The Missing Piece: Country Policy and Institutional Assessments at the Bank

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'Recognising the inherently political character of policy reform and the diversity of country contexts, the Bank espouses an approach to policy reform that is grounded in country leadership and ownership of the development agenda, with Bank support customized to country circumstances' (WB 2004c: vii).

1. Introduction

This paper seeks to deal with what is perceived to be an increasing contradiction between the rhetoric and the practice of the World Bank, and combines this with comments regarding the Bank's significant expansion of activities emerging from its self-proclaimed knowledge role. These issues are dealt with through a closer inspection of the Bank's tool for allocating aid, the Country Policy and Institutional Assessment (CPIA). More specifically, the paper is concerned with: firstly, the particulars of the research exercise that has provided the Bank with the intellectual justification for the use of the CPIA in selectively allocating its aid flows and which has served to promote this allocation tool across the broader donor community. The persistent disregard by the Bank of the large number of pertinent critiques that have been provided regarding this research endeavour is pointed out. This pertains to issues concerning the Bank's exercise of its 'knowledge' role to which the projection of this particular understanding of the dynamics of aid and conditionality has been conveniently linked. Secondly, the implications of the CPIA for the prospects of development in poor countries are scrutinised, with particular attention to an apparent change in the CPIA approach lately. The question is raised as to whether these latest changes might have something to reveal regarding the way in which the Bank accommodates criticism emerging from civil society organisations, where areas of concern become embedded in Bank practice in less visible ways rather than appropriately addressed. Thirdly, the relationship between the CPIA and the Poverty Reduction Strategy Paper (PRSP) is examined. The pertinence of the CPIA in guiding Bank aid practices is revealed and a less observed role for the PRSP appears. The latter touches upon the way in which the PRSP provides a conducive conduit along which the Bank can steer its 'capacity building' (or newly discovered knowledge role) in low-income countries and streamline 'poverty-reduction' strategies across countries in line with CPIA imperatives. This has to be seen against the backdrop of the massive increase of Bank involvement in knowledge-related activities. This is tied back, in a last instance, to questions regarding the meaning of the latter, not in the least as related to the event for which this paper was submitted which took place under the auspices of the Research Alliance for Development (RAD), a recent Bank initiative seeking to foster its relations with the academic and research community.

The paper starts by a brief description of the 'selective' approach to aid allocation and the particular research that has been put forward by the Bank in its support. It goes on to portray the CPIA as the central element in the Bank's aid allocation mechanism, and to submit the assessment tool to a critical examination. Subsequently, it ties the

CPIA back to the Bank's most visible recent initiative to regulate the relationship of the donor community with aid receiving economies, the PRSP. This, finally, allows to tease out the significance of the Bank's knowledge emphasis.

2. Selectivity: a new aid paradigm

After more than fifteen years of experience with adjustment lending and much debate inside and outside the Bank, a consensus had emerged within the institution, evident in its 1994 report on Africa (WB 1994a), that adjustment had promoted 'sound' policies, but had not necessarily produced very strong results in terms of growth or poverty reduction. As the Bank understood it, implementation problems had caused inadequate economic performance, and local 'ownership' of its reform programme became a perceived precondition for the economic success of assistance packages. Following this, the ambition to exercise greater selectivity in the allocation of aid flows gained currency. Instead of imposing conditions to be achieved in response to the receipt of loans, loans were to become conditional on what had been achieved beforehand. Under such 'performance-based' allocations of aid, the conditionality accompanying the aid flow would no longer reflect the flow of reforms, but the state of the policy and institutional environment as 'policy-level conditionality' replaced 'policy-change conditionality'.

The selectivity discourse became increasingly formalised in the late 1990s, abetted by the appearance of a set of analytical and empirical arguments. These came to constitute a 'new aid paradigm', which was heavily promoted by the Bank, and through which the Bank sought to encourage other agencies to emphasise prior actions rather than future policy promises when allocating aid flows. The idea of making loans conditional on what was already achieved in terms of policy/institutional reform combined with an emphasis on a more advisory role for the Bank. The two dimensions of aid, its 'finance' and 'skills', became conceptually unbundled as it was argued, most famously in the Bank's flagship report *Assessing Aid* (WB 1998a), that those countries that lacked a 'supportive' environment for aid effectiveness should be endowed with aid skills rather than aid money. Such an understanding of the purpose of aid drew additional inspiration from the Bank's increasingly formal emphasis on its pedagogical role, emblematic in the 'Knowledge Bank' declarations.

The Bank's new aid paradigm has been reiterated and consolidated since *Assessing Aid* and, with intense dissemination efforts, it has become widely accepted across the broader donor community.[1] 'Good' economic management now matters more to developing countries than foreign financial aid, with policy/institutional rather than financing gaps holding economies back. Aid finance affects an economy positively, only after countries have made 'substantial' progress in reforming their policies and

[1] The most famous example is the US Millennium Challenge Account (MCA). The MCA seeks to channel $5billion per year (on top of the existing US aid budget) to developing countries that demonstrate a strong commitment to 'good governance' (encompassing civil liberties, political rights, combating corruption, voice and accountability, the rule of law, and government effectiveness), that invest in health and education, as well as that have more open markets, and economic policies that foster enterprise and entrepreneurship. For a critical deconstruction of the MCA, see Soederberg (2004b). On how selectivity has spread across the rest of the donor world, see Dollar and Levin (2004); Dyer et al. (2003, p. 11); Rogerson et al. (2004, pp. 10-14); Jones et al. (2005, pp. 18-20); McGillivray (2005); IDA (2002a); Hout (2002, 2004).

institutions. As a consequence, 'successful' aid in 'difficult' environments typically involves 'intensive staff input' and small disbursements of finance. The paradigm of selectivity implies that the key to the effectiveness of aid lies entirely and solely with the recipient, to the further neglect of the structural relations within which donor and recipient interact and of the broader non-aid features that determine that environment.

A paper by Burnside and Dollar (2000a) was central in providing analytical foundations to the new paradigm, with the Bank policy report *Assessing Aid: What Works, What Doesn't and Why* (WB 1998a) built around its core premise of conditional aid effectiveness. In a nutshell: aid only affects the growth rate positively if a certain set of policies/institutions are characteristic of a country, aid does not affect the policy environment and, hence, aid should be (re-)allocated towards those countries characterised by a 'good' policy/institutional environment. Such 'good' policy/institutional environments broadly reflect the Country Policy and Institutional Assessment (CPIA) ratings, or more narrowly focus on the 'core' macroeconomic policy stances of budget surplus, low inflation and trade openness.

Collier and Dollar (1999, 2001, 2002) extended the core Burnside-Dollar results that aid has no impact on growth except in a 'good' policy environment and that aid does not affect policy reform, into a prescriptive model of what are 'poverty-efficient' inter-recipient aid allocations.[2] It is argued that, traditionally, aid has been used to induce policy reform and, as a result, has been targeted on 'weak' policy and institutional environments. Increasing poverty reduction efforts then does not necessarily require an increase in aid, but, more importantly, a change in the existing allocation of aid towards those countries that are characterised by good policy.

The research supporting the Bank-promoted aid paradigm has been heralded as reflecting the 'economies of scope' that purportedly characterise the Bank's knowledge advantage (Squire 2000, p. 118). It has been described as 'comprehensive', drawing on various research skills present at the WB, 'bridging' gaps between economics and the non-economic social sciences, and so on and so forth:

> macroeconomists, public finance analysts and poverty experts worked together on different aspects of the impact of aid, and these analyses were then brought together to construct an integrated view of what works, what does not and why.

Furthermore, recent alleged improvements in the growth performance of aid have been explicitly attributed to these specific research efforts. The following rather lengthy quote by Dollar (2001, p. 1044) graphically illustrates this (as well as testifies to the pompousness of the researcher in question):

> It is always difficult to measure the impact of research. The fact that aid allocation has improved dramatically during the 1990s can be attributed to a number of factors, such as the end of the Cold War and the reform of aid agencies. But surely research results indicating how to make aid more effective played some role as well … The first version of 'Aid, policies and growth' was

[2] The three papers, Collier and Dollar (1999, 2001, 2002), convey the same argument, but, respectively, sought to remedy technical mistakes that cropped up in each preceding version. For a good account see Beynon (2001).

> circulated in 1996; this paper showed that aid in fact did affect growth, but that its impact depended on the quality of policies. Many of the changes in the second half of the 1990s have been consistent with the argumentation developed in aid effectiveness research. Suppose we attribute to research one percent of the credit for improved aid allocation … The efficiency of aid improved by 200 percent over the decade, so we are basically ascribing to research a 2 percent improvement in the efficiency of aid. Was the money spent on research a good investment? Starting from the 1990 level of efficiency, a one-time 2 percent improvement in the efficiency of aid would lift an additional 120,000 people out of poverty in the first year. The WB spent about $1 million on all of its aid effectiveness research, including the publication of Assessing Aid and worldwide dissemination. The efficiency of ODA in 1990 was about 100 people lifted out of poverty per million dollars. Thus, the return on research in the first year was 120,000 percent of the return on the typical aid dollar of 1990. And of course one of the special features of knowledge creation is that it can be used year after year with no additional knowledge generation costs. So, the productivity of research would actually be many times the rough estimate produced above.

Yet, it has been documented elaborately in the literature, how the ‘knowledge’ principle in the context of aid is supported, ironically, by a remarkably poor research and knowledge exercise itself, which, firstly, draws on mainstream economic literatures in unsatisfactory and markedly ad hoc ways; secondly, dramatically fails to live up to basic standards of econometric practice and fails to sustain its own conclusions once sample, definition of variables, or controls are altered; and thirdly, in no manner exploits the oft-cited Bank advantage in terms of access to detailed country-specific information being characterised by a particularly deficient rendering of the empirical realities of aid. [3]

The research is nevertheless typical of the Bank, particularly in its excessive insularity, its self-referential character and its failure to engage with criticism, even when such criticism is presented in frameworks readily understandable by Bank researchers (see Sindzingre 2004a; Ranis 1997, 2003). Morrissey (2000, p. 373) observes:

> Assessing Aid does not adequately take stock of what is known and what is not known about the macroeconomic impacts of aid. Important elements of what was and is known … are not mentioned. Sometimes this results in a tendency to reinvent the wheel … but other times the tendency is to misrepresent the evidence, as in whether aid effectiveness is conditional on good policy. It is right that the Bank should contribute to the debate. If it is to do so, it is only reasonable to expect that its researchers keep abreast of what is being done outside Washington, and perhaps most saliently, outside of the US.

Furthermore, the research has been widely disseminated, with the strong involvement of the Bank’s External Affairs department (as alluded to in Dollar’s own quote), and David Dollar himself is reported to have become a standard for judging the stature of other economists at the Bank’s research department (see Wade 2004, p. 585). This

[3] See again Beynon (2001) for a comprehensive overview.

draws attention to the importance of the Bank's External Affairs department, currently with an annual budget of over US$30 million, in disseminating particular research results – regardless of their scholarly quality (see also Broad 2006). This is in addition to a whole range of mechanisms the Bank has developed to promote its own understanding of aid and development across the broader development community, an issue we return to below.

3. Introducing CPIA

The core of the Bank's performance-based allocation system is the annual Country Policy and Institutional Assessment (CPIA). This involves the attribution of a score on a scale from 1 to 6 for sixteen criteria, which necessarily carry the Bank's judgement on which policy and institutional environment is best suited to development. The average of these (the 'CPIA score') feeds into a resource-allocation formula that is sixteen times more sensitive to changes in policy/institutional variables than to changes in income per capita as a proxy for poverty. The CPIA equally provides the cornerstone of the IFI's debt sustainability framework, which determines the grant eligibility of a country.

A formal link between annual staff assessments of the performance of IDA-eligible borrowers and IDA lending allocations was initiated at the Bank in 1977. Originally called Country Performance Ratings (CPR), the assessment exercise acquired the name Country Policy and Institutional Assessment (CPIA) with the 1998 redesign to emphasise that it was the policy and institutional environment that was being assessed, not economic outcomes. The definition of the criteria, their relative importance, the rating and disclosure procedures have undergone important changes over the years. Significantly, during the 1980s, the emphasis moved from an initial concern with *both* policy inputs and economic performance indicators (growth and savings rates), to a predominant concern with policy inputs and, by the early 1990s, an *exclusive* emphasis on policy inputs prevailed. More recently, the Bank has been seeking to find a different profile for its ratings. Since 2000, in particular, with the first moves towards disclosure, we can discern how, on the one hand, the Bank has been seeking to actively promote its performance-based allocation system (based on the CPIA ratings) across the rest of the donor community (CPIA acquiring an 'advocacy role'), and how, on the other, the purpose of the ratings has been broadened to now increasingly fulfil an 'analytical' role.

3.1 From policy outputs to policy inputs

In the early 1980s, four criteria were cited in the following order of priority as affecting IDA's resource allocation: first, national poverty as measured through income per capita; second, creditworthiness; third, economic performance to be assessed in terms of macro indicators including growth and savings rates but also in terms of the quality of "administration and economic management" together with "the speed and direction of change"; fourth, project readiness. Kapur et al. (1997, p.1152) specifically note that there was not yet any specific reference to market-oriented policy reform.

Guidelines on the allocation of lending among IDA-eligible countries issued in 1989 were characterised by a shift in emphasis towards greater consideration of policy performance. Kapur et al. (1997, p. 1153) report how Bank staff were instructed to rate a country's performance in each of three policy categories: short-run economic management (mainly of demand); long-run economic management (mainly supply-side restructuring); and the country's poverty-alleviation record as characterised by its delivery of social services, together with reforms removing 'distortions' from labour markets and from rural-urban terms of trade.[4]

As a result, the 1991 CPIA exercise had three component clusters (the country's short-term economic management, long-term economic management, and poverty alleviation policies), and the instructions to staff explicitly stressed the need to assess policies rather than outcomes, as quoted in WB (2001i, p. 5):

> The objective is to get an assessment of how well countries are implementing good policies. Accordingly, we are de-emphasising recent performance in such indicators as real growth in output, exports, etc. Nevertheless, output indicators should be used judgmentally to assess whether policies are actually being implemented … In assessing country performance, we are not interested in ascertaining whether a government is 'to blame' for a poor policy framework. There may sometimes be good reasons why a government is unable to address certain policy issues effectively, notwithstanding its best efforts. However, it is the actual policy framework that is to be assessed and not the intent or the effort of the government … Since the focus is on policies actually in place, no account is to be taken of anticipated future policy reforms until they have been made effective. The platforms of incoming governments or recently published development plans are not deemed relevant to country performance until acted upon.

Subsequently, and after a set of additional procedural changes,[5] the 1998 redesign played a particular role. It set out to reconfigure the CPIA to provide an agreed set of Bank-wide criteria for promoting growth and poverty reduction and explicitly sought to reflect the findings of the Bank's central report *Assessing Aid*. Furthermore, it was decided that the CPIA ratings for IDA-eligible countries were to be discussed with each country's authorities and the quintile-based rating results for the CPIA, its four clusters, and the ICP rating were to be posted on the external Bank website. In addition, the potential conflict observed in the Bank's own internal evaluation of its performance-based allocation system between the Country Assistance Strategy (CAS), the Bank's strategic plan for a country which sets lending rates and defines triggers for raising or lowering lending amounts, and the annual performance-based allocation system, which rations funds on the basis of CPIA scores, was addressed through instructions to staff that CAS triggers were to be mindful of the key weaknesses in the CPIA (WB 2001i, p. 45). More specifically, Bank staff were

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[4] 'Entitlements' of course, were not guarantees, and Kapur, *et al*. (1997) observe how the Bank mainly approximated the indicated norms in its ongoing operations. They add that nations at the extremes of the population-size range of IDA-eligible countries were treated as exceptions to the allocation norms and the 1989 guidelines established a normative allocation of 45 percent for SSA, p. 1155.

[5] For a detailed account of the changes in procedures around PBA and CPIA, see (WB 2001i). It should also be noted that while until then the Bank's performance ratings and allocation procedures had mainly been the preserve of Bank staff, from the late 1980s onwards, IDA donors increasingly started to interfere in the rating procedure and peg their own concerns onto the existing order of performance-based allocation. These included the environment, governance, gender, the role of the private sector, public sector management and military expenditures.

explicitly instructed that the size of the high case envelope of the CAS was to be guided by the implied potential improvement in the CPIA, IDA (2001c, p. 9):

> Experience shows that within the three-year CAS period it is difficult for a country to improve its overall rating by more than 15%. Thus one would not expect the high case scenario to exceed the base case by more than about 30%.

In 2004, an external panel set up to review the CPIA methodology concluded that the CPIA criteria focused on the right set of issues and produced robust results (IDA 2004d). The Panel broadly supported the CPIA practice of rating *implemented* rather than *intended* policy actions, and it strongly favoured disclosure of the ratings for IDA-eligible countries. It did, however, point to unnecessary overlap in some of the criteria and outlined steps to address some methodological and process issues. Revising the CPIA methodology to reflect the Panel's recommendations, some criteria were deleted and others were combined and streamlined. The core remained the same.

As a result, the 2004 CPIA consists of 16 criteria, rated on a scale of 1 to 6, and compiled together in four clusters with equal weights. Specific instructions are given for each rating level of each criterion.[6] Under 'economic management' is located macroeconomic management, fiscal and debt policy. As 'structural policies' appear trade, financial sector, and business regulatory environment. Under 'policies for social inclusion/equity' we find: gender equality; equity of public resource use; building human resources; social protection and labour; and, policies and institutions for environmental sustainability. And, finally, the categories constituting 'public sector management and institutions' are: property rights and rule-based governance; quality of budgetary and financial management; efficiency of revenue mobilisation; quality of public administration; and, transparency, accountability and corruption in the public sector (WB 2004g).[7] Each category also includes suggested ('objective') indicators to assist country teams in determining country scores ('guideposts').

Beginning with the results of the 2005 exercise, the numerical scores for all the CPIA criteria, as well as the overall score, are disclosed for IDA-eligible countries.[8] This disclosure, however, does not apply to the write-ups that provide the rationale for the ratings, although Bank staff can continue to share these with the respective country's authorities.

3.2 CPIA and the allocation of IDA flows

The CPIA constitutes the core of the Bank's system to allocate aid flows selectively, but is not its only determinant. Two additional steps are included. First, to capture the dimension of quality of development project and programme management, the Bank's

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[6] Up until the 2000 questionnaire, only the ratings '2' and '5' comprised rating guidance to staff. This changed with the 2001 questionnaire, and since then the narrative guidelines to staff have become increasingly elaborate.

[7] Note that the first two clusters 'economic management' and 'structural policies' consist of three criteria each, while the other two clusters, 'policies for social inclusion' and 'public sector management and institutions', each include five criteria. As a result, the individual economic parameters are in effect attributed a larger weight than the criteria in the two other clusters.

[8] The new disclosure policy does not affect the IBRD countries.

Annual Report on Portfolio Performance (ARPP) is used to determine a score for each country's implementation performance. A weighted average is then calculated of the CPIA (80%) and the ARPP rating (20%). Second, the latter result is multiplied by a "governance factor" to produce the country's IDA Performance Rating (PR). According to the latest formula, the governance factor is derived from the country's average rating for six governance criteria that are part of the performance-based allocation (PBA) system.[9] These include the five criteria in the governance cluster of the CPIA (see above), and a three-year moving average of the procurement practice score of the ARPP (IDA 2004a). The average score of these six governance criteria is divided by 3.5, the mid-point of the 1-6 scoring range, and an exponent of 1.5 is applied to this ratio. The country's overall rating is then multiplied by this factor, resulting in an increase (or decrease) of the overall IDA PR, depending on the degree to which the country's governance rating is 'strong' (above 3.5) or 'weak' (below 3.5) (IDA 2004a; IDA 2005, p. 46). The Performance Rating feeds into the allocation norm according to the formula below. In addition to their performance-based allocations, all countries are allotted a basic allocation of SDR 3 million.

Allocation Country $_i$ (3-year) = SDR3.3 million + PBA $_i$

where:

$$PBA_i = \frac{(\text{IDA rating}_i)^2 \times \text{Population}_i \times (\text{GNI/cap}_i)^{-.125}}{\Sigma_{i=1\text{-}81}\,[(\text{IDA rating}_i)^2 \times \text{Population}_i \times (\text{GNI/cap}_i)^{-.125}]} \times \text{ Envelop}$$

(i) IDA Rating Country $_i$ = (0.8 x CPIA $_i$ + 0.2 x ARPP$_i$) x Govfact $_i$
(ii) Governance Factor $_i$ = (average rating of 6 governance criteria $_i$ /3.5)$^{1.5}$
(iii) the Envelope = IDA three-year envelope, after deduction of the otherwise determined blend allocations as well as the allocations to eligible post-conflict countries; [10]
(iv) the country allocation norm is subject to a maximum of $20 per capita per annum

source: IDA (2005, p. 51).

Clearly, a country's policy and institutional performance is the dominant determinant of a country's allocation, being attributed the highest weight in the allocation formula. Half as much weight is given to population, and one sixteenth as much to the degree of poverty (using per capita income as proxy). This follows a change in the mid-1990s, operational since the IDA-11 allocations, with which the relative weight on GNI/capita in the allocation formula fell from 1/8th to 1/16th, strengthening the link between policy performance and allocations. Concern of some IDA Deputies regarding the particularly low weighing of poverty in the allocation formula was

[9] See WB (2001i, p. 31) for an account of the previous approach to incorporating governance into the allocation formula.

[10] There are three main exceptions to the allocation norms: blend countries (which receive less than their allocation norms due to their broader financing options), post-conflict countries (which could be provided with additional resources in support of recovery), and inactive countries. For further elaboration on the exceptions on the allocation norm see (IDA 2005, pp. 47-48).

readily dispelled by Bank management with recourse to 'evidence' based on the Burnside-Dollar-Collier research (IDA 2001c, p. 7).[11]

The Bank thus deploys a formula to allocate its aid flows that seeks to ensure that the level of resource allocation rises faster than the rating of performance, so that there is a considerable reward for countries at the upper end of the CPIA scale (with the exceptions of blend countries, inactive countries, and post-conflict countries). While the ratio of per capita aid allocation between top and bottom performance quintile was slightly greater than two (2.35) in 1990 (Goldin et al. 2002, p. 33),[12] it increased to just under three (2.8) for the 1997-98 allocation,[13] and subsequently to 5 in the FY04-06 allocations (IDA 2003a, p. 8). With the latest aid allocation (subject to exception norms), the countries in the top performance quintile hence receive on average five times as much per capita IDA aid as the countries in the bottom quintile.[14] The 2003 *Annual Review of Development Effectiveness* (WB 2004c) reports that, in 1999, 89.4 percent of Bank lending went to countries with a CPIA ranking of 3.0 or better, while in 2003 the share had increased to 96.6 percent (p.13). Alternatively, using 2003 CPIA ranks, 23.5 percent of FY99-03 lending was to countries ranked in the top quintile, and 79 percent to countries ranked above the median (WB 2004c, p. 14).

4. CPIA deconstructed: variations on a well-known theme

With selectivity, the Bank has increased its emphasis on the quality of the policies and institutions of a country, as captured in the CPIA, relative to need-based criteria when allocating its aid resources. This is allegedly meant both to direct resources to environments where they are expected to be relatively more effective, as well as encourage low-income country governments to 'improve' their policy performance (through some form of 'demonstration effect'). However, and firstly, the CPIA is a subjective measure and the performance rating is sensitive to small changes in scores, particularly through the governance factor. This raises the spectre of uncertainty and volatility of aid flows with well-known negative effects on debtor countries (Lensink and Morrissey 2000). Secondly, the deployment of the tool is built on the presumption of government control over policy outcomes. The Bank had explicitly emphasised, WB (2001i, p.3 original emphasis):

> The country policy and institutional assessment (CPIA) intentionally measures policies and institutional arrangements rather than actual outcomes (growth, poverty reduction) – in other words, the key elements *within a country's control* that determine growth and poverty reduction.

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[11] The weighting was further defended on the argument that IDA resources are anyway biased towards poor countries by virtue of the operational cut-off level (standing at $895 per capita as of July 1, 2004) (IDA 2005, p. 46).

[12] In 1990, the average per capita allocation to a good policy country was $4.7, and to a poor country $2 (Goldin et al. 2002, p.33).

[13] $6.5 average per capita per annum (pcpa) allocation for 'good' policy country; $2.3 average pcpa allocation for 'poor' policy country.

[14] This allocation applies for 63 of the 81 IDA-eligible countries. Eighteen countries IDA countries do not receive regular allocations. These include post-conflict countries (Afghanistan, Angola, Burundi, Congo DR, Congo Rep., Eritrea, Sierra Leone, and Timor Leste), blend countries for which allocations are fixed (Bolivia, India, Indonesia, Pakistan, Uzbekistan, and Yugoslavia), and inactive countries (Liberia, Myanmar, Somalia, and Sudan) (IDA 2003a, p.8).

Such an approach blatantly fails to acknowledge and take into account the various structural parameters, both domestic and international that constrain domestic policy stances. These typically include the state of a country's productive capacity, the skill base of its economy, its debt, its trade relations, etc, and tend to be worse the poorer the country. A quick calculation reveals that the average GNI per capita for the countries in the top quintile of the CPIA ranking is at least three times (and at times even four times) the size of the average GNI per capita for countries in the bottom quintile illustrating the tendency of the Bank's assessment tool to be biased in favour of better-off poor countries.[15] Thirdly, ODA constitutes a crucial resource for least developed countries dominating their investment and budgetary process, and the Bank's aid resources play an important gate-keeping role. As a result, any decrease in the Bank's aid allocation to a country is likely to have an amplified effect in terms of access to external resources, with particularly pernicious implications for the nature of the adjustment process a country will have to engage in (Bird 1997). Allocating aid resources to those that have already done a 'minimum of stabilisation/structural adjustment' (as captured in the CPIAs) risks jeopardising attempts in poor countries to raise their investment rates. Roland-Holst and Tarp (2002, p. 21) observed:

> Our essential argument is that greater care should be taken when applying macro performance evaluation to development assistance … Assessing economies with generic government policy ratings carries … misallocation risks. Simplistic macro rules-of-thumb not only compromise more rigorous credit and need standards, but reinforce the adversity of those living under substandard governance … It would be gravely ironic for aid agencies to compound the misfortunes of these people with discriminatory aid allocation.

Finally, there is of course the primary question of the particular policy/institutional agenda the CPIA seeks to promote and what is its relationship to growth and economic development. This is our concern in the rest of the section, and closer scrutiny reveals how the policy and institutional arrangements stipulated in the CPIA are neither sufficient nor necessary for growth and persistently preclude the various types of strategic interventions that have been deployed by the East Asian tiger economies.

4.1 CPIA: the economic core

Reflecting a set of additions on the Bank agenda during the 1990s that culminated in the proposal of a Comprehensive Development Framework (CDF) by then-president J. Wolfensohn (Wolfensohn 1999), the CPIA has come to encompass an economic core (macroeconomic and structural policies), augmented with concerns for 'governance', and social inclusion or equity.

The economic core of the CPIA, which comprises a set of macroeconomic and structural policies, has tended to be built around the following precepts: low inflation; an implicit preference for a surplus budgetary position; minimal restrictions to trade and capital flows; 'flexible' goods, labour and land markets (i.e. a legal, regulatory and policy environment supportive of private business); market-determined interest

[15] This observation is for quintile rankings since 2000, as quintile-based information on CPIA scores is only in the public domain since then.

rates; prohibition of directed credit; competition policies guaranteeing equal treatment of foreign and domestic investors ('national treatment'); 'virtually' complete capital account convertibility; protection of shareholder rights ('good corporate governance'); and no restrictions on public sector procurement (WB 1998b, 2000c, 2001j, 2002k, 2003i). As such it has duly perpetuated the traditional biases of the Washington Consensus: a monetarist preoccupation with inflation in the context of monetary and exchange rate policy; a bias against trade intervention; a bias against interventions in the commodity and labour markets; a bias in favour of private property rights structures; imposition of Anglo-American corporate governance principles; a preoccupation with corruption as a source of (static) welfare loss.

Yet, while most of these prescriptions persistently recur in the questionnaires steering the successive CPIA assessments between 1998 and 2003, it seems that, with the last CPIA exercises (WB 2004g, WB 2005e), the economic core of the questionnaire has been characterised by what, at first sight, appear not entirely inconsequential changes.[16] Firstly, whereas previous questionnaires explicitly assessed the extent to which a country's policy and institutional framework fostered capital movements, the latest version seems more elusive in that respect. In the questionnaires up until 2003, the imperative of an open capital account unequivocally appeared across two different categories: 'trade policy and foreign exchange regime' and, if not ironically, 'financial stability'. In the 2004 questionnaire, however, it is no longer explicitly mentioned (WB 2004g). Secondly, a whole set of specific policy prescriptions regarding the financial sector existed in the questionnaires up until 2003.[17] A country was explicitly in breach of good conduct (score '1') when, among other matters, it was using directed credit; when there was widespread state ownership in the financial sector and the country was reluctant to privatise; when there was differential treatment of foreign and domestic financial institutions; when financial markets were segmented; when interest rates were not market determined; and when there were strong capital controls (WB 1998b, 2000c, 2001j, 2002k, 2003i). A country's policy performance was superior (score '5') when, among other, there was equal treatment of foreign and domestic investors; 'virtually complete' capital account convertibility; no directed credit; state ownership of financial institutions is limited to commercially run institutions such as export credit agencies; and interest rates are market determined. In the 2004 questionnaire, however, few of these specific policy prescriptions recur. Of course, the preference for market-determined interest rates persists, but the explicit prohibition of directed credit or the imperative of 'national treatment' of foreign investment have disappeared from the questionnaire's narrative guidelines. Even the explicit restrictions on state ownership in the financial sector have dropped off the page. Instead, we find a preoccupation with Basle Core Principles for effective banking supervision (WB 2004g, p.15).

[16] Admittedly, a slight change of emphasis had already happened to the fiscal policy criterion with the 2001 questionnaire. Where the CPIA questionnaire had been traditionally characterised by an exclusive concern of fiscal policy with 'fiscal balance' (WB 1998b and WB 2000c), the 2001 questionnaire (and its successors) re-attributed a role for growth to fiscal policy (WB 2001j, p.4). Although the re-emergence of a growth concern attributed to macroeconomic policies moved the questionnaire beyond its original stabilisation bias, price stability remained the priority of monetary and exchange rate policies, and a strong concern that public spending might crowd out private investment persisted (WB 2001j and all the subsequent questionnaires).

[17] Note that the criteria 'financial stability' and 'financial sector depth, efficiency and resource mobilisation' in previous questionnaires were merged in the 2004 questionnaire into one criterion, 'financial sector'.

These changes are remarkable. Their meaning is, however, open to at least two interpretations. On the one hand, some will see the disappearance of the explicit mention of a set of policy imperatives as an indication of some opening of a developing country's policy space. In such an account, it would appear that certain lessons of the post-Washington Consensus, such as the hazards of capital account liberalisation and the fragility of the financial sector in developing countries (Stiglitz 1998) as well as issues raised by civil society organisations (see e.g. Alexander 2004; Northover 2004; Eurodad 2002),[18] have filtered through into Bank practice. The above-described alterations to the CPIA questionnaire are then seen as an indication of the extent to which these recommendations have found their way into the aid allocation mechanism. On the other hand, the question could be raised as to whether it is possible that those imperatives that have disappeared from the narrative guidelines of the CPIAs have somehow become 'embedded', and now steer the CPIA exercise in less visible ways.[19]

In this context, the guideposts, introduced in 2000 to assist staff in their judgement and which seek to provide what are projected to be 'objective' indicators, acquire particular importance. It is indeed remarkable that, as the narrative guidelines in the economic core of the CPIA questionnaire were altered along the lines described above, the list of guideposts that are to assist Bank staff in their judgement not only became markedly longer, but additionally and more interestingly, changed in character. While the guideposts in the economic clusters of the preceding questionnaires had mainly referred to PREM/DEC databases on economic indicators, the guideposts in the 2004 questionnaire have come to include sets of 'diagnostic reports'. These assess a country's regulatory/policy environment in specific areas and include: IMF IV Consultation Reports (for the 'macroeconomic management' and 'fiscal policy' criteria), Diagnostic Trade Integration Studies (for the 'trade' criterion), FIAS Administrative Barriers Reports (idem), WTO Trade Policy Reviews (idem), Investment Climate Assessments (idem and for the 'business regulatory environment' criterion), Financial Sector Assessments (for the 'financial sector' criterion), the Heritage Foundation's Index of Economic Freedom (for the 'business regulatory environment' criterion), and the World Bank Business Environment Survey (idem) (WB 2004g). The question then becomes whether these guideposts could have come to encompass the policy imperatives that are no longer explicitly mentioned in the narrative guidelines of the CPIA questionnaire, and, as a result, would be steering the staff's assessments of policy environments in more surreptitious ways.[20]

[18] See Fine et al. (2001) for a collection of essays on the limited differentiation between the post-Washington Consensus and the Washington Consensus. See also Van Waeyenberge (2006).

[19] A third alternative explanation, in line with what Gottschalk (2005) observed in his examination of the macroeconomic content of the PRSPs of 15 particular countries, would be that some of these policies have already been comprehensively implemented by debtor countries and hence no longer need emphasising. In his analysis, Gottschalk (2005) applauded the relative absence of the imperative of capital account liberalisation from the economic policy prescriptions embedded in the PRSP, only to discover that most of the countries he considered had already fully liberalised their capital account. Moreover, hardly any PRSP discussed the possible negative implications of such a policy stance or how these could be tackled.

[20] Originally, the presence of guideposts (initially mainly consisting of outcome indicators) had raised the issue of how their presence could affect the judgment of Bank staff when they are meant to score policy inputs. The OED evaluation of the PBA system (WB 2001i, p. 12) had observed how there is sometimes 'a built-in conflict between the use of these outcome indicators and the CPIA emphasis on policies rather than outcomes'. However, the issue becomes more intractable when the guideposts

As already mentioned, the narrative guidelines on the assessment of trade policy in the last CPIA questionnaire (WB 2004g) focus exclusively on the policy framework regarding trade in goods, without reference to the rules and regulations affecting capital flows. The narrative guidelines on the assessment of the financial sector, in turn, no longer make explicit reference to issues regarding foreign investors, state ownership or directed credit. Closer scrutiny of the guideposts that accompany the narrative guidelines for these respective policy/institutional categories, however, reveals how these specific policy imperatives have in fact been subsumed in the 'diagnostic reports' that now serve as guideposts to staff's assessment. These typically embody a bias in favour of foreign investment and trade, and are anchored in a framework of traditional welfare economics where government intervention is tolerated only in the context of static market failure.

Consider for instance the Administrative Barrier Reports (ABRs) that are to assist in staff's judgement of a country's trade policy (WB 2004g, p. 11). The ABRs are produced by the Foreign Investment Advisory Service, which is a joint service of the Bank and the IFC, and seek to identify what are considered administrative and regulatory constraints to foreign investment. These comprise regulations regarding import/export procedures, taxes, foreign exchange, immigration, access to land, etc. (see A. Stone 2003). Closer inspection reveals that it is standard practice for these reports to condemn such traditional policy tools as performance requirements relating to local content, export, local population employment, or local ownership; that they deplore 'regulatory barriers' in the labour market; and typically promote the principle of 'national treatment' of foreign investors.[21] Similar observations can be made regarding Investment Climate Assessments (ICAs) which tend to be biased in interpreting the investment climate in terms of foreign investors, and assess foreign investors' needs in what have been described as 'dangerously narrow terms', favouring labour market flexibility over job stability and human capital investment, and stock market liquidity over long-term predictable investment flows (Ellerman 2002). The Diagnostic Trade Integration Studies (DTISs), authored or commissioned by the Bank, and which are to guide staff's assessment of a country's trade policy, seek to evaluate 'internal and external constraints' on a country' s integration into the world economy. In turn, these reports abound with assessments of the extent to which foreign firms need to meet specific performance goals or guidelines. They further include specific assessments of the state of the capital account and regulation of financial services. The DTIS on Burundi, for instance, refers to the advanced state of liberalisation of the capital account and internationalisation of financial services in neighbouring Uganda (measures which imply convertibility of the currency and the elimination of any discrimination against foreign suppliers of financial services and their local correspondents), urging the government to follow this model of good practice (although 'with the necessary attendant prudence') (p. 44). Furthermore, the Financial Sector Assessments (FSA) that are to steer assessments of a country's financial sector policies, unambiguously promote the idea that the primary role of government in the financial sector is to be limited to providing a regulatory,

become increasingly dominated by diagnostic reports carrying clear judgments regarding policy and institutional settings.

[21] Note that, to the extent that a country is a signatory of the WTO, it is bound by the TRIM agreement which bans performance requirements related to local content, trade balancing, export requirements and also bans requirements on public agencies to procure goods from local suppliers (see Wade 2003).

supervisory and legal framework that seeks to promote 'soundness' and competition in the financial system (see e.g. FSA Kenya 2005, p. 3). Finally, the presence of the Heritage Foundation Index of Economic Freedom as a guidepost for the assessment of a country's "business regulatory environment" (criterion 6) serves to dispel any remaining doubts as to whether the original orthodox agenda has somehow been mollified in the latest CPIA questionnaires. The index entirely focuses on measuring the degree of government involvement in production, distribution or consumption of goods and services, and displays a blatant anti-interventionist bias and a particular concern for the regulatory environment affecting foreign firms. As such, the economic imperatives that are promoted through the CPIA keep up, in an arguably more surreptitious manner, the 'integrationist' model that was the trademark of the Washington Consensus and along which 'global integration has become, for all practical purposes, a substitute for a development strategy' (Rodrik 2001).

4.2 CPIA: beyond the economic

The economic core of the CPIA is complemented with 'equity' and 'governance' concerns. These raise a set of issues. First, the 'social' and the 'institutional' are added onto the 'economic' without reflection upon the social and institutional dimensions of the latter. In line with orthodox understandings of the discipline, the social and/or institutional remain in the margin of the economic, and are addressed ex-post or separately through recourse to specific institutions/policies (targeting, safety nets, 'governance' measures). Yet, the 'economic' agenda promoted through the CPIA is intrinsically 'social' as well as 'institutional'. Elson and Cagatay (2000, p. 1348) remark:

> all macroeconomic policies are enacted within a certain set of distributive relations and institutional structures; and … all macroeconomic policies entail a variety of social outcomes which need to be made explicit.

This has a number of contradictory implications. The social criteria rated in the CPIA, apart from being added ex-post, are constrained by the economic imperatives defended in the economic core of the CPIA questionnaire. Take for example the criterion that seeks to assess a country's policy performance in the areas of social protection and labour market regulation, which would seek to 'reduce the risk of becoming poor, assist those who are poor to better manage further risks, and ensure a minimum level of welfare to all people' (WB 2004g, p. 28). Yet, labour market issues are also covered in the criterion assessing a country's business regulatory environment (criterion #6), where the focus is on the effects of labour market regulations on firms' employment decisions. Following the latter, a country is urged to have an employment law that provides a high degree of flexibility to hire and fire at low cost (p.19), and state intervention is to be limited to regulation and/or 'legislation to smooth out market imperfections'. Furthermore, the various specifications of good policy in such areas as building human resources or social protection sit awkwardly with the stringent fiscal and monetary order embodied in the economic management cluster. The reality of the trade-offs between these different imperatives is ill-appreciated in the design of the questionnaire. In this context, it should be remembered that the social criteria effectively carry the lowest weight in the allocation norm deployed by the Bank. As was already mentioned above, all clusters in the CPIA carry a 25 percent weight, but the economic clusters each include only 3 criteria. This effectively reduces the weight of the criteria in the social and governance cluster, except that the weight of the latter is heavily inflated in the actual allocation norm through the application of a governance factor. As a result, the social criteria affect the performance-based allocation of aid only marginally: the social is in effect subordinate to the economic imperatives of ‘stability’, ‘balance’, and private (and foreign) sector promotion.[22]

Second, the relationship to development/growth of these additional issues incorporated in the CPIA remains dramatically ill-understood. Consider the underlying analysis of ‘governance’. Governance came to adorn the Bank’s agenda in the late 1980s (WB 1989) and evolved into a fully-fledged agenda item over the subsequent decade (WB 1992c; WB 1994b; WB 1997c). Concerns regarding governance were incorporated into the Bank’s performance assessments in the early 1990s and, with the 1998 redesign, came to constitute an entire cluster in the CPIA questionnaire.

For the Bank, ‘good governance’ implies a ‘public service that is efficient, a judicial system that is reliable, and an administration that is accountable to its public’ (WB 1989: xii). Three aspects of governance are distinguished: (1) form of political regime; (2) the process by which authority is exercised in the management of a country’s economic and social resources for development; and (3) the capacity of governments to design, formulate and implement policies and discharge functions (WB 1992c). Operationally, the first aspect lies outside the Bank’s mandate, which precludes it from letting political considerations influence its investment decisions.[23] As a result, the Bank has attempted to restrict itself to the ‘economic’ dimensions of governance. In practical terms, this has been interpreted as including: improving public sector management; increasing accountability; promoting transparency and information; strengthening the legal framework for development (including the establishment and protection of private property rights); promoting participation in programme and project design; and, control of corruption and military expenditure (WB 1992c, WB 1994b). Most of these concerns are covered in the current CPIA governance cluster as it seeks to reward: the familiar order of well-defined, transparent and well-protected property and contract rights which are to facilitate private economic activity (WB 2004g, pp. 33-34); comprehensive, consistent and balanced budgetary practices that incorporate poverty reduction priorities (WB 2004g, pp. 35-36); revenue mobilisation on the basis of ‘low-distortion’ taxes such as VAT or property taxes (rather than trade (import) or turnover taxes) and a single statutory corporate tax comparable to the maximum personal income tax rate (WB 2004g, p. 38); merit-based hiring and promotion in the civil service (p. 40); and existence of formal mechanisms (separation of powers, ‘independent’ media, information disclosure, etc.) to enforce high degrees of accountability and transparency, discouraging corruption or the abuse of public office for private gain (p. 42).

[22] It should also be noted that given that the scores on the various CPIA criteria have not been normalised, and that it is apparently more easy to score higher on the set of economic criteria than on the equity/social inclusion criteria (WB 2001i, p. 20), the effective weight of the former is further reduced.
[23] This is in contrast to bilateral donors, most of which have placed heavy emphasis on human rights and democracy.

The Bank's promotion of these governance features rests on a particular model of the role of the state. Yet, in as much as the underlying model of the state is ill-suited for the context of developing countries, its derivative governance prescriptions will be misguided. The view of the role of the state with which the Bank's governance agenda tallies is comprehensively depicted in the 1997 World Development Report, *The State in a Changing World* (WB 1997c). The interventions ascribed to the state in this report are, in principle, more extensive than projected under the state-market antagonism much associated with the Washington Consensus, with a broader appreciation of the incidence of market failure as the 'perfect markets' paradigm of the Washington Consensus is replaced by an 'imperfect markets' paradigm (Stiglitz 1989).[24] In practice, however, a set of institutional arrangements are prescribed, drawing on what are called 'inter-sectoral partnerships' between the state, private profit and non-profit sectors, and these project a persistent bias against direct state presence or strategic interventions on behalf of the state in the economy. In essence, the role of the state remains confined to improving the institutional environment under which private agents (beyond the profit-seeking sector) steer their interaction in socially desirable directions, now in response to a broader spectrum of incentives than just prices, including voice (through participation/decentralisation) and social capital (through collective action). The Report explains, WB (1997c, p. 25):

> The mere fact of market failure, and other problems of inequality and insecurity, does not mean that only the state can –or should- resolve these problems … The state's unique strengths are its powers to tax, prohibit, punish and to require participation … [These powers] can help resolve problems of collective action … In many countries the voluntary sector has stepped in to address some of the gaps in collective goods and services left by the market and the government … The challenge, then, for the state is to build on the relative strengths of private markets and the voluntary sector while taking into account and improving its own institutional capability.

Such a depiction of the state's role reveals a persistent legacy of the new political economy, and, in particular, of orthodox notions of welfare loss attributed to 'rent-seeking'.[25] Stiglitz (1996, p. 156) elucidates:

> The modern theory of market failures recognises however that government interventions may not actually improve matters. Theories of regulatory capture and rent-seeking imply that government interventions may contribute to inefficient resource allocation, and whatever their weaknesses, these theories have sufficient plausibility to suggest that governments need to exercise caution. How government intervenes matters a great deal.

In the words of the 1997 *World Development Report*, WB (1997c, p.8):

> A major thrust of any effective strategy to reinvigorate the public sector will be to reduce the opportunities for corruption by cutting back on discretionary authority. Policies that lower controls on foreign trade, remove entry barriers for

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[24] It is acknowledged that markets fail more persistently than previously recognised, and that this is especially relevant for the context of developing economies. The state becomes a necessary element ('partner') for the adequate functioning of the market economy (Stiglitz 1989).
[25] See Chang (1996) or Khan and Jomo (2001) for a critical appraisal.

> private industry, and privatise state firms in a way that ensures competition – all of these will fight corruption.

As a result, under the banner of matching the state's role to its capability and with a presumption of traditionally low levels of the latter in low-income countries and unlimited capabilities in the private sector, the stipulated areas of intervention for the state remain limited to a set of fundamentals. These comprise: establishing a foundation of law; maintaining a 'non-distortionary' policy environment including macroeconomic stability; investing in basic social services and infrastructure; and protecting the vulnerable and the environment (WB 1997c, ch.3).[26] The corresponding governance prescriptions focus on decentralisation, greater competition in the public sector, civil society participation, merit-based recruitment and promotion in the public sector (curbing political patronage in personnel decisions), rules and restraints to check 'arbitrary state actions' (including hard budget limits, accountability for the use of financial resources, transparency), and fighting corruption (WB 1997c, chs. 5 to 7).

Both the state model and its derivative governance arrangements as embodied in the CPIA are, however, ill-suited for the transformations that development entails. Khan (2002, p. 172) observes: [27]

> the historical evidence of rapid late development tells a very different story. Despite significant differences in the details of policy interventions across the high-growth developing countries, a common feature characterising virtually all of them was concerted rent-creating state intervention. … The flow of real resources into the hands of newly emerging capitalists was orchestrated through a variety of mechanisms including state control over or ownership of banks; and directly through taxes and subsidies. Even more important, particularly in the dynamic economies, was the discipline that the state could impose on the newly emerging capitalist class to ensure that these resources were not significantly wasted and that potential capitalists who failed to become productive lost out and resources could be transferred to others.

As an example, the Bank's understanding of corruption as inherently bad for growth fails to recognise that private capital formation and the emergence of a domestic entrepreneurial class often depend on a close relationship to the apparatus of the state. It is presumed that well-defined and unchallengeable private property rights are a necessary condition for growth or development. Nevertheless, the implications of alternative governance arrangements for growth crucially depend on the particular constellation of political-economic forces both within the state and society (and the nature of the relationships between these), the state of development, the nature of the international relations of the country, etc. The processes that drive development are not to be understood as an unfortunate deviation from a particular norm of liberal governance, but as strategies of adaptation and survival in contested settings of state-building. This suggests a need to analyse and understand the factors that sustain various forms of political economy (see also Macrae et al. 2004, p. 42).

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[26] A hesitant admission of the potential success of certain elements of industrial policy is made in the 1997 WDR, to be qualified immediately in terms of excessive institutional requirements, rarely present in developing country contexts (WB 1997c, ch.4).
[27] For a documentation of these processes, see Amsden (1989); Wade (1990); Khan and Jomo (2000).

Following this, the governance imperatives as embodied in the CPIA emerge as a technicist and ahistorical attempt to deal with complex underlying political-economic processes. Furthermore, attempts to attain a corruption-free, representative and accountable system of governance in a poor country may, as Khan (2002, p. 165) observes:

> not only not be achievable, but … divert attention from what actually needs to be done to improve the quality of state intervention to accelerate the transition and make it more socially acceptable.

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. The CPIA policy/institutional matrix does not correspond to the empirical reality of development. It at most describes what advanced economies could look like. An UNCTAD report (2002, p. 52) reminds us:

> there is considerable institutional diversity even among industrial countries today. Imposing a common institutional standard on all countries, with widely varying conditions, is likely to be counterproductive … Experience shows that attempts to superimpose such institutions on existing economic, social and political structures in developing countries may not only fail, but may also put considerable strains on their financial and human resources.

5. CPIA versus PRSP

In an attempt to marry the CPIA-steered selectivity framework to the recognition of the importance of ownership for the development effectiveness of assistance programmes, the WB, together with the IMF, in 1999, introduced a new 'negotiation' framework, the Poverty Reduction Strategy Paper (PRSP). Conditioning access to the IFIs' respective concessionary resources (the IMF's Poverty Reduction and Growth Facility (PRGF) and the IDA programme) as well as for eligibility for the Enhanced HIPC Initiative,[28] the PRSP projects to provide a 'country-owned' policy framework for poverty reduction. Within this framework, the Bank and other donors would be able to prioritise programme support and coordinate their aid more effectively. Once completed, the PRSP is reviewed jointly by the WB and IMF staff, who advise the BWIs' respective Executive Boards on whether the PRSP is a sufficient basis for concessional lending and/or debt relief.[29] The process of producing a PRSP is to be

[28] The PRGF was created by the IMF in 1999 as follow-up instrument to the ESAF, with an ambition to highlight explicitly the new anti-poverty imperative. The PRGF would try to induce policies that would focus both on economic growth and poverty reduction and that would, as a result of better national ownership, be implemented more consistently. The Bank added its own programmatic lending instrument, the Poverty Reduction Strategy Credit (PRSC), in 2001. Blend countries that do not seek PRGF arrangements do not have to produce a PRSP in order to have access to IDA resources.

[29] More precisely, the Boards of the BWIs endorse each of the required documents of the PRS process – Interim PRSP, PRSP, Annual Progress Report, and PRSP Preparation Status Reports – on the basis of a Joint Staff Assessment (JSA), recently renamed Joint Staff Assessment Note (JSAn).

repeated every three years. PRSPs are currently on the agenda of about seventy low-income countries (www.worldbank.org/prsp).[30]

There is a growing literature assessing the PRS Initiative. Its contributions are, however, often undertaken or commissioned by agents with a particular interest in the initiative (donor agencies or NGOs with a commitment to the participatory approach as an alleged route to 'empowerment').[31] These easily tend to have a technocratic bent, identifying 'problems' and 'solutions' within a context of broad acceptance of the PRS framework, and tend to defend the assumption that the PRS approach must be preserved (Fraser 2005, p. 235; Dijkstra 2005, p. 462). The intricate relationship of authors to important sponsors of the initiative can produce dubious premises. Booth's (2003, p. 155) projected understanding of ownership in his introduction to the acclaimed review of the PRS experience in seven African countries commissioned by the Strategic Partnership with Africa, serves as an indication:

> Morrissey … maintains … it does not fatally compromise the prospects of a policy's being effectively implemented that it has been taken 'off the shelf', for example, from a donor or international agency source. We have no trouble going along with this. It implies, among other things, that the fact that the RPSP process is an external initiative, from the point of view of all the study countries, is not a major problem for the assessment of ownership.

Assessments of the PRSP exercise, however, converge on a broad consensus denouncing the insufficient depth and breadth of the participatory process in the PRS initiative and its ambiguous repercussions for ownership (Driscoll and Evans 2003; Actionaid 2002; Killick and Abugre 2001; Brock et al. 2002; UNCTAD 2002; Booth 2005; McGee et al. 2002; Whitfield 2005). This is accompanied by an acknowledgment of the concomitant lack of diversity in the policies encapsulated in the various PRSPs, with a striking recurrence of such policy imperatives as trade liberalisation, privatisation, investment deregulation and fiscal stringency.[32] Nevertheless, it is found in the literature that PRSP countries have experienced slightly more autonomy in designing social safety nets and policies for the social sector (mainly in terms of public expenditures on health and education).

However, while the 'constructively critical' PRS literature (Booth 2003, p. 132) deplores the failures of participation to produce real national ownership of the policy space, its contributions easily fail to reflect on how these failures emerge as both effect of and conduit for IFI imperatives.[33] They easily propose to remedy the current unsatisfactory state of affairs by doing more of the same (increasing the participatory exercise) and address what are perceived to be capacity problems. As a result, they tend to reinforce the IFI agenda of 'capacity building' for policy-making, rather than

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[30] For the full list see http://siteresources.worldbank.org/INTPRS1/Resources/boardlist.pdf

[31] There are important exceptions, see e.g. Weber (2004); Fraser (2005); Brown (2003); Dijkstra (2005); Whitfield (2005); Tan (2005); Gould and Ojanen (2005).

[32] See for instance the summary table in WDM (2005) which inventorises the policies of 50 PRSPs.

[33] The evaluation office of the IMF itself has pointed out how the design of the PRS approach incorporates 'critical but largely unrecognised internal tensions', IEO/IMF (2004, p. 22):

> 'the PRS is to be country owned, but BWI policy assessments still obviously play a major role in financing decisions; it is to present strategic country aspirations, but also provide a sufficiently detailed operational guide for policymaking and external support; and it is to be country driven but meet various BWI-driven process requirements'.

identify the structuring role the PRS process plays in debtor-creditor relations (see also Tan 2005).

Closer scrutiny reveals how, notwithstanding the proclaimed ambition to make the PRSP the overarching framework for guiding assistance to countries, the predominance of the order imposed through the CPIA exercise persists in the operational realities of aid. The operational relevance of the PRSP has remained small, to the benefit of the policy frameworks imposed through the CAS, PRSC, PRGF and HIPC triggers – all effectively tallying with the CPIA. Ultimately, the PRSP comes about through a close collaboration between the debtor economy and the Bank/IMF, wrapped in a compulsory 'participation' procedure, with the CPIA results serving as beacons indicating areas on which the PRSP should focus (see also Harrison 2004).

Consider the relationship between the Bank's Country Assistance Strategy (CAS) and the PRSP.[34] The Country Assistance Strategy was introduced in FY91 and evolved into a strategic document for Bank assistance in the mid-1990s as the Bank sought to shift its focus from projects to more 'holistic' ways of supporting countries (Goldin et al. 2002, p.163). Drawing on Bank analysis (ESW), the CAS assesses a country's policy and institutional framework – macroeconomic policies, structural and social policies, institutions, and governance. Subsequently, it sets out a programme of Bank Group non-lending (analytical) and lending (adjustment and investment) support. Increasingly, the main policy prescriptions in the CAS are focused on aspects of the CPIA that are shown to be weak. The CAS encompasses three lending scenarios: low, base, and high case. The results from the CPIA inform the triggers for different lending scenarios, and the CAS base case is consistent with the performance-based IDA allocation (see above; IDA 2002a).[35]

Bank documents explicitly treating the PRSP-CAS relationship emphasise how the CAS seeks to operationalise those portions of the PRSP that are in line with key IDA goals, IDA (2002b, p. 42 my emphasis):

> As the PRSP becomes a full-fledged strategic document of the country, the CAS becomes in essence IDA's business plan in support of the country's poverty reduction strategy, *selectively* supporting country poverty reduction goals on which IDA agrees and is best placed to make a contribution.

The CAS then seeks to reflect the assessment as put forward in the Joint Staff Assessment of the PRSP, and articulates the extent to which the priorities of the IDA programme (or PRGF-supported programmes) are to be aligned with those of the PRSP, with the CPIA serving as a benchmark, WB (2004k, p. 22 again my emphasis):

[34] See Wood (2005) on the relationship between the PRSP and the PRSC.

[35] Triggers constitute some kind of 'mega-conditions' (BIC, p. 2) that apply to the entire Bank portfolio of a country. They are applied in an ex-post manner, in that a country will only move into a higher lending case scenario after the trigger conditions have been satisfactorily met. Triggers generally cover three areas: macro-economic management; the broader policy environment touching upon more 'structural issues' such as privatisation, trade liberalisation, labour market reform; and portfolio performance (WB 2005c, p. 12).

> For the Bank, the CAS is meant to build on the JSA to *selectively* design its assistance.

A recent proposal to redesign the CAS format to become more 'results-focused' (WB 2005c, p. 23) re-affirmed the nature of the relationship between the two documents. The primacy of the CPIA in determining the extent to which these documents will draw on one another persists, my emphasis:

> (i)f the PRSP does not reflect *global priorities* such as the MDGs, IDA13 and IDA14 performance indicators [own: the CPIA] … then writing the CAS will be more difficult because the document will have to strike the right balance between global and country priorities.

The CPIA thus effectively serves as a filter between a PRSP and the operational realities of Bank concessionary assistance as put forward in the CAS. The Bank clarifies, WB (2005c, p. 26):

> The heightened emphasis on alignment of the CAS with country priorities does not obviate the Bank's responsibility to assess the country's priorities, its economic and policy performance, the political environment, and other factors affecting development effectiveness and credit risk. A careful diagnosis by the Bank of the country's development challenges sets the state for the Bank to decide to which areas it can best contribute as to further the country's development … the Bank will not always be able to fully endorse a country's priorities and may sometimes opt for limited engagement.

In addition, it is expected that the implementation of PRSP policies reflects in the country performance (CPIA) ratings (IDA 2002b), revealing an implicit assumption that the former are necessarily in line with the imperatives embedded in the latter.

Nevertheless, while the CPIA conditions which countries have access to what, and the CAS rather than the PRSP prevails in determining the framework of engagement of the debtor country with the Bank, the PRS initiative fulfils an important function in the regulation of domestic understandings of policy options, in accordance with CPIA priorities. Even though the PRSP emblematically seeks to project the idea that domestic processes of 'participation' and the consequent 'ownership' of policies steer a country's poverty reduction strategy, it provides another attempt to 'teach' the Southern constituencies, governments and civil society alike, what 'apt' development and poverty reduction strategies look like, with the latter persistently conditioned by the unchallenged neo-liberal core set of ideas as summed up in the CPIA. In short, if the PRSP fails operationally, it fulfils an important ideological role. As such, it provides a fruitful conduit for the Bank's recent knowledge agenda.

6. The Bank and knowledge: tightening the web

The PRS project implies a far-reaching and widespread 'capacity-building' enterprise (in terms of the analysis of poverty, the monitoring of indicators, the facilitation of consultation and participation, etc.) that targets various segments of society (the executive branch of government, parliament, regional and municipal governments, and civil society organisations), and in which the IFIs are trying to assume an important role. A joint staff statement specifies, IMF/WB (2002, p. 22 original emphasis):

> To help countries to prepare realistic growth projections, develop alternative macroeconomic scenarios, and balance higher aid flows with the need to safeguard macroeconomic stability, **development partners – including the Fund – should engage early in the participatory process as it relates to the macroeconomic implications of countries' PRSP priorities and policy choices**. There are three levels of engagement in the PRSP process – vis-à-vis the government, PRSP working groups, and civil society. … Fund and Bank staff participation in the PRSP participatory process should seek to enhance the quality and depth of dialogue on macroeconomic and financial policies, on sources and projected rates of growth, and on alternative scenarios. …. (S)taff will continue to engage with civil society at large in the context of staff visits, external outreach, and routine contacts by resident mission/country staff. The Fund and Bank will also help build national capacity within governments (including parliaments), but also among CSOs, through technical assistance and learning activities.

To this purpose, the IFIs dispose of a host of tools. These include a PRSP Sourcebook drafted jointly by WB/IMF staff,[36] workshops, conferences, a learning programme of the WBI in support of PRS process ("Attacking Poverty"), training, guidelines, and so on. In addition, the Bank and Fund staffs present the country authorities with a common country-specific perspective on the 'key' impediments to faster growth and poverty reduction, the objective of which is 'to help the country authorities to produce a poverty reduction strategy in which policy actions to raise growth and reduce poverty are integrated into a coherent framework of macroeconomic, structural and social policies' (IMF/WB 1999a, p.13). Each BWI aims to do this along its traditional area of expertise. Thus, Fund staff seek to promote 'prudent' macroeconomic policies, structural reforms in related areas, such as exchange rate and tax policy, and issues related to fiscal management, budget execution, fiscal transparency and tax and customs administration. The Bank is to take the lead in 'advising' the authorities in the design of poverty reduction strategies, including the diagnostic work such as poverty assessments and their monitoring, the design of sectoral strategies, reforms that assure 'more responsive' institutions, and the provision of social safety nets (IMF/WB 1999b, p.14). The Bank staff would also advise on how to improve the effectiveness and poverty-orientation of public expenditure (through Public Expenditure Reviews and the like) and on other structural reforms such as privatisation and regulatory reform. Many areas will be shared between the two staffs, in particular issues touching upon the establishment of an environment 'conducive to private sector growth, trade liberalisation, and financial sector development' (p. 14).[37]

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[36] See http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPRS/0,,contentMDK:20175742~pagePK:210058~piPK:210062~theSitePK:384201,00.html.

[37] The engagement of the IFIs in a host of 'advisory' exercises related to the PRS process has further to be seen in the context of their recent involvement in the development of 'reports on the observance of standards and codes' (ROSCs) (see IMF, www.imf.org/external/np/exr/facts/prgf.htm). In this exercise, the two institutions undertake a large number of summary assessments of the observance of selected standards relevant to private and financial sector development and stability (see http://www.worldbank.org/ifa/rosc_more.html). See Soederberg (2004a) for a thorough assessment.

Hence, even it is 'crucial' that the PRSP is an 'accurate reflection' of the country's objectives and intentions, it is equally important that the IFIs 'inform' the process through country dialogue, analysis based on international experience, the Bank/Fund Joint Staff Assessment (JSA), and a host of 'learning programmes' (WB 2002b, p.11). IDA Deputies had specifically recommended, IDA (2002b, p. 22):

> Helping governments carry out diagnostic analyses during the PRSP process is a priority for IDA. Nevertheless, in many cases IDA will have to undertake core diagnostic analyses itself, particularly on baseline social and environmental conditions, fiduciary arrangements, and assessment of countries' readiness to make effective use of IDA resources. IDA will, however, always seek to build borrowers countries' capacity to undertake such analyses and will also draw on other sources of analytical work wherever possible.

Ultimately, a less observed but nevertheless pervasive implication of the PRS initiative then is that it provides another avenue along which the WB can steer its 'capacity building' (or newly discovered 'knowledge') role in LICs. Rather than providing a genuinely country-owned framework of engagement between debtor and creditor countries, the PRS process seems more about mainstreaming anti-poverty efforts in national policy processes across LICs and is to be seen in the context of other IFI initiatives related to that purpose – CAS consultations, ROSCs, and various knowledge activities (see below). As a result, these poverty-alleviation programmes have been accompanied by 'increased powers of surveillance and control over both public and private spheres in the South' (Soederberg 2004b, p. 285). The PRSP initiative comes to serve as a valuable mechanism through which IFI imperatives can be internalised by various segments of society in LICs. Booth and Lucas (2002, p. 3 original emphasis) candidly observed:

> no one should be under the illusion that the coming of PRSPs implies the end of old-style conditionality and performance benchmarks. It would be a mistake even to assume that it guarantees a reduction in the number and complexity of such conditions. But the role of PRSP processes in the Enhanced HIPC decision and completion procedures, and in the broader panorama of IDA and IMF activities, does bring something new into the incentive structure facing policy makers in countries of the region. It implies a leavening of traditional conditionalities with a new form focused on in-country *processes*.

Such an understanding of the process resonates in the most recent joint Bank-IMF review of the PRS initiative, where an appraisal of the role of the PRSP in streamlining ideas on development and 'apt' routes to poverty reduction (with the embedding of a set of particular macroeconomic, structural, judicial policies) takes prevalence over its role in organising or influencing the terms on which a country receives aid (IMF/WB 2005, p. 3). The Bank's Strategic Framework for Africa (WB 2004e, p. 78 original emphasis) further highlighted:

> As IDA works within this [partnership] framework, how IDA's effectiveness is measured also needs to change. Until now, IDA's impact has largely been measured through the *projects and programs* it has financed. Current measurement systems internal to the Bank … have primarily focused on judging the success of project-based lending. Yet, two other areas for results also

become critical in this model: policy dialogue and partnership. *Policy dialogue* includes both the analytical work done by the IDA, as well as other means of advising clients: informal policy notes, policy discussions, and workshops. As IDA moves toward supporting a country's PRSP, there needs to be an increased focus on how IDA is supporting the PRSP process, including the underlying analysis of development issues and solutions.

Thus, the PRSP approach has broad implications for both the process and content of the Bank's work in LICs, and this tallies well with the Knowledge Bank ambitions (see WB 2005d, p. 23). At the 1996 Annual Meeting then Bank President James Wolfensohn had called for the Bank to become a Knowledge Bank (Wolfensohn 1996). While the transfer of knowledge had always been a dimension of the Bank's role, the more so as it became leader of the aid regime when policy-based lending expanded rapidly, the knowledge initiative sought to broaden the scope and raise the profile of this function. This involved a whole set of Bank initiatives including: significant investments in Economic and Sector Work (ESW), the Bank's applied research programme which has expanded since the introduction of the PRS initiative (WB 2004k, p. 42; WB 2004e, p. 16); stabilising a longer-term decline in funding for research in the research department of the Bank (DEC); a massive reinvigoration of the World Bank Institute, the Bank's client learning programme with its client training expanding from 7,000 people in 1996 to a vast 110,000 in 2005 (WBI 2004); and a dramatic increase in a set of specific 'knowledge-promoting' initiatives including the Global Development Gateway and the Global Development Network (GDN).[38]

Consider the latter initiative.[39] The GDN is explicitly intended to be a forum for Southern knowledge-sharing through the organisation of conferences, collaborative research, research awards, etc, and more than 1,000 research and policy institutes through the developing world participate in GDN activities. While the Knowledge Bank 'scans globally' for best practice, the GDN partners are to 'reinvent locally', with local adaptation amounting to the 'reinvention' of 'best practice' for the new context by local research and policy institutes (Stiglitz 2000b; Squire 2001). Local policy and research institutions are to adapt and prepare a 'transplanted policy initiative' to 'survive better and perhaps thrive in the local environment'. As a result of this process of 'adaptation', government officials are more likely no longer to see policy reform as a foreign imposition, 'but as a local product that addresses their needs and which they can sponsor'. As such, and more so when viewed against the backdrop of a persistent decline in national institutes of research in developing countries over the last two decades (see Vaa 2003), the GDN can potentially play an important role in structuring the supply of development knowledge within developing countries, strengthening the advocacy and agenda-setting capacities of certain think-tanks and amplifying one discourse of a particular (economic) knowledge in

[38] For a comprehensive account of the various initiatives of the Knowledge Bank, see King and McGrath (2004, especially pp. 55-98).

[39] The initiative for the GDN originated in Development Economics Department of the Bank at the instigation of then vice-President, Joe Stiglitz, and in partnership with the WBI. Today, however, the GDN prides itself on its formal independence with headquarters in New Delhi, notwithstanding continuing budgetary dependence of more than sixty percent on the WB (see GDN AR 2005, p. 31). Since its inception, the GDN Secretariat has been headed by a former Bank official, Lyn Squire. See Johnson and Stone (2000) on the genesis of the GDN.

preference to alternative voices (see Stone 2000). Certain policy approaches are reinforced by the multiplication of organisations at a domestic level and, although alternative perspectives on development and grass-roots knowledge are not necessarily excluded, with the GDN explicitly embracing 'multi-disciplinarity', their influence is more tenuous given the particular status (and state) of the discipline of economics (see Stone 2003).

And this brings me, finally, to a few issues that might need to be raised regarding the Research Alliance for Development (RAD), a Bank-initiated network of academic and research institutions, under which umbrella the event for which this paper was submitted took place. While the GDN seeks to promote the development of research capacity and research networks in developing countries, with potentially strong implications for the nature of ideas reinforced, the RAD, according to its mission statement, seeks to foster relations between the Bank and outside academic and research expertise

Tying this back to the observations made above regarding the quality of the research on selectivity that provided the analytical cornerstone for the legitimation and promotion of CPIA-based approaches by the Bank across the broader donor community, the question obviously arises as to why the Bank would need to establish formal networks with academic and research communities when it has a particularly poor record of heeding existing critical commentary.[40] The reasons for the Bank's latest initiative to create closer ties with academic networks need to be critically examined – and maybe even more so given the initiative's origins in the Bank's External Affairs department. Indeed, it was the latter department that heavily leveraged its resources to promote the *Assessing Aid* results, undisturbed by their manifold flaws. Furthermore, why is the Bank keen to draw in the academic community, even those critical of the Bank, while it seems to remain intolerant of critical appraisals from within – as witnessed with the three high-profile resignations of the last few years, and as documented extensively in Broad (2006). Could this latest Bank initiative to bring in the academic community indicate a further attempt by the Bank to manage dissonant discourse? These issues need careful examination, not in the least given the Bank's recent spate of legitimacy-enhancing efforts, with little substantial effect as just documented above. Mechanisms that could possibly, even if unwittingly, amplify Bank discourse need serious scrutiny.

7. Conclusion

The CPIA exercise emblematically illustrates how in practice Bank assistance remains conditional in an even more stringent manner on a core set of neo-liberal policies, with a veneer of social and governance concerns. This combines with its commitment to country 'ownership' through Poverty Reduction Strategy Papers (PRSPs). The latter come about through close collaboration between debtor country and the Bank/IMF, wrapped in a compulsory 'participation' procedure in which CPIA results serve as beacons indicating areas on which the PRSP should focus. The recipient country as such facilitates a policy framework, developed according to Bank/IMF priorities, that ties certain aspects of social policy formation to the well-known

[40] This has been probably most striking in the way in which the Bank has dealt with the various critiques that were provided during the era of structural adjustment. For a most recent illustration, see SAPRIN (2002, pp. 23-26).

neoliberal macroeconomic framework. In this manner, poor economic performance is invariably attributed to weak implementation rather than wrong policies; and the core policies upon which assistance is conditioned, as reflected in PRSPs, are anchored in what can aptly be called the 'Washington Consensus plus plus'. Moreover, countries that have not yet sufficiently 'improved' their policies and governance are to benefit from ideas (mainly transferred through policy dialogue and advisory services) rather than loans. The pedagogical role of the Bank moves centre stage, supported by a host of knowledge initiatives. As such, a logistical aid framework has emerged that can more successfully guarantee the adoption of the Bank's reform agenda, which now has a broader reach than was originally the case under the era of structural adjustment and stabilisation, and which contributes to 'an intricate web of surveillance and discipline' that seeks to spin 'common-sense values' across and within national spaces (Soederberg 2004).

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