



DISCUSSION PAPER

Poverty Reduction and the
Distribution of World Bank Funds
An Analysis of the Performance Based
Allocation System (PBA)

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1. Summary and Conclusions¹

This background paper examines the World Bank's system of allocating IDA funds to individual countries (Performance Based Allocation System, PBA).² An essential element of the PBA approach is the evaluation of countries' institutions and policy reforms (Country Policy and Institutional Assessment, CPIA). In view of three development policy objectives – poverty reduction, promotion of good governance and strengthening civil societies – an extensive reform of the PBA system is considered to be urgently required. This hypothesis is backed by the following arguments.

Poverty Reduction

Even though there is a consensus that developing countries should determine their own strategies for poverty reduction, the PBA/CPIA approach in fact carries a number of policy conditionalities defined by the World Bank, which the countries cannot escape. Thus PBA/CPIA contradicts the principle of ownership and follows the old blueprint thinking, which does not take the distinctive socio-cultural, economic and political features of countries into consideration (and which already failed in times of structural adjustment). This course of action is not only contradictory to the Bank's political declarations of intent, but also undermines the poverty strategy processes of poorest countries (Poverty Reduction Strategies, PRS).

The PBA/CPIA approach reduces the consistent poverty orientation in the World Bank's allocation of funds. There are a number of reasons for this: Institutional interests of the Bank, subjective perspectives of the Bank's staff members conducting the assessment, and the persistent fixation on neo-liberal macroeconomic principles that puts much weight on respective policy reforms. Furthermore, PBA/CPIA does not focus on actual impacts of policies for the benefit of the poor (e.g. based on the Millennium Development Goals), but on supposedly promising institutional or economic policy reforms. Moreover, the approach does not make sufficient allowance for the particular challenges facing poorest countries, which possess only low capacities for reform.

Good Governance

Questions of Good Governance have been playing an important role in the PBA/CPIA approach since the end of the 1990s. However, governance is considered "good" particularly when it safeguards and supports economic activities. In the governance concept of the PBA/CPIA approach economic governance is moved to the centre. Aspects of comprehensive, democratic

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² Within the World Bank Group, the International Development Association (IDA) is responsible for the allocation of grants and interest-free credits to low-income countries. Bilateral donors replenish the necessary funds every three years.

governance are addressed only sketchily, marginally and without carrying much weight. At the same time the assessment of “Good Governance” is completely intransparent. It is partly based on highly questionable quantitative indicators and is – even more than the assessment of, e.g., fiscal policy reforms – subject to considerable political subjectivity. What indicators with which weights are the deciding factors in the assessment of, for example, accountability remains in the dark. Furthermore, not only the results of the CPIAs need to be questioned. The process of their preparation itself weakens democratic developments in the countries, since government accountability is, as in times of structural adjustment, demanded to the major donors – here: the World Bank – thus considerably reducing domestic accountability.

Civil Society Participation

One of the essential innovations linked to the PRS processes in poorest countries is the participation of civil societies in the design and implementation of national poverty-oriented development strategies. The PBA/CPIA approach undermines this important principle. Civil society actors are not involved in the PBA system in any way. The processes for assessing countries through the CPIAs are intransparent and not known in the societies on which judgment is being passed in the CPIAs. That citizens in developing countries should themselves define the criteria by which their governments are evaluated apparently seems far off. Through the enormous importance a “positive” CPIA has for the governments’ budgets the approach also impairs the opportunities the civil societies have to influence their governments – these have to satisfy the World Bank’s wishes first – and thereby undermines the participation principle in the PRS approach as a whole. The CPIA ranking itself includes aspects of participation only very marginally. Here a chance is missed to encourage participatory development processes in poorest countries.

The following changes in the PBA system appear to be most urgent:

- § Qualitative CPIA indicators that are meant to assess policy reforms and approaches in economic and social policy have to be strictly aligned with the respective Poverty Reduction Strategies (PRS) of the countries in order to strengthen the countries’ ownership of their policies, and to capture a country’s specific progress in self-determined focal areas. To obtain comparable data for all IDA recipients, the MDG indicators should be integrated.
- § These policy-related indicators have to be distinguished from process indicators which should be incorporated into the CPIA (e.g. regarding basic standards for democratic methods in poverty-oriented strategy processes, in budget policy processes in developing countries, in decision-making processes regarding development cooperation etc.). These indicators should reflect jointly agreed and accepted international standards of donors

and recipients – and not economic policy concepts of the donors, which are frequently imposed on recipients by linking them to development aid.³

- § The quality of the indicators has to be improved. All CPIA indicators need to be reviewed and replaced where appropriate. Together with the relevant UN organisations (e.g. UNDP, ILO, UNIFEM et al.) and with the participation of recipient countries (e.g. through UN-ECA) and other actors (e.g. civil society organisations), the World Bank should develop indicators that effectively measure progress in the fight against poverty. A mixture of quantitative and qualitative assessment, carried out independently, with transparent procedures, could be a perspective.
- § Measuring impacts. Where possible and reasonable, previous input indicators should be supplemented with impact indicators. In addition, they should include needs identified with participatory methods (such as should be reflected in the PRS).
- § The criterion of encouraging pro-poor growth has to be used as the basis for assessing economic policy measures, instead of simply the consistent implementation of macroeconomic reforms in the (neo-) classical sense.
- § Placing a higher weight on progress. The present system is based on a comparative ranking of countries. It does not (systemically) account for the progress a country makes from one year to another (or the setbacks, too).
- § The civil societies of the affected countries need to be included in the PBA/CPIA process. First step: CPIA results have to be publicly discussed in the respective countries. Onward: The country-based set of indicators has to be made transparent and put up for public debate. The aim should be to have the set of indicators developed in a participatory process in the respective country (e.g. within the frame of the PRS process). This would underline the accountability to the citizens.
- § Notwithstanding the publication of results since 2005, the transparency of the procedure is insufficient. The written statements and the sources used for the ratings need as well be publicized in order to make the whole procedure comprehensible and open to independent review.
- § If the development of a democratic society, including corresponding democratic governance, is not only a part of poverty reduction (in the sense of an empowerment of the poor majority of society), but also a precondition (especially in the African societies, strongly characterized by neopatrimonial structures), then the World Bank needs to overcome its one-sided technocratic understanding of governance. Indicators should then assess hu-

³ A possibility would be to work out recommendations for process indicators based on political, economical, social and cultural human rights in the context of the "Paris Process" for the improvement of development cooperation. For individual countries, donors and governments should – publicly transparent and with the inclusion of civil society - agree upon such recommendations.

man rights, political freedoms and political developments and the necessary institutions in the sense of the relevant international conventions.

- § Finally, the PBA should offer the possibility to also take into account external factors which influence the quality of policies and institutions in recipient countries, but cannot be controlled by the governments.

BMZ as a driving force for reforms?

Germany is one of the Bank's major shareholders. Therefore the BMZ should demand reforms from the Bank more proactively than it has done so far. The formulation of "core messages" (BMZ 2006) is a good step in this direction. However, in that paper the Bank's PBA system is entirely underexposed. The BMZ merely demands the on-site discussion of the CPIA "with other major donors" (BMZ 2006, 7). That, however, is definitely insufficient. The "core messages" should be augmented by a reform programme for the PBA system in terms of the aforementioned suggestions.

2. The World Bank's PBA-System – Introduction

The World Bank manages the volume of its IDA loans and grants to poorest developing countries within the framework of the so-called Performance Based Allocation (PBA) system. The core element of PBA is the evaluation of countries' institutions and policy reforms (Country Policy and Institutional Assessment, CPIA). The CPIA is not only relevant for the volume of funds in the context of IDA. The assessment is also an important basis for the contents of the World Bank's country strategies (these are supposed to treat deficits identified through the CPIA with priority). In addition, the IMF and the World Bank use the CPIA in the calculation of debt sustainability (Berke / Adler 2005, 4). This also has some influence on whether IDA funds are given as loans or as grants (World Bank / IMF 2007). Finally, the CPIA influences some other multilateral donors (African Development Bank, Asian Development Bank) and bilateral donors in their decisions on their country based allocation of funds (e.g. Great Britain, Netherlands, cf. Court 2006, 4). When assessing good governance in recipient countries the BMZ as well refers to the CPIA, though only as one source of information among others (Stoll 2006, 23). Combined, these different ways the PBA/CPIA is used result in an enormous importance of this system for developing countries.

The predecessors of the system were developed as early as the 1970s. Since then it has been reformed repeatedly and is currently being under scrutiny again in the context of the negotiations over the 15th IDA replenishment.

With a view to these current negotiations, this paper gives an overview of the fundamental discussions around the PBA system and analyses the PBA system with regard to central development policy principles.⁴ In particular the

§ poverty orientation

of the PBA system is examined. Furthermore, the paper analyses and assesses the correlation between the PBA system and the

§ promotion of democratic governance processes (as a basic condition for effective poverty reduction) as well as the

§ participation of civil society (especially in PRS processes).

⁴ In view of its intended limited scope, this paper cannot explore more specific aspects in detail. Among them, for example, is the question of the praxis of PBA/CPIA ratings in middle-income countries, which do not receive IDA funds, but whose borrowings from the World Bank are as well accompanied by a correspondent rating. Furthermore, this paper will not discuss the technical aspects of the rating's calculation in detail. The World Bank is obviously making an effort to direct the discussions' focus to a simplification of the PBA's methodological approach (World Bank 2007a). Furthermore, this paper cannot do more than mention that the question of IDA-15 funds for fragile states as well affects the discussions on the PBA system. Due to massive institutional weaknesses that, for example, exist in post-war situations, exceptions concerning the allocation of funds are to be defined for these states (World Bank 2007d).

The background for the current debates is a paradigm change in development policy which was initiated in the 1990s. The broad failure of the structural adjustment programmes of the 1980s and 1990s and the weak successes in poverty reduction were essentially ascribed to deficient institutions and unsuccessful political approaches in the developing countries. In this context the debate about the efficiency of development aid arose. Numerous studies commissioned by the World Bank (among others by David Dollar and Paul Collier) formulated the new aim, which, briefly summarized, reads as follows: "give more aid to countries (...) where aid will have more impact on poverty (because the policy environment for growth is better or because growth reduces poverty more)" (Wood 2006, 5). Accordingly those countries should principally receive more aid now which show reform policies and institutions conducive to development (defined by the World Bank). Given limited resources, this would of course be at the expense of those countries whose institutions and reform policies do not meet the Bank's expectations. Institutions and reform policies are registered and assessed through the Country Policy and Institutional Assessment (CPIA).⁵ Alongside the CPIA, an indicator designed to measure the implementation of the projects and programmes financed by IDA influences the overall assessment to a small degree. Due to its minor role this indicator, the country-specific ranking in the World Bank's Annual Report on Portfolio Performance (ARPP), is not discussed in this paper.

The results of the annual PBA rating have a crucial effect on allocations: For the years 2003 to 2005 the allocations for the "best performers" (top quintile) were set almost five times as high as for the countries with the poorest performance (bottom quintile) (Alexander 2004: 1).

The PBA process is extensive (for the following c.f. World Bank 2006). In an initial phase (Benchmarking Phase and Review) selected countries are rated, whose individual ratings then serve the local World Bank staff as a standard for the rating of their respective countries in the second phase. An extensive questionnaire serves as a guideline (World Bank 2006). It describes the 16 criteria (partly divided into sub-criteria) and names indicators and sources from which they can be obtained. The 16 criteria are listed in the appendix. The ranking is carried out by giving a "mark" on a scale from 1 (poor) to 6 (good). Intermediate scores are possible. For each separate rating, a written justification has to be prepared. Each year the ratings are given in comparison to the benchmark countries rated in the first phase, not in comparison to the previous year's rating of each respective country (World Bank n.d., Q5). An extensive Bank-internal discussion process (review) takes place to legitimize the ratings. A discussion of the assessments with the respective governments in order to give them the opportunity to change the picture with additional information is part of the process. In a statistically weighted procedure, supplemented by the multiplication by a "governance factor", the final score is calcu-

⁵ The Bank has been conducting country-based assessments in the style of the CPIA since the 1970s, but has repeatedly changed its approach and methodology. Important changes took place in 1998 (strong introduction of governance aspects), 2001 (introduction of a governance factor and thereby higher weighting of the governance indicators) and 2004 (various methodological changes, among others the number of indicators was reduced). On the background of CPIA's developmental history c.f. World Bank 2004, 2007f, 5-6, inter alia.

lated (i.e. the decisive total value for the IDA Country Performance Rating).⁶ Since last year the aggregate results (in the form of the scores for the 16 criteria, the mean values for the four groups, and the total value) are being published on the World Bank's website.⁷

The CPIA results not only influence the size of funds but also the World Bank's country strategies: The World Bank's country strategies (Country Assistance Strategy, CAS) are supposed to be geared to working on the weaknesses in the recipient country's policies that have been "revealed" by the CPIA (Waeyenberge 2006, 6-7; 20-21).

In addition to their PBA based allocation, all countries receive a basic allocation of three million Special Drawing Rights. The size of the population and, to a lower degree, the per-capita income is also used in the final calculation of the IDA allocations. By far the greatest weight, however, is placed on the CPIA.

The criticism of the CPIA approach focuses on various points. As explained before, this paper concentrates on the questions of poverty orientation, the promotion of democratic development and the participation of civil society. Alongside these aspects, critical statements on the PBA approach focus, among others, on the following points, which are briefly mentioned here, but cannot be discussed in detail:

- § Under methodological aspects, the system of measurement is criticized as highly error prone and inaccurate (e.g. Herman 2004, 10-11, 17). The present intransparency prevents an independent academic review of the results. Even internal World Bank studies reach differing conclusions based on CPIA data (c.f. Alexander 2004, 7, in reference to studies by Dollar and Easterley). A quantitative approach alone is not sufficient for the decision on fund flows, because it is too inaccurate and because many aspects cannot be captured with quantitative methods (Herman 2004, 18).
- § In a connected world, many dimensions the CPIA wants to assess and blame on governments lie outside the governments' (sole) responsibility. The World Bank counters that it precisely does not include those factors the governments are not solely accountable for (e.g. current economic growth), but assesses the countries contributions to these factors (e.g. through legislation) (reported in Waeyenberge 2006, 9-10, who, however, criticizes this argument: In her view, the numerous constraints that affect especially governments of developing countries are not recognized).
- § Because of the assessments' subjectivity and the additional "governance factor" considerable changes in the rating can occur from one year to the next. This makes the cash inflows incalculable (Waeyenberge 2006, 9). The World Bank counters: The complex proce-

⁶ The governance factor is calculated from the five criteria of cluster D (see appendix) and a criterion from the portfolio ranking (ARPP). Through the "governance factor" the criteria contained therein receive a higher weight (roughly about 66 per cent of the total CPIA value; Powell 2007, Fn.3). In individual cases, the factor is said to have reduced the allocation to some countries by 50% (Alexander 2004, 4).

⁷ I.e. results for 2005 and 2006 are available. Before, the World bank had published its assessments in summarized form only, i.e. in five country groups.

dure secures stable ratings and minimizes subjectivity. The de facto results, according to the Bank, are slight changes (World Bank n.d., Q13 and Q18).

3. PBA – a Contribution to Poverty Reduction?

In various policy statements the donors have committed themselves to assisting the PRS processes in the south with their funds.⁸ Even though in some countries the PRS are as yet poorly developed, and in many cases a broad gap between declarations of intent and actual policies has to be noticed, the question arises to what extent the PBA system of the World Bank takes the principle of country ownership into account and supports the domestic poverty oriented development policies. While the World Bank justifies the PBA system and the CPIAs as part of their orientation towards poverty reduction, the following critical arguments are given in the debate on PBA and CPIA:

The factual conditionality through CPIA contradicts the principle of ownership. One of the fundamental learning experiences of the 1980s and 1990s was that reforms which are imposed from the outside are bound to fail. The World Bank is taking a contradictory path: On the one hand the Bank professes its commitment to the principle of ownership, and has formulated a new understanding of conditionalities in its policy papers (most recently in 2005). On the other hand the CPIA criteria quite unequivocally show which kind of policy is supported and which is not. Since the poorest countries are dependent on loans and grants from the World Bank, and the Bank continues to act as a signal for other donors, little has changed in practice: Money flows when the recipients behave as the donors deem right. Some critics go as far as saying that the CPIA system is much more powerful and assertive than the conditionality policies in the times of the structural adjustment programmes (Alexander 2004, 8; Waeyenberge 2006, 25).

Thus the CPIA apparatus continues to be based on a blueprint approach. The PBA system continues to carry a “one-size-fits-all” view - that is, a standardization of political contents, measures and institutions that are considered to be “right” by the World Bank. Yet for one thing countries face different challenges (which underlines the necessity of country-specific approaches). For another, the question of what is, for example, an appropriate trade policy is controversial even among economists. It was one of the lessons learned from the failure of the structural adjustment programmes that blueprints, which apply the same standards worldwide, are not helpful.

The PBA system undermines the country-specific PRS approach, since it massively contributes to the fact that the IFIs continue to define macroeconomic policy, as civil society actors in many countries criticize. Even the BMZ as “co-owner” of the Bank complains that in the discussions around the PRSPs “the question of alternative macroeconomic policies is hardly

⁸ E.g. cf. OECD/DAC 2001 and the Paris Declaration of 2005 on the effectiveness of development cooperation.

touched” and demands a stronger discussion as one of its “core messages” to the World Bank (BMZ 2006, 2).

Institutional or subjective interests of the Bank diminish poverty orientation. The assessment through CPIA is carried out by the staff of the World Bank country offices. Only about a third of the CPIA indicators can be determined on the basis of quantifiable and verifiable data. Two thirds of the assessments are based on the subjective estimations of the Bank staff on site (World Bank 2007f, 5).⁹ With such a high content of subjective assessments it is feared that, for one thing, institutional interests of the World Bank influence the CPIA results (as the bank wishes to maintain unhindered financial relations; Herman 2004, 6). For another, individual interests of the assessing staff members might as well distort the results as the Bank system of incentives measures success by the degree of implemented programmes (cash flows). The fact that the country office staff members involved in the assessments are usually economists is another source for one-sided results. Even the BMZ criticizes the continued dominance of economists trained at Anglo-American Universities in the Bank (BMZ n.d., 14). Against this background it is doubtful whether CPIA assessments are carried out with a view to successful poverty orientation of institutions and policies.

Much weight continues to be placed on macroeconomic dimensions, especially from a neo-liberal perspective. While the World Bank stresses that the PBAs system of indicators aims for development and poverty reduction, there are, in summary, two different critical points of view: The more fundamental criticism assumes a continuity in the Bank’s policy of conditions and criticizes the approach as persistently neo-liberal and thus committed to the old Washington Consensus. These critics claim that the liberalization of economies and the privatisation of enterprises under strict budgetary discipline as well as the creation of a business friendly environment are the centre of focus (Alexander 2004, 2; Waeyenberge 2006, 10-14). They claim that though the World Bank has rhetorically foregone conditionalities, it continues to pursue the old policies through the CPIA indicators. The World Bank denies this, and points to the new social and political dimensions in the CPIA approach. “The index has evolved well beyond the ‘Washington Consensus’” (World Bank 2007f, 3). This, however, is a statement which leaves open the question of to which extend the Bank has withdrawn from the approach. Alexander’s fundamental criticism is that the Bank is the wrong institution for giving assessments in such areas in which it has little experience or in the past has been noted for mistaken policies (2004, 6; see also Powell 2007, 4). The author explicitly mentions the areas of institutional development, gender relations and labour intensive growth.

Another group of critics does not question the PBA system in principle, but considers it to be urgently in need of reform in order to achieve real poverty orientation (e.g. c.f. Herman 2004, Powell 2007, Global Unions 2007). Herman, for example, argues that the PBA system contains

⁹ The World Bank itself occasionally shows doubts of whether it really wishes to stand by the ratings. In a Frequently Asked Questions section about CPIA on the Bank’s web page it says: “The ratings are the product of staff judgment and do not necessarily reflect the views of the World Bank’s Board of Executive Directors or the governments they represent.” (World Bank n.d., Q2)

some of the classical principals from the times of structural adjustment. Among them, however, are also some that have to appear in any economic approach, whether orthodox or heterodox (2004, 6).

A further example for a more selective, reform-oriented criticism comes from the Global Unions: This umbrella organisation criticises that some indicators are oriented at the business friendly Doing Business Survey, which rates certain labour standards as obstructive to business activities, and therefore negative. With this orientation the Bank undermines the efforts to create adequate working conditions. The unions demand that the Bank replaces the currently used indicators with an indicator developed jointly with the ILO (Global Unions 2007, 8 f.).

Poverty oriented policies are weighted too low: The weighting of the indicators continues to be too strongly oriented at economic development, while specifically poverty-oriented indicators are weighted weaker and the issue of impacts of macroeconomic policies on social development is not even addressed in the first place (Waeyenberge 2006, 7, Fn. 7, and p.14-15). For example, the question of whether a government takes measures against exploitative child labour is weighted 40 times weaker than the issue of a government's "correct" financial policies. Moreover, the CPIA indicators are not oriented at the MDG indicators. The MDGs are mentioned in the CPIA questionnaire (World Bank 2006), but only marginally and not as a source for the CPIA assessment.¹⁰

Lack of impact perspective weakens poverty orientation: So far the system is oriented at the input level (here: institutional reforms and implementation of policies understood as input), not at outcomes or impacts. Various observers demand that the CPIA should include outcome indicators, which measure the ability of governments to actually improve their citizens' living conditions (Powell 2007, 4; Halifax 2007, 2; Kanbur 2005; Wood 2006). During the past years this demand has also been taken up repeatedly in the Bank's executive directorate. However, the World Bank's management so far strictly opposes the adoption of impact indicators, among other reasons with reference to the substantial time delay that might exist between institutional reforms and policy decisions on the one hand and impact on the other hand. Therefore an impact orientation would not be meaningful for the assessment of a government's current policies (World Bank 2007f). Critics respond with the argument that especially a country's long-term success in the improvement of human development (measured by the Human Development Index) should be rewarded (Eurodad 2007, 2). Wood (2006) suggests augmenting the donors' allocation systems (such as the World Bank's CPIA) with a factor that captures the expected future reduction of poverty in a country (at the same time making allow-

¹⁰ The MDGs are not suitable as a sole source for the assessment of a country's poverty oriented policies, among other reasons because important aspects of poverty reduction are not or not in sufficiently systematic ways included in the MDGs. Besides, it is necessary to strive for goals beyond 2015 in poverty reduction (i.e. for development cooperation as well). Nevertheless donors' (as well as developing countries') policies should earnestly pursue the 2015 goals and under no circumstances counteract them (in this context the introduction of an "MDG impact assessment" should be discussed).

ances for particularly challenging structural problems of poorest countries compared to middle income countries).

In the course of the negotiations of the 15th IDA replenishment the topic was put on the agenda again this year (the fact that the topic will only be addressed in the third and last round of negotiations already indicates that it is a particularly controversial subject). By way of precaution, from the beginning of this year the Bank has made an effort to cushion criticism of the PBA. In a paper which was presented in June 2007 and which names and justifies the Bank management's idea of the replenishment volume, the authors try to take the wind out of the PBA-critics' sails with statements like "IDA has a strong track record in enhancing development outcomes [emphasis WE]. First, in line with its Performance Based Allocation system, it allocates a greater share of its resources to countries that achieved better development outcomes." (World Bank 2007e, Summary) – This conclusion is very obviously incorrect and has never been claimed in previous documents.¹¹ The argument reflects a new viewpoint the World Bank developed in another extensive paper of February 2007 which is completely dedicated to the CPIA. In that paper the World Bank establishes the hypothesis that seen in the long run there is a clear correlation between a country's (positive or negative) CPIA development and the (likewise: positive or negative) growth rate, or also the Human Development Index (World Bank 2007 f.).¹² In the translation this reads as: Though the CPIA does not measure "development outcomes", a correlation is nevertheless assumed, even a causal relationship between IDA funds (on the basis of CPIA) and socio-economic impacts. Therefore the Bank management considers every suggestion to augment the CPIA with impact indicators superfluous. This line of argument is problematic in many respects:

- § These statements cannot be verified independently, since they are based on internal World Bank data. NGOs have already raised a demand for independent reviews, since even single examples suggest the necessity of a review (Bretton Woods Project 2006).
- § Even if a correlation could actually be proven: What is chicken, what is egg? Is it true that institutions and policies promote development (as the World Bank would have us believe), or does development – made possible by whatever means – promote the emergence of institutions and poverty-oriented policies? Or is it just certain institutional reforms, possibly plus favourable external factors (debt relief? increased world market prices for some commodities?) or plus favourable internal factors (development-oriented policies of a new government? stronger participation of civil society, which demands accountability and

¹¹ For example, in the "Frequently-Asked-Questions" section about the CPIA on the World Bank website (accessed October 2007) it says "The CPIA is a diagnostic tool that is intended to capture the quality of a country's policies and institutional arrangements—i.e., its focus is on the key elements that are within the country's control, rather than on outcomes (...)" (World Bank n.d., Q1)

¹² The Bank summarizes "The main conclusion of this paper is that a country that sustains a high CPIA/CPR over several decades will open up a sizeable HDI advantage over a country with a low CPIA/CPR assuming that all other factors remain equal. Specifically, in the long run, the HDI will converge to a higher level if a high CPIA/CPR is sustained. Similar conclusions hold for some other indicators of development, including per capita growth." (World Bank 2007f, i)

thus adds to a development orientation?), that have a positive impact on social development? And are there individual factors in the CPIA setting (e.g. privatizations, liberalizations) that act counterproductively? Even these few questions demonstrate that a correlation alone (even when established in a statistically correct way) does not allow for sufficiently solid statements on what kind of connection exists between institutional reforms, policy implementations and impacts. In the Executive Summary of the mentioned World Bank paper, that is: those two pages which are usually all that the Bank's executive directors (are able to) read, no reference to this problem is found. However, hidden in the methodological annotations the authors admit: "(This paper) does not try to separate out a strictly causal interpretation running from the performance measures to development outcomes, even though some simple tests, which suggest that analysts do not mechanically extrapolate from observed outcomes to the CPIA ratings, lend comfort to a somewhat causal interpretation." (World Bank 2007f, 3; see also 11-12) – A "somewhat causal interpretation", however, is a very meagre foundation for the decisions of the largest donor in development cooperation worldwide.

§ Entirely problematic is the World Bank's claim that it is possible to establish a causal connection between IDA funds (their volume determined on the basis of CPIA) and "development outcomes". If even the correlation between CPIA and socio-economic impacts is questionable (and is established only "somewhat" by the authors of the aforementioned paper), an extension of the causal relationship in the sense of IDA --> CPIA --> impacts is completely impossible.

Finally, an altogether different question arises: If there was a positive correlation between CPIA and socio-economic, poverty-oriented development – why not simply use the already available Human Development Index data and do without the labour- and cost-intensive¹³, intransparent and questionable CPIA procedure?

Special African situation not sufficiently covered: The World Bank itself notes that African countries have to cope with a much more difficult situation than other countries. Therefore, their CPIA rates change only very slowly, if at all (World Bank 2007f, i). Additional funds for Africa – which the World Bank would like to acquire through the 15th IDA replenishment round – cannot be justified by this. Taking up suggestions from the ranks of the critics, the Bank therefore declares:

"The Africa and HIV/AIDS effects highlight the debate on "needs versus performance" and the complexity involved in moving to "results-based" aid. (...) A forward-looking assessment would increase aid to Africa beyond the level suggested by current ratings or performance on outcomes, because of the greater challenge ahead." (World Bank 2007f, ii)

In fact, African recipient countries receive more IDA funds than they are statistically entitled to on the basis of the CPIA rankings (World Bank 2007f, 12). This is achieved through caps for

¹³ The estimated annual costs amount to 1,5 million dollars (Powell 2007, 2).

absolute IDA funds, by which particularly IDA funds for populous countries in Asia are limited. The funds thus released are allocated in sub-Saharan Africa. States in post-war situations can also receive additional funds (post-conflict-allocations). However, with the exception of the last-mentioned countries, the Bank wants to distribute the intended additional inflows to Africa exclusively on the basis of „performance“, not – like some NGOs demand (as well as the MDG project around Jeffrey Sachs) – based on measurable positive social developments or based on needs assessment (e.g. oriented at the MDG).

4. PBA – an Instrument for Encouraging “Good Governance”?

The PBA system of the World Bank touches on the questions of Good Governance at several levels: For one thing, the CPIA contains some indicators which are designed to assess the quality of governance, and for another the CPIA process itself has retroactive effects on the development of governance assessed as “good”.

First, the question of what concept of “Good Governance” the indicators in the World Bank approach are based on needs to be answered. An analysis of the list of criteria (World Bank 2006) provides crucial insights. Of the 16 criteria, which are grouped into four clusters (see appendix), especially the last five criteria are dedicated to the governance dimension, grouped into cluster D Public Sector Management and Institutions. These five criteria also form the central elements of the “Governance Factor” (see above):

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

Even at first glance it becomes clear that the criteria 12-15 explicitly address the so-called economic governance (as the comments show, the legal element in criterion 12 refers exclusively to contract certainty in economic contexts). Aspects of “democratic governance” are at best reflected in the last criterion. Three dimensions are explicitly to be assessed in criterion 16:

- (a) “the accountability of the executive to oversight institutions and of public employees for their performance;
- (b) access of civil society to information on public affairs; and

¹⁴ Some aspects that should be considered with respect to governance can be found in cluster C as well and, but even weaker, in A and B (e.g.: the question of women’s participation in politics appears as a sub-dimension in criterion 7; the inclusion of local communities in local development planning is a subordinate point of criterion 10).

(c) state capture by narrow vested interests." (World Bank 2006, 41)

At least here some criteria are used that can actually provide information about dimensions of democratic governance. However, the following has to be said:

Democratic governance is not given much weight. Cluster D accounts for 25 percent of the CPIA assessment, which means that criterion 16 accounts for five percent. Since this criterion includes three dimensions, the question of the quality of government accountability, for example, is given a weight of 1.67 percent. In other words: If a government was given only low scores in the area of accountability, this would play a very subordinate role for the country's CPIA rating. For the country's development chances, however, precisely this factor could be of key relevance. Important basic political freedoms (e.g. freedom of the press) are only marginally covered by these factors – if at all. Human rights do not play an explicit role. To put it bluntly: Even an authoritarian "development dictatorship", as long as it had an effective apparatus, could easily achieve good CPIA ratings and receive substantial financial support from the World Bank.

One reason the World Bank's conception of governance is so technocratic, Waeyenberge writes, is that the Bank's statutes restrict its interference in the political affairs of recipient countries to areas of "economic governance" (2006, 15). This, however, is just a superficial explanation. Behind it, the author continues, lies the concept of a limited role of the state in development processes, which is inappropriately limited and does not recognize the real political-economic processes (ibid. 16-18). "An alternative approach would recognise the potential importance of a much wider range of interventions on behalf of the state in a developing country; anchor the analysis of governance (and growth) in its political-economic reality; move away from normative projections regarding governance phenomena, informed mainly by orthodox presumptions regarding market efficiency; and refrain from imposing such liberal norms as embodied in the CPIA exercise in a bid to take into account the diverging conditions across the developing countries." (ibid., 18)

The assessment is intransparent and subject to political subjectivity. Though the questionnaire which the local World Bank staff receives for the preparation of the CPIA contains short descriptions of what deserves which "mark" on the scale from 1 to 6, these are extremely short and superficial. A more detailed description of the indicators, on the basis of which the local World Bank staff should carry out their assessment, is missing (see extensive example of civil society participation in the next paragraph). Since the written justifications of how the assessments are created are not published, it is completely impossible to follow in which way verdicts are arrived at. What is more, the values of one single year are not supposed to measure progress or setbacks in comparison with the year before, but in every single year are determined by comparison with other countries (the benchmark countries, which are annually redefined). With that the assessment becomes completely intransparent and does not reflect real political developments at all. This can be illustrated by the example of Ethiopia. In the run-up to and during the elections of 2005, the government manipulated the electoral process clearly (some, like, e.g., the EU election observer at the time, say: it manipulated massively) in

order to stay in power. The following protests, which reached their climax in the autumn of 2006, were violently suppressed. Many died. Thousands were arrested, many of them were mistreated. Up to the middle of 2007, leading opposition politicians were in prison, among them newly-elected members of parliament or newly-elected mayors of large cities. For the year 2005 (published June 2006) the World Bank awarded a score of 2.5 for the “political” indicator 16, and a score of 3.1 for all governance factors combined. For the year 2006 (in which, according to observers’ estimations, repressions against the media and NGOs had increased significantly and the government was not showing any signs of releasing the imprisoned opposition politicians) the World Bank awarded the same score of 2.5 for indicator 16. The overall value for all governance factors (in cluster D) even increased to 3.3. In other words: According to the CPIA, governance in Ethiopia apparently had not changed significantly in the years 2005 and 2006! To comprehend this remarkable result it is probably essential to take into account the Ethiopian government’s proactive role in the American “war on terror” at the Horn of Africa as an important factor.

Quantitative governance indicators are questionable. The World Bank’s “PRMPS Governance Indicators” are listed as points of reference for the assessment. The use of quantitative governance indicators, however, is highly controversial. The best-known and probably most comprehensive system for governance assessment is designed by the World Bank Institute. However, those responsible for this quite elaborate system do not tire of pointing out the extremely high error margins of the indicators and therefore warn against using quantitative indicators in the decision about aid allocations (Kaufmann / Kraay 2007, 8).

The CPIA process itself weakens democratic developments. Apart from the dubious nature of the CPIA assessment demonstrated here, the CPIA process itself weakens the development of democratic governance, because it is intransparent (at most talks with the government behind closed doors; exclusion of the public) and continues to shift accountability to the outside (to the World Bank) instead of strengthening domestic accountability.

5. PBA and Civil Society Participation

It is remarkable that the World Bank has explicitly stated that not even the governments in recipient countries are actively involved in the CPIA processes. Although the governments are heard in the preparation, this, as the World Bank formulates, is “part of a process of consultation, not a negotiation over the ratings” (World Bank n.d., Q14). The other donors as well are not consulted. For instance the BMZ requests that the World Bank at least involve each respective country’s major donors in the discussions about CPIA ratings (BMZ 2006, 7) – an almost bizarre demand from the World Bank’s third-largest “shareholder”.

Civil Society not involved in the PBA system. If even the powerful actors in the political arenas do not participate in World Bank decisions, it is obvious how much less of a chance the civil societies of recipient countries have to at least bring their points of view into the process: That chance is zero. The CPIA ratings, which after all determine the size of funds from the largest

public donor in development aid, are exclusively decided upon by a small but extremely powerful circle of economists within the Bank. The Bank asks its recipient countries to develop and implement poverty reduction strategies with participatory methods and with the inclusion of civil society (rightly so) – the Bank itself, however, makes highly important decisions without even hearing the civil societies in the affected countries. This is not only true for the CPIAs but also for other decisions, e.g. with regard to the IDA replenishment round or to the country strategies: EURODAD (2007, 2) criticizes that representatives of governments and civil societies from the south are so far only selectively included in discussions about World Bank policies, about reforms of IDA, PBA etc. – to say nothing of CPIA assessments at country level.

CPIA weakens participation in the PRS process. This line of action also weakens civil societies' (as well as parliaments') roles in their countries' poverty reduction strategy processes. The CPIA conditionalities are so strong and influential that the policy space for domestic stakeholders is narrowed down massively. This undermines the participatory element in the PRS approach and democratic processes in general. The PRS participation processes remain entirely superficial, if in the end it is the World Bank that makes it clear what is and what is not accepted.

Participation rated too low in CPIA ranking. But also the significance of civil society participation in political processes for the CPIA ranking provokes criticism. As demonstrated in the previous paragraph, political leeways for civil society are only taken into account in one dimension of criterion 16. Following the short World Bank descriptions of how to assess the criteria (see box in appendix), the accessibility of information is used as the crucial aspect to assess opportunities for civil society participation. This is without doubt an important precondition for civil society activities. Insofar, the fact that this aspect is stressed here is to be appreciated. The access to information about government actions is, however, only a necessary, but in no way a sufficient requirement for civil society work. Basic requirements such as the freedom to form organisations (in many countries curtailed by restrictive NGO legislation) and freedom of assembly have to be taken into account. Technical and personnel capacities are essential (including sustainable financial means). Legal safeguards for participation in political processes and structures are necessary for continued dialogues between governments and civil societies. A participation of civil society going beyond the mere reception of information and evolving into an active communication of interests into the political system needs all these preconditions to be fulfilled. The empowerment of poor people, to look beyond the organized civil societies, is seen even by the World Bank as a necessary precondition for successful poverty reduction (e.g. c.f. Narayan 2002) – in the harsh reality of the CPIA ratings this idea does not play any part.

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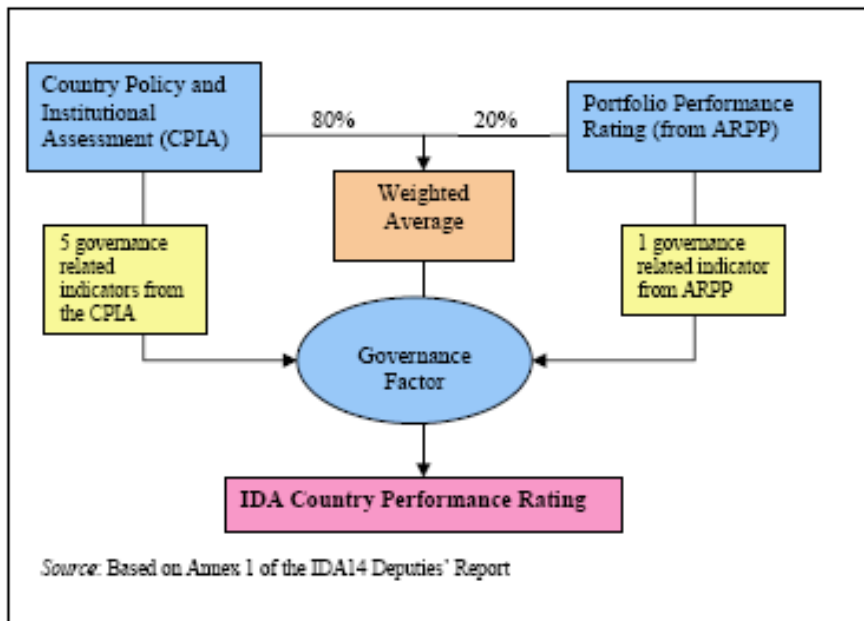
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Abbreviations

ARPP	Annual Review of Project Performance
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (German Ministry for Economic Cooperation and Development)
CAS	Country Assistance Strategy (Weltbank)
CPIA	Country Policy and Institutional Assessment
HDI	Human Development Index
IDA	International Development Association
ILO	International Labour Organisation
IMF	International Monetary Fund
MDG	Millennium Development Goals
NGO	Non-governmental organisation
PBA	Performance Based Allocation (System)
PRS	Poverty Reduction Strategy
UNDP	United Nations Development Programme
UN-ECA	United Nations Economic Commission for Africa
UNIFEM	United Nations Development Fund for Women

Appendix

Chart 1: IDA Country Performance Rating



Source: World Bank 2006, 3

The 16 CPIA criteria

- A. Economic Management
 1. Macroeconomic Management
 2. Fiscal Policy
 3. Debt Policy
- B. Structural Policies
 4. Trade
 5. Financial Sector
 6. Business Regulatory Environment
- C. Policies for Social Inclusion/Equity
 7. Gender Equality
 8. Equity of Public Resource Use
 9. Building Human Resources
 10. Social Protection and Labor
 11. Policies and Institutions for Environmental Sustainability
- D. Public Sector Management and Institutions
 12. Property Rights and Rule-based Governance
 13. Quality of Budgetary and Financial Management
 14. Efficiency of Revenue Mobilization
 15. Quality of Public Administration
 16. Transparency, Accountability, and Corruption in the Public Sector

Source: World Bank 2006, 3

Criterion 16. Transparency, Accountability, and Corruption in the Public Sector

Dimension b: access of civil society to information on public affairs

Ratings (zwischen 1 = schwach und 6 = sehr gut):

- § Government decision-making is secretive. The public is prevented from participating in or learning about decisions and their implications (rating = 1).
- § Decision making is not transparent, and government withholds information needed by the public and civil society organizations to judge its performance. The media are not independent of government or powerful business interests. (= 2)
- § Decision making is generally not transparent, and public dissemination of information on government policies and outcomes is a low priority. Restrictions on the media limit its potential for information gathering and scrutiny. (= 3)
- § Decision making is generally transparent. Government actively attempts to distribute relevant information to the public, although capacity may be a constraint. Significant parts of the media operate outside the influence of government or powerful business interests, and media publicity provides some deterrent against unethical behavior. (= 4)
- § The reasons for decisions, and their results and costs, are clear and communicated to the general public. Citizens can obtain government documents at nominal cost. Both state-owned (if any) and private media are independent of government influence and fulfill critical oversight roles. (= 5)
- § Criteria for "5" on all three sub-ratings are fully met. There are no warning signs of possible deterioration, and there is widespread expectation of continued strong or improving performance. (= 6)

Source: World Bank 2006, 42