural policies) displays a negative relationship, and Cluster A (economic policies) and Cluster B (Social policies) are non-significant. From donors' perspective the implications are twofold: aggregate ODA allocations are biassed towards better governance (1); donors do not seem to reward country's performance in economic, structural and social policies in their ODA allocations (2). For recipient countries, this creates an incentive to focus their efforts on Cluster D performance and ignore other policy areas. This trade-off is puzzling because the policies covered by Cluster A, B and C such as fiscal policy, financial sector, social protection and labor and gender equality are key to putting developing countries on a sustainable growth path and achieving the SDGs.

The nature of the policies covered by Cluster D makes its predominance in ODA allocation decisions problematic for developing countries. The quality of public administration, property rights and transparency, accountability and corruption takes a long time to be improved since it requires structural reforms that are oftentimes prevented by the elites and rent-seeking behaviours. ODA flows biassed towards better governance might create a vicious cycle whereby poor Cluster D performers are stuck in a low-ODA flows trap, thus reinforcing the gap between aid orphans and aid darlings. This is all the more puzzling in the context of fragile states, which, according to the World

Bank classifications are mostly located in Sub-Saharan Africa, where we find the relationship between CPIA and ODA to be strong and positive, while it is non-significant in East Asia and Pacific, Latin America and the Caribbean, and South Asia. In fact, conducting our analysis on time and geographic sub-samples shows the relationship between CPIA and ODA is robust over time but differs across regions of the world.

Though it was not the main focus of this paper, we conducted an analysis of the sensitivity of ODA allocations to recipient countries' GNI per capita and found ODA allocations to be partly sensitive to poverty needs. An increase in the GNI per capita of a country decreases the ODA it receives. However, interacting CPIA score and GNI per capita reveals that regardless of the poverty needs of a country, donors always reward better governance. This is consistent with the design of the WB PBA formula which puts an exponential term of 3 (4 and 5 in previous periods) on a country's CPIA against 0.125 on a country's GNI per capita (IDA19, 2020). As a consequence, the allocation formula depends on both the poverty needs and the policy quality of a country, with a dominance of the latter. The rationale behind this governance-heavy allocation formula is that the amount of aid that actually reaches the poor in ODA recipient countries depends on the quality of their domestic governance. Donors' poverty reduction objective thus embodies a trade-off between needs and governance consideration and result in a Matthew effect[5] type of setting where the poorer receive less aid while countries hosting a lower share of the poor get more aid. This brings us back to the aid orphans and aid darlings problem whereby a worse-governed poorer country might receive less aid than a better-governed country that hosts a lower share of the poor. One way to mitigate this trade-off would be to allow donors to act directly on the quality of governance in recipient countries at least with respect to the projects they help to finance.

The research methodology, while being generally robust has some limitations. First, the relationship between CPIA and ODA, identified in this paper, is not causal. A general problem of non-experimental analyses is that biases, due to omitted variables and reverse causality, cannot be ruled out, even though the inclusion of control variables and fixed effects serve to reduce this risk. This concern was partly addressed with the creation of sub-samples to account for the confounding variables, affecting both a country's CPIA Clusters rating and income group, which serves as a proxy for the dependence of a country on ODA. Furthermore, we conducted a series of placebo test to rule out reverse causality between ODA and CPIA. Another limitation concerns the functional form chosen in our main specification. In the analysis, we assume an - approximately - linear relationship between a country's CPIA score and the Net ODA it receives. As the "true" relationship might be better approximated with another functional form, the analysis was also run under the inclusion of logarithmic and squared variables. Finally, it is important to stress that the positive relationship between CPIA scores and ODA found for our overall sample does not have to hold in each country individually since particular national contexts and geopolitical factors can influence ODA allocations. This was discussed in table 9 where we find the relationship to be non-significant in Europe and Central Asia, Latin America and the Caribbean, and South Asia.

This thesis opens up avenues for future research. Our quantitative estimates of the relationship between a country's CPIA score and the aggregate ODA it receives reveals a bias towards good governance. Further research (at the country level) is needed to understand the extent to which fragile states are penalised by the performance-based ODA allocation system and identify potential aid orphans. The challenge for future research is also to come forward with an indicator that duly-reflects the poverty needs and governance capacity of recipient governments, including their commitment to improving various non-economic dimensions of poverty, rather than specific policies or institutions as the CPIA currently does.

[5]Identified by the sociologist Robert K. Merton, the Matthew effect initially described a phenomenon in the sociology of science whereby established researchers receive more credit for a discovery than less well-known researchers who may have made an equal or greater contribution. It was named after a verse in the Gospel according to St. Matthew: "For to everyone who has will be given, and he will have abundance, but from him who does not have, even that which he has will be taken away" (25:29)] (APA Dictionary)

The findings of this research also imply relevant policy recommendations for policy makers committed to achieving the SDGs and leaving no one behind.

Policy recommendation (1) Review the content of CPIA clusters to make it consistent with the achievement of the SDGs.

Cluster D (public sector management and institutions) is the only Cluster to display a strong and positive relationship with ODA, while Cluster B (structural policies) presents a negative relationship, and Cluster A (economic policies) and Cluster B (Social policies) are non-significant. The nature of the policies covered by Cluster D makes its predominance in ODA allocation decisions problematic for developing countries. Indeed, the quality of public administration, property rights, accountability and corruption takes a long time to be improved and might sometimes be prevented by rent-seeking elites. In addition, the policies covered by Cluster A, B and C such as fiscal policy, financial sector, social protection and labor and gender equality are key to achieving the SDGs and should be better accounted for in the CPIA and PBA allocation formula.

a) Adapt the content of CPIA clusters: The CPIA does not adequately address issues that are vital to the achievement of the SDGs, including: marginalised and vulnerable socioeconomic groups, countries' vulnerability to powerful exogenous shocks, agriculture, manufacturing, infrastructures and environmental challenges such as the mitigation of and adaptation to climate change and biodiversity loss. Future CPIA questionnaires should cover these policy areas. As an example, the African Development Bank has recently added a fifth Cluster to its CPIA covering the degree to which a country's regulatory framework is enabling infrastructure development. On a similar vein, Cagé (2014), proposes to define aid effectiveness with respect to a given outcome chosen by donors when establishing their selectivity criteria. Depending on recipient countries' specificity, such outcome could be the reduction of the poverty rate, the building of climate-resilient infrastructures, the facilitation of females' access to education, or other goals that donors and recipients see fit.

b) Involve recipient countries in the CPIA rating process and enhance country ownership: Government authorities and civil society should routinely participate in the assessment of their country's performance. At early stages of the rating process, meaningful engagement could take the form of a consultation with national, local, and community level stakeholders. After finalisation of ratings, there should be a discussion between WB country experts and relevant country entities, to present the ratings and identify areas for future improvement. To allow for this new structure, we recommend the CPIA to become a biennial exercise rather than an annual one. This change was implemented by the African Development Bank in 2016. In 2020, the institution reported an improvement in the assessment of countries' progress as well as a more adequate duration for recipient countries to learn from each evaluation and inform policy dialogue. Provided active participation of recipient countries in the CPIA rating process and an accrued transparency regarding the assessment, the different policy criteria covered by the CPIA could orient the priorities of countries' national development strategies. This would, in turn, build capacity in recipient countries, and put them on a path to achieve sustainable growth and development.

Policy recommendation (2) Make the ODA allocation system operational for countries with a low CPIA score.

The relationship between CPIA and ODA is positive and non-linear across the distribution of CPIA scores. More precisely, the positive effect of each additional increase in CPIA score on ODA received is higher for countries with a higher CPIA. This non-linearity implies that low CPIA performers are less rewarded than high CPIA performers for an increase of their CPIA scores. Considering that fragile states are characterised by low CPIA scores and face difficulties to improve their policy and institutional environment due to rent-seeking behaviours and instability, a strict application of the PBA will penalize fragile states and leave an important share of the poor behind. In the long-term, this might widen the gap between aid orphans and aid darlings and decrease the efficiency of ODA in reducing poverty.

a) Adapt the PBA formula to mitigate the non-linearity in the relationship between CPIA and ODA: Countries with a lower CPIA score experience a smaller increase in the volume of ODA received when they improve their CPIA. This is especially true for fragile states, characterized by weak governance and unstable institutions, which translate in a low CPIA score. The WB should rethink the CPIA-ODA allocation nexus and account for economic vulnerability and state fragility. The Economic Vulnerability Index (EVI), the Human Assets Index (HAI) and the Multidimensional Poverty Index (MPI) are good candidates to identify the suitable criteria to be added to the aid allocation formula.

b) Mitigate the poverty-governance trade-off: ODA allocations are biassed in favor of better governance. Irrespective of the poverty level of a country, donors always reward better governance. In this setting, a worse-governed poorer country might receive less aid than a better-governed country that hosts a lower share of the poor. We propose to adopt a "Needs-adjusted Performance-Based allocation", characterized by two core principles: equity and effectiveness. Equity requires aid allocations to promote equal opportunities among countries by accounting for the structural handicaps faced by each country. Effectiveness calls for aid allocations to be targeted towards the projects which effectively contribute to governance quality and poverty-reduction.

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9 Appendix

A. Economic Management
1. Monetary and Exchange Rate Policies
2. Fiscal Policy
3. Debt Policy and Management

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

Figure A1: CPIA Criteria

Source: Additions to IDA Resources : Nineteenth Replenishment - Ten Years to 2030 : Growth, People, Resilience (English). Washington, D.C.

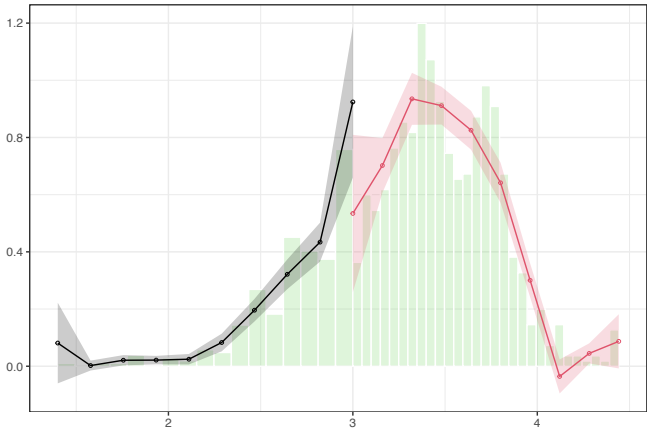

Figure A2: Mc Crary Test for Bunching at CPIA equals 3

Note : There are 1,107 country-year observations from countries who were eligible to IDA between 2005 and 2019. The green histogram pictures the density of CPIA scores for country-year observations. The lines and shaded areas show the McCrary density test. Though there seems to be a discontinuity at the CPIA threshold, this gap fits within the 95% confidence intervals on both sides so there seems to be no significant difference in the distribution of CPIA scores around the cutoff point of 3.

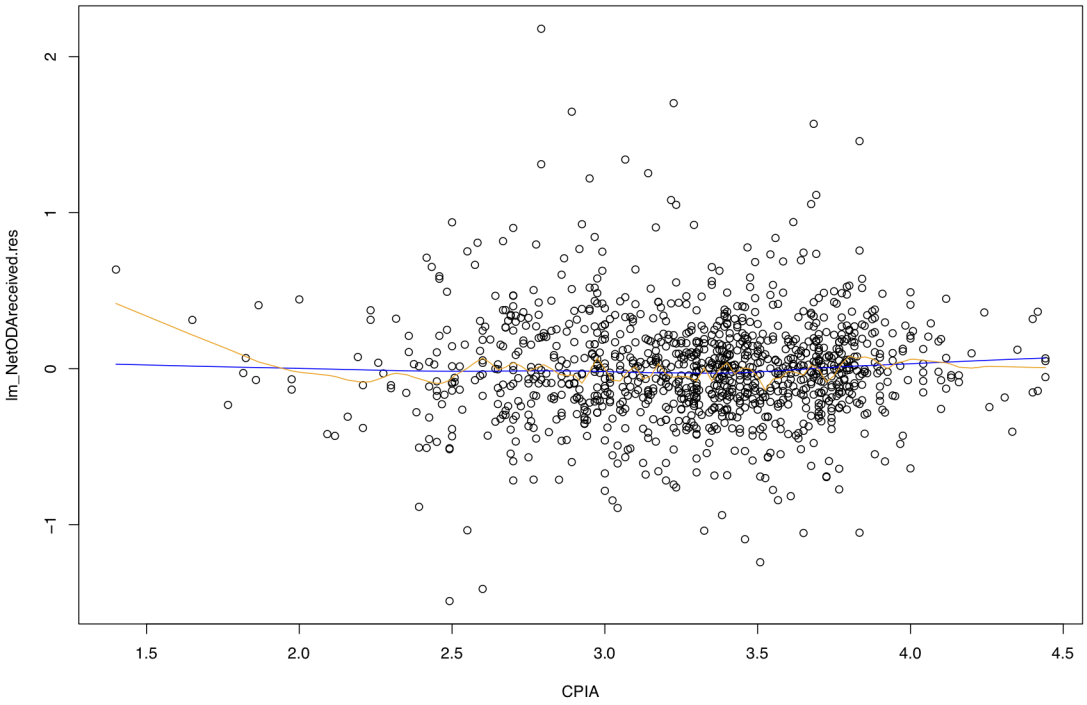

Figure A3: Non-Parametric Estimates

Note : In Figure A3, we use a non-parametric (lowess) graph to plot the residuals of our main specification which represents the relationship between Net ODA received and the CPIA score of country i at time t controlling for GNI per capita, country and year fixed effects, against CPIA scores for countries at time t. The smoother span is 0.66 for the blue line and 0.05 for the orange line. The smoother span controls the amount of smoothing for the default lowess smoother. Smaller numbers produce bumpier lines while larger numbers produce smoother lines.

Table A1: Observations Count, (2005-2019)

Year	N
FY2005	73
FY2006	74
FY2007	72
FY2008	73
FY2009	75
FY2010	76
FY2011	77
FY2012	78
FY2013	79
FY2014	73
FY2015	74
FY2016	70
FY2017	71
FY2018	70
FY2019	72

Note : Figure A1 summarises the number of countries eligible to World Bank IDA concessional resources for each year of the 2005-2019 period. This also corresponds to the yearly observation count of our sample.

Table A2: CPIA Score and Net ODA Received (IDA Only Sub-Sample)

	DV: Net ODA received (log)		
	log(NetODAreceived(%GNI))		
	(1)	(2)	(3)
CPIA	0.545***		0.539***
	(0.089)		(0.088)
CPIA Cluster A		0.110**	
		0.046	
CPIA Cluster B		−0.102	
		(0.077)	
CPIA Cluster C		−0.062	
		(0.104)	
CPIA Cluster D		0.505***	
		(0.098)	
GNI/capita (log)	−0.928***	−0.946***	−0.980***
	(0.079)	(0.078)	(0.097)
((log)GNI/capita−(log)IDA eligibility threshold$_t$)∗ Dummy for GNI/capita above IDA eligibility threshold$_t$			−0.028
			(0.116)
Dummy for GNI/capita above above IDA eligibility threshold$_t$			0.159***
			(0.056)
Constant	7.429***	7.807***	8.050***
	(0.496)	(0.500)	(0.596)
Observations	782	782	782
Adjusted R^2	0.850	0.854	0.855
Note:	*p<0.1; **p<0.05; ***p<0.01		

Note : In table A2, we replicate the analysis of table 4 Column 1, 2 and 3 on a sample of "IDA only" countries based on the World Bank lending classification in the World Development Indicator Database. A country i will enter table H1 *sub-sample if it is categorised as IDA-only lending in year t. The way we account for IDA eligibility is different from the sampling technique used in table 5 - Columns 2 and 3 - where we run regressions on a sub-sample of countries below and above IDA income eligibility threshold. This explains that in table A2, our sample comprises 782 observations whereas in table 5, there are 474 countries below the IDA income eligibility threshold. Being above the IDA income eligibility threshold is not sufficient to be considered for blended or IBRD facilities.*

Table A3: IDA Income Eligibility Thresholds, (2005-2019)

World Bank Fiscal Year	IDA income eligibility thresholds in US$
FY2005	965
FY2006	1,025
FY2007	1,065
FY2008	1,095
FY2009	1,135
FY2010	1,165
FY2011	1,175
FY2012	1,195
FY2013	1,205
FY2014	1,215
FY2015	1,215
FY2016	1,185
FY2017	1,165
FY2018	1,145
FY2019	1,175

Note : IDA income eligibility thresholds were obtained through an "Access to information" request submitted to the World Bank on February 6th 2022

Table A4: CPIA and IDA Income Eligibility Threshold (2005-2019)

	DV: Net ODA received (% of GNI)														
	log(NetODAreceived(ShareofGNI))														
	(FY2005)	(FY2006)	(FY2007)	(FY2008)	(FY2009)	(FY2010)	(FY2011)	(FY2012)	(FY2013)	(FY2014)	(FY2015)	(FY2016)	(FY2017)	(FY2018)	(FY2019)
I(CPIA ∗BelowIDAthreshold)	−0.239	−0.008	−0.112	−0.367	−0.189	−0.227	0.058	0.0004	0.040	−0.079	−0.392	−0.105	−0.273	−0.322	−0.604
	(0.313)	(0.280)	(0.319)	(0.305)	(0.353)	(0.386)	(0.433)	(0.454)	(0.434)	(0.485)	(0.426)	(0.454)	(0.383)	(0.435)	(0.403)
I(CPIA ∗AboveIDAthreshold)	0.403	0.137	0.319	0.297	0.066	0.076	−0.309	−0.613	−0.564	−0.770**	−0.681	−0.614	−0.719*	−0.806**	−0.679*
	(0.363)	(0.340)	(0.367)	(0.315)	(0.350)	(0.391)	(0.396)	(0.388)	(0.370)	(0.378)	(0.429)	(0.431)	(0.416)	(0.377)	(0.386)
AboveIDAthreshold	−1.531	0.552	−0.565	−1.537	−1.011	−1.555	1.233	2.041	1.565	2.037	0.376	1.508	1.191	0.867	−0.520
	(1.563)	(1.461)	(1.596)	(1.446)	(1.603)	(1.792)	(1.930)	(1.954)	(1.861)	(1.997)	(1.966)	(2.031)	(1.826)	(1.848)	(1.769)
log(GNIpercapitaAtlasmethodcurrent)	−0.693***	−0.947***	−0.905***	−0.814***	−0.408*	−0.241	−0.411	−0.364	−0.205	−0.245	−0.161	−0.476**	−0.283	0.026	0.094
	(0.231)	(0.215)	(0.255)	(0.226)	(0.241)	(0.262)	(0.272)	(0.274)	(0.251)	(0.236)	(0.238)	(0.223)	(0.218)	(0.195)	(0.200)
Constant	6.982***	7.757***	7.909***	8.210***	5.360***	4.530**	4.491**	4.367*	3.297	3.908*	4.465**	5.521***	4.813***	2.984*	3.495**
	(1.685)	(1.589)	(1.812)	(1.598)	(1.798)	(2.027)	(2.211)	(2.281)	(2.121)	(2.122)	(1.985)	(1.931)	(1.707)	(1.776)	(1.660)
Observations	73	74	72	73	75	76	77	78	79	73	74	70	71	70	72
Adjusted R^2	0.099	0.196	0.138	0.188	0.115	0.123	0.055	0.066	0.095	0.102	0.146	0.201	0.153	0.159	0.158
Significance levels															*p<0.1; **p<0.05; ***p<0.01

Note : In table A4, we decompose our 2005-2019 sample into 15 annual sub-samples and interact a country's CPIA score at year t with whether the country is below the IDA income eligibility threshold from that year.This allows us to test whether the importance of CPIA score for aggregate ODA allocations is sensitive to the poverty needs of a country.

Table A5: MDBs Country Policy and Institutional Assessments' Relation to The World Bank's CPIA

MDBs Policy Indicators	Pearson correlation with CPIA
African Development Bank's CPIA	0.77
Asian Development Bank's CPA	0.92
Inter-American Development Bank's CPIA	Undisclosed

Note : The correlations correspond to Pearson's r. Due to regional focuses of the African, Asian and Inter-American Development Banks, their assessments only overlap with that of the World Bank and not with each other. We therefore use the World Bank's CPIA as a benchmark.

Table A6: CPIA Non-Linear Effects (CPIA Threshold equals 3)

	DV: Net ODA received (% of GNI)			
	log(NetODAreceived(ShareofGNI))			
	(1)	(2)	(3)	(4)
(CPIA-3)	0.390***			
	(0.083)			
(CPIA-3)^2	0.178**			
	(0.076)			
CPIA		0.414***	0.625***	0.571***
		(0.142)	(0.187)	(0.111)
(CPIA-3)∗Dummy for CPIA above 3		0.223		
		(0.185)		
Dummy for CPIA above 3		−0.219***		
		(0.058)		
GNI/capita (log)	−0.802***	−0.811***	−1.243***	−0.708***
	(0.070)	(0.069)	(0.167)	(0.078)
Constant	8.356***	7.186***	9.110***	4.813***
	(0.419)	(0.515)	(0.909)	(0.699)
Observations	1,107	1,107	292	815
Adjusted R^2	0.880	0.881	0.857	0.885
Significance levels	*p<0.1; **p<0.05; ***p<0.01			

Note : Robust standard errors in parentheses. Dummy for CPIA above 3 is a variable that takes the value 1 when a country i has a CPIA score above 3 at time t. Variables included in the model but not reported in the table: country fixed and time fixed effects. Column 1 fits a quadratic model to analyse the relationship between CPIA and ODA. Column 2 uses a piecewise linear form to test for discontinuity in aid allocation at a CPIA score of 3. Column 3 and 4 run our main regression (Eq1) on two sub-samples: a sub-sample of country with CPIA score at time t below 3 (Column 3) and a sub-sample of country with CPIA score at time t above 3 (Column 4).

Table A7: GNI per Capita and Net ODA Received, CPIA Quartiles Averages, (2005-2019)

CPIA Quartile	N	GNI/capita	Net ODA received per year (% of GNI)
Q1	277	1,440	14.14
Q2	277	1,603	7.63
Q3	278	2,264	6.13
Q4	275	2,529	6.71

Note : Table A7, presents the mean GNI per capita in US$ current and the mean amount of ODA received as a share of GNI in each CPIA quartile sub-sample.

Table A8: CPIA Clusters A and B Quartiles and Net ODA Received

	DV: Net ODA received (% of GNI)	
	log('NetODAreceived(ShareofGNI)')	
	(1)	(2)
Cluster A	0.258**	0.036
	(0.102)	(0.044)
Max(Cluster A - 3,0)*Q2 Cluster A	−0.023	
	(0.203)	
Dummy for Cluster A above 3	−0.115*	
	(0.063)	
Max(Cluster A - 3.5,0)*Q3 Cluster A	−0.111	
	(0.207)	
Dummy for Cluster A above 3.5	−0.105	
	(0.076)	
Max(Cluster A - 3.9,0)*Q4 Cluster A	−0.216	
	(0.176)	
Dummy for Cluster A above 3.9	−0.146*	
	(0.077)	
Cluster B	−0.171**	−0.450***
	(0.072)	(0.164)
Max(Cluster B-3,0)*Q2 Cluster B		−0.260
		(0.211)
Dummy for Cluster B above 3		−0.048
		(0.070)
Max(Cluster B - 3.33,0)*Q3 Cluster B		−0.017
		(0.165)
Dummy for Cluster B above 3.33		0.061
		(0.066)
Max(Cluster B - 3.66,0)*Q4 Cluster B		0.524**
		(0.226)
Dummy for Cluster B above 3.66		0.105*
		(0.062)
Cluster C	−0.083	−0.032
	(0.088)	(0.086)
Cluster D	0.648***	0.656***
	(0.096)	(0.096)
GNI/capita (log)	−0.801***	−0.800***
	(0.069)	(0.069)
Constant	6.628***	7.712***
	(0.462)	(0.529)
Observations	1,107	1,107
Adjusted R^2	0.884	0.885
Significance levels	*p<0.1; **p<0.05; ***p<0.01	

Table A9: CPIA Clusters C and D Quartiles and Net ODA Received

	DV: Net ODA received (% of GNI)	
	log('NetODAreceived(ShareofGNI)')	
	(1)	(2)
Cluster C	−0.189	−0.002
	(0.159)	(0.089)
Max(Cluster C - 3,0)∗Q2 Cluster C	0.607*	
	(0.310)	
Dummy for Cluster C above 3	−0.159**	
	(0.078)	
Max(Cluster C - 3.4,0)∗Q3 Cluster C	−0.080	
	(0.374)	
Dummy for Cluster C above 3.4	0.133	
	(0.101)	
Max(Cluster C - 3.7,0)∗Q4 Cluster C	0.762***	
	(0.276)	
Dummy for Cluster C above 3.7	0.080	
	(0.083)	
Cluster A	0.051	0.029
	(0.044)	(0.043)
Cluster B	−0.186***	−0.186***
	(0.071)	(0.072)
Cluster D	0.673***	0.445***
	(0.095)	(0.172)
Max(Cluster D - 2.8,0)∗Q2 Cluster D		−0.476
		(0.416)
Dummy for Cluster D above 2.8		0.076
		(0.074)
Max(Cluster D - 3.1,0)∗Q3 Cluster D		0.367
		(0.374)
Dummy for Cluster D above 3.1		−0.094
		(0.091)
Max(Cluster D - 3.4,0)∗Q4 Cluster D		0.761***
		(0.284)
Dummy for Cluster D above 3.4		0.099
		(0.082)
GNI/capita (log)	−0.827***	−0.795***
	(0.069)	(0.069)
Constant	7.521***	7.496***
	(0.531)	(0.524)
Observations	1,107	1,107
Adjusted R^2	0.885	0.884
Significance levels	*p<0.1; **p<0.05; ***p<0.01	

Note: In table A8 and table A9, we reproduce the quartile analyses conducted in table 7 on CPIA Clusters' quartiles. Robust standard errors in parentheses. Dummy for Cluster A/B/C/D above x is a dummy variable that takes the value 1 when a country has a Cluster A/B/C/D score above the threshold X. X takes the value of the quartile threshold for each Cluster. QX Cluster A/B/C/D are dummy variables that take the value 1 if a country belongs to the xth quartile for Cluster A/B/C/D and 0 otherwise. Variables included in the model but not reported in the table: country fixed and time fixed effects.
Table A8 focuses on Cluster A and Cluster B. In column 1 and 2 we use a piecewise linear regression to investigate kings and jumps at Cluster A and Cluster B quartile thresholds.
Table A9 focuses on Cluster C and Cluster D. In column 1 and 2 we use a piecewise linear regression to investigate kings and jumps at Cluster C and Cluster D quartile thresholds.

Table A10: CPIA and Clusters Lagged One Year and Net ODA Received

	DV: Net ODA received (% of GNI)	
	log(NetODAreceived(ShareofGNI))	
	(1)	(2)
$CPIA_{t-1}$	0.198^{**}	
	(0.087)	
$ClusterA_{t-1}$		-0.081
		(0.045)
$ClusterB_{t-1}$		-0.071
		(0.075)
$ClusterC_{t-1}$		0.034
		(0.089)
$ClusterD_{t-1}$		0.442^{***}
		(0.101)
GNI/capita (log)	-0.752^{***}	-0.766^{***}
	(0.072)	(0.072)
Constant	7.425^{***}	7.265^{***}
	(0.450)	(0.454)
Observations	1,022	1,022
Adjusted R^2	0.877	0.879
Significance levels	*p<0.1; **p<0.05; ***p<0.01	

Note : In table A10, we reproduce our main specification using CPIA and CPIA Clusters lagged one year as the independent variable of interest. Controls include GNI per capita and country fixed effects.

Table A11: CPIA and Clusters Lagged Two Years and Net ODA Received

	DV: Net ODA received (% of GNI)	
	log(NetODAreceived(ShareofGNI))	
	(1)	(2)
$CPIA_{t-2}$	0.174*	
	(0.090)	
$ClusterA_{t-2}$		−0.073
		(0.047)
$ClusterB_{t-2}$		−0.027
		(0.079)
$ClusterC_{t-2}$		0.146
		(0.093)
$ClusterD_{t-2}$		0.244**
		(0.103)
GNI/capita (log)	−0.731***	−0.733***
	(0.074)	(0.073)
Constant	7.303***	7.081***
	(0.479)	(0.487)
Observations	937	937
Adjusted R^2	0.879	0.880
Significance levels	*p<0.1; **p<0.05; ***p<0.01	

Note : In table A11, we reproduce our main specification (Eq1) using CPIA and CPIA Clusters lagged two years as the independent variable of interest. Controls include GNI per capita and country fixed effects.

Table A12: CPIA and Clusters One-year Leads and Net ODA received

	DV: Net ODA received (% of GNI)	
	log(NetODAreceived(ShareofGNI))	
	(1)	(2)
$CPIA_{t+1}$	0.195^{**}	
	(0.086)	
$ClusterA_{t+1}$		-0.014
		(0.045)
$ClusterB_{t+1}$		0.68
		(0.077)
$ClusterC_{t+1}$		-0.168^{*}
		(0.090)
$ClusterD_{t+1}$		0.369^{***}
		(0.102)
GNI/capita (log)	-0.727^{***}	-0.724^{***}
	(0.074)	(0.074)
Constant	7.340^{***}	7.219^{***}
	(0.454)	(0.457)
Observations	1,022	1,022
R^2	0.889	0.890
Adjusted R^2	0.877	0.878
Significance levels	*p<0.1; **p<0.05; ***p<0.01	

Note : In table A12, we reproduce our main specification (Eq1) using one year leads for CPIA and CPIA Clusters as the independent variable of interest. Controls include GNI per capita and country fixed effects.

Table A13: CPIA and Clusters Two-year Leads and Net ODA received

	DV: Net ODA received (% of GNI)	
	log(NetODAreceived(ShareofGNI))	
	(1)	(2)
$CPIA_{t+2}$	0.073	
	(0.090)	
$ClusterA_{t+2}$		0.040
		(0.047)
$ClusterB_{t+2}$		0.066
		(0.082)
$ClusterC_{t+2}$		-0.175^{*}
		(0.093)
$ClusterD_{t+2}$		0.121
		(0.109)
GNI/capita (log)	-0.689^{***}	-0.685^{***}
	(0.078)	(0.078)
Constant	7.481^{***}	7.503^{***}
	(0.485)	(0.491)
Observations	937	937
R^2	0.889	0.890
Adjusted R^2	0.877	0.877
Significance levels	*p<0.1; **p<0.05; ***p<0.01	

Note : In table A13, we reproduce our main specification (Eq1) using two-year leads for CPIA and CPIA Clusters as the independent variable of interest. Controls include GNI per capita and country fixed effects.

Table A14: Placebo Test in First Differences

	DV: Net ODA received (% of GNI)
	$\log(\text{NetODAreceived(ShareofGNI)}_t) - log(NetODAreceived(ShareofGNI)_{t-1})$
$\text{CPIA}_{t+1} - CPIA_t$	−0.128
	(0.117)
GNI/capita (log)	−0.467***
	(0.101)
Constant	2.884***
	(0.600)
Observations	937
Adjusted R^2	−0.014

Significance levels *p<0.1; **p<0.05; ***p<0.01

Note : In table A14, we extend the placebo test from table A12 and table A13 in first differences to check for a correlation between the difference $CPIA_{t+1} - CPIA_t$ and $ODA_t - ODA_{t-1}$. Controls include GNI per capita and country fixed effects.

Table A15: IDA Fragile States in FY2019

Country	Region	CPIA
Afghanistan	SA	2.7
Bangladesh	SA	3.1
Burundi	SSA	2.9
Central African Republic	SSA	2.6
Chad	SSA	2.8
Comoros	SSA	2.8
Congo, Dem. Rep.	SSA	2.9
Congo, Rep.	SSA	2.8
The Gambia	SSA	3
Guinea	SSA	2.5
Haiti	LAC	2.8
Kiribati	EAP	3
Lao	EAP	3
Liberia	SSA	2.9
Malawi	SSA	3.1
Marshal Islands	EAP	2.6
Micronesia, Fed. Sts	EAP	2.7
Mozambique	SSA	3.1
Myanmar	EAP	3
Nigeria	SSA	3.2
Papua New Guinea	EAP	3
Sao Tome and Principe	SSA	3
Sierra Leone	SSA	3.1
Solomon Islands	EAP	2.9
Somalia	SSA	2
Sudan	SSA	2.2
Tajikistan	ECA	3.1
Timor-Leste	EAP	2.8
Tuvalu	EAP	2.9
Zambia	SSA	3.1
Zimbabwe	SSA	3

Note : Using the World Bank classification, a country is considered as fragile if its CPIA is below 3.2. In 2019, there were 31 fragile states among the 72 IDA eligible countries and 18 of them were located in Sub-Saharan Africa.

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The Country Policy and Institutional Assessment and Official Development Assistance: A cross-country analysis

Manon Fortemps

Abstract

To improve the effectiveness of the Official Development Assistance (ODA), the World Bank has used conditionalities related to recipient countries' performance in delivering sound policies and strong institutions. These are measured by the World Bank Country Policy and Institutional Assessment (CPIA). Keeping income level constant, a higher CPIA score should lead to larger levels of ODA flowing to the country. We study the relationship between a country's CPIA score and the aggregate ODA it receives using a panel dataset from the World Bank World Development Indicators that includes all the countries eligible for the World Bank concessional resources between 2005 and 2019. Using linear and nonlinear specifications and controlling for country and time fixed effects, we find that aggregate ODA flows are positively correlated with the recipient country's CPIA score. Aid allocations reward better governance rather than countries' performance in other policy areas.

Key words

aid selectivity; conditionality; aid allocation; fragile states; governance; World Bank's CPIA