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Center for Comparative and International Studies (CIS)

Working Paper No 39, 2008

Published by the Center for Comparative and International Studies (ETH Zurich and University of Zurich)

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ISSN 1662-7504

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POVERTY REDUCTION STRATEGIES, DEMOCRATIZATION AND THE ROLE OF THE WORLD BANK

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DRAFT, 25 August, 2008

Abstract

Through the principle of country ownership including broad-based participation, Poverty Reduction Strategies (PRS) introduced by the World Bank and the IMF as a new condition for aid at the turn of the century have a non-negligible potential to promote democratization in developing countries. In this paper, we highlight how this potential could be made use of. At the same time, we develop a simple model which shows that, from a rational choice perspective, we cannot currently expect this potential to be explored, except for highly exceptional conditions of international public attention and transparency. Case study evidence for Malawi and Uganda is consistent with this hypothesis.

Keywords: Poverty reduction strategies, World Bank, political economy, democratization
JEL codes: D73, D78, O55, O57

1. Introduction

The Poverty Reduction Strategy (PRS) approach adopted by the World Bank and the IMF at the beginning of the new millennium has opened up unprecedented opportunities, not only for increased aid effectiveness, but also for fostering democratization[1] in developing countries. As the predominant objective of PRS is poverty reduction, the latter potential has not attracted much attention in the academic and political debate so far. Nevertheless, it is highly relevant for at least three reasons: (i) Democratization is a widely recognized objective in itself, (ii) certain dimensions of democratization appear to be positively related to development and aid effectiveness (see e.g. Rigobon and Rodrik 2005, Svensson 1999, 2003, Wright 2006), and (iii) traditional foreign aid is frequently said to have harmful effects on state institutions in recipient countries (Moss et al. 2006, Bräutigam and Knack 2004, Knack 2004).

The PRS potential to foster democratization in developing countries arises through the principle of 'a country driven process including broad-based participation' (World Bank 2007: 1). This principle is detailed in various other World Bank and IMF documents and complemented by detailed advice on implementation which further highlights the strong relevance of participation for the PRS approach (World Bank 2000, 2008a). In this paper, we highlight the potential that the participatory processes entail for democratization. At the same time, we develop a simple model which shows that, from a rational choice perspective, we cannot currently expect this potential to be explored, except for highly exceptional conditions of public attention and transparency. We examine this hypothesis on the basis of two country case-studies in sub-Saharan Africa: Malawi and Uganda. Finally, we discuss institutional conditions which could make it more realistic to make use of the PRS for democratization. To simplify the analysis, we focus on the role of the World Bank, which has the leading position among the two international financial institutions (IFIs) regarding both the promotion and the assessment of participatory processes.

Our work brings together different strands of the literature in the fields of political science, economics and development studies. On the one hand, it builds on the theoretical literature on democratization in developing countries (Beetham 1994, Diamond 1999, Linz and Stepan 1996, O'Donnell 1996, Luckham et al. 2000, van de Walle 2002). On the other hand, it is based on literature on the political economy of aid and the political economy of international organizations (see e.g. Lahiri and Michaelowa 2006, Dreher and Michaelowa 2008, Vaubel and Willet 1991). Finally, it can draw from a large body of literature directly focusing on the impact of the PRS approach (Booth 2003, Dijkstra 2005, Driscoll and Evans 2005, Fraser

[1] In this paper, we use 'democratization' as a term, including both, the phase of transition and the phase of democratic consolidation (for details, see Croissant and Merkel 2004).

2005, Hefeker and Michaelowa 2004).

However, despite the significance of a profound understanding of the opportunities and risks of the PRS in the context of their impact on the democratization process in developing countries, little research has been conducted in this field thus far. We are aware of only two studies providing a conceptional framework to discuss some aspects of the impact of the PRS on democratization (Brown 2004, Eberlei 2007). Some further studies provide primarily descriptive evidence for individual country-cases (Gould and Ojanen 2003, Spanger and Wolff 2003) while others concentrate exclusively on specific aspects such as the role of parliament (Eberlei and Henn 2003, Hubli and Mandaville 2004) or how to strengthen the links between the PRS and the national budgets, with a view to improving domestic accountability (World Bank and GTZ 2007). None of them analyzes the specific opportunities the IFIs might have to influence the PRS processes with regard to democratization. Moreover, the incentives of the IFIs to actually make use of the opportunities to foster democratization through the PRS remain under-investigated.

We build on the existing literature and complement it with a formal theoretical model and our own country-case studies for Malawi and Uganda. These country-case studies allow us to obtain the relevant information for a comparison across countries as well as over time, and to obtain more focused information on the role of the World Bank that is required to assess the predictions of our model.

Following this introduction, the paper starts with a theoretical discussion of typical democratic deficits in developing countries and how they could be affected by the PRS approach (Section 2). In Section 3, we develop our rational choice model of World Bank behavior which leads us to the positive analysis of empirical evidence based on the two country-case studies in Section 4. Conclusions and policy recommendations are presented in Section 5.

2. The PRS potential and the role of the World Bank

According to Luckham et al.. 2000: 22ff.) four major categories of democratic deficits can be identified in typical developing countries:

(1) Hollow citizenship
(2) Weak vertical accountability
(3) Low horizontal accountability
(4) Strong international accountability.

Hollow citizenship implies that citizens do not enjoy equal rights and entitlements. Political equality is absent either because of flaws in democratic institutions or because of deficits in democratic politics. The former manifests itself, inter alia, in poorly protected political rights and civil liberties, constraints on freedom of expression and organization and unequal access to legal and administrative systems. The latter is partly manifested in social inequalities on the basis of region, ethnicity or religion. It further refers to the exclusion of women and minorities from the public sphere and the fact that the poor cannot make use of their formal political rights due to lack of resources and organizational skills (Luckham et al. 2000: 22ff.).

Weak vertical accountability refers to the lack of government accountability towards its citizens or (non-public) organizations of the latter (e.g. civil society, private sector organizations, political parties).[2] Vertical accountability is often weak in spite of regularly-held elections (van de Walle 2002: 68). This is partly due to procedural flaws, e.g. in the voting systems. Elections are frequently beset by irregularities and thus cannot be deemed as free and fair. Citizens are offered little choice between alternative political programs at elections. Political parties do not perform their primary function of interest aggregation. This is a corollary of vested interests, the weakness of political parties and / or their internal division. The interests of the poor and marginalized, in particular, are weakly aggregated (Luckham et al. 2000: 22ff). Civil society organizations are subject to similar flaws, thereby further compounding the effective control over governments. The development of vertical accountability is also hampered by infringements on civil liberties (van de Walle 2002: 68). There are only few channels for citizens to influence government policies between elections (Luckham et al. 2000: 22ff).

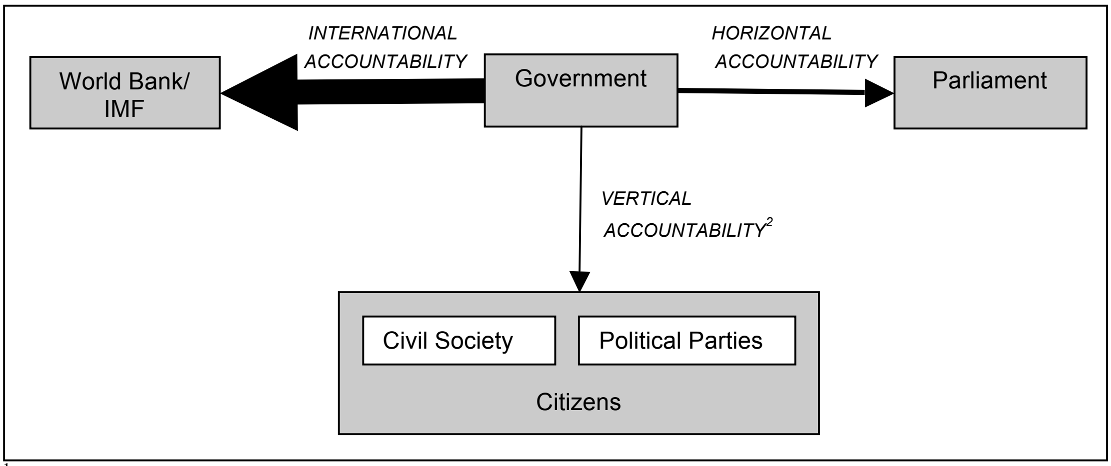
Weak horizontal accountability is defined as the limited capacity of government institutions to check abuses of power by other public agencies and branches of government (Diamond et al. 1999: 3). The vast majority of African states are characterized by dominant governments and weak parliaments (van de Walle 2003: 309). Weak constitutional checks and balances generally result in low horizontal accountability of governments towards both the legislature and the judiciary (Luckham et al. 2000: 23f.; van de Walle 2002: 68). As the effectiveness of horizontal accountability largely depends on the mechanisms of vertical accountability (O'Donnell 1996), its development is constrained as long as vertical accountability remains weak.

Lastly, ***strong international accountability***, defined as government accountability towards international organizations or, more broadly, the international community, hampers

[2] We neglect the vertical accountability between parliament and the citizens because in developing countries with PRS processes, parliaments are typically so weak that this aspect does not become relevant.

democratization in many developing countries. National governments are confined in their decision-making as many relevant decisions are strongly influenced by multinational firms or international bodies like the World Bank or the IMF (Luckham et al. 2000: 23f). This exacerbates the inability of citizens or parliaments to hold their governments accountable and is therefore strongly related to the deficiencies in the areas of vertical and horizontal accountability. Development assistance contributes to this democratic deficit due to both, political conditionality attached to the disbursement of aid funds, and the decrease in governments' dependency on taxes. If governments rely to a large extent on aid funds rather than on taxes, their dependency on citizens is reduced. This in turn reduces the accountability between state and society (Bräutigam and Knack 2004, Knack 2004, Moss et al. 2006, Tilly 1975). As a corollary, governments often display greater accountability towards donors than towards their own citizens (Bräutigam and Knack 2004: 265).
An illustration of these democratic deficits is provided by Figure 1. While hollow citizenship is not presented explicitly in the graph, it can be interpreted as part of the vertical accountability arrow.

Figure 1: The typical imbalance of accountabilities in developing countries[1]



[1]The thicker the arrow, the greater the degree of accountability.
Source: Adapted from World Bank and GTZ (2007: 35).

The democratic deficits outlined above could be mitigated by the PRS approach in the following way: According to the PRS principles (World Bank 2007: 1, 2008a) the PRS approach is based on country ownership and broad-based participation. This implies that the government rather than the international financial institutions should develop its poverty reduction strategy, and it should do so in cooperation with a large part of the society and relevant stakeholders (World Bank 2008a). This procedure is in turn expected to strengthen vertical accountability (World Bank and IMF 2005). In this context, the role of the World

Bank and the IMF would be reduced to consulting during the elaboration of the strategy, to endorsing the strategy after its completion, and to financing its implementation in cooperation with bilateral donors. Funding should then depend on the existence of the PRS rather than on individual IFI imposed conditions. This should reduce the role of international accountability.

Moreover, if the strategy is indeed based on broad-based participation, in order to reach ownership of the PRS by a large part of the population or its representatives, these groups will gain interest in the follow-up of the PRS implementation. Once involved in the initial participatory process, they gain the experience, the contacts and information necessary to hold the government accountable. Importantly the PRS should generally improve access to information on government activities for both civil society and parliament, especially on its priorities concerning the budget. This should strengthen both vertical and horizontal accountability. By making funding conditional on the involvement of certain groups in the country's decision about its PRS, the IFIs could directly support domestic accountability mechanisms. By encouraging parliamentary debates and decisions, they could strengthen the role of the legislature and of political parties. If this process is encouraged, PRS might even lend themselves for a content-based (rather than ethnic or regional) positioning of political parties which would in turn strengthen democratization. Finally, the IFIs could support the participation of certain previously neglected groups within the civil society, thereby strengthening the voice of the poor and reducing the problems of hollow citizenship.

Given the World Bank's strong emphasis on country ownership and broad-based participation which is reflected in the IFIs' PRS related documentation such as the Poverty Reduction Strategy Paper (PRSP) Sourcebook (World Bank 2008a), initial observers expected that indeed, with the introduction of the PRS, the IFIs had moved from policy conditionality to "process conditionality" (Foster et al. 1999, Hefeker and Michaelowa 2005). With this shift in the focus of conditionality the PRS would offer a strong potential to mitigate democratic deficits and strengthen democratization.

After almost ten years of experience with the PRS approach, empirical evidence does not suggest that this potential has been effectively explored. When the preliminary versions of the first PRS (Interim-PRS) were accepted by the World Bank and the IMF, broad-based participation (and thus country ownership as a whole) was far from achieved, and even involvement of parliament was frequently neglected. Often, information was available only in English and therefore not accessible to a large part of the population. Moreover, the whole process was often rushed through without taking the time for civil society organizations (CSOs) with limited administrative capacity and technical knowledge to even gather the relevant information (Booth 2001, Marshall and Woodroffe 2001). Later in the process, when moving from interim to final PRS and to their second and third editions, the situation did not show much improvement. Critics argue that, in particular, the PRS process was not sufficiently anchored in existing democratic institutions as parliaments were only marginally involved in the formulation and the implementation of the strategy (Brown 2004, Eberlei and Henn 2003, Spanger and Wolff 2003, Gould and Ojanen 2003). Moreover, the inclusion of CSOs is regarded as highly discretionary and nontransparent, often with the result that those who are already most influential even gain more influence at the expense of those who are marginalized (Brown 2004). Even the World Bank's own evaluation of the PRS process acknowledges these shortcomings (OED 2004, World Bank and IMF 2005). This suggests that the potential of the PRS to mitigate certain democratic deficits has not been explored; rather, these democratic deficits might have been exacerbated.

The only political actors, possibly able to explore the PRS potential to foster democratization appear to be the IFIs, notably the World Bank. We cannot expect this use of the PRS by domestic political actors. The IFIs, however, have apparently not been very effective in promoting the democratic potential of the PRS. While democratization has never become an official goal of the PRS approach along with poverty reduction, the above discussion shows that the IFIs put a strong emphasis on country ownership and broad-based participation which are strongly related to democratization. The World Bank itself acknowledges the potential of the PRS to mitigate accountability deficits (World Bank and GTZ 2007: 4), but it does not appear to use its leverage to actually further broad-based participation. The question thus arises why this is the case.

The following section therefore attempts to explain the incentives of the World Bank and how they relate to the Bank's activities in the context of the PRS.

3. A political economic model of World Bank behavior

Let us follow the literature on the political economy of bureaucracy (see e.g. Moe 1997 and Wintrobe 1997) and its application to international organizations (see e.g. Vaubel 1991, 2006). From this perspective, we will look at the World Bank as an international bureaucracy with a stylized bureaucratic utility function (U) depending positively on its budget (*budget*), power and influence (*power*), reputation and prestige (*prestige*), a comfortable working environment (*comfort*) and leisure (*slack*).

$$U = f\,(\textit{budget, power, prestige, comfort, slack}) \qquad (1)$$

We further assume decreasing or constant marginal utility with respect to each of the arguments, so that we obtain a well behaved concave utility function.

In our context, related to broad-based participation, the World Bank can maximize this utility using two specific instruments, namely the support of broad-based participation (*support*), and the rhetoric of broad-based participation (*rhetoric*). Let us assume that *rhetoric* is fixed at the international level as it is embodied in a vast documentation on the PRS easily accessible for bilateral donors, international non-governmental organizations (NGOs) and the general public via the internet, and actively spread via the press and other media. As described by Easterly (2002), *rhetoric* may follow trends driven by rising international criticism of earlier approaches which periodically give rise to the announcement of reform or even of a new era of development cooperation. Indeed, towards the end of the 1990s, it was widely acknowledged that traditional aid had failed, and that aid would not be effective without country ownership (White and Morrissey 1997, Hermes and Lesink 2001, Drazen 2002; for an overview of this debate focusing on the IMF see also Dreher 2008).

We do not intend to examine these developments in more detail here. What is important to us is that, given its international spread and the effective transparency around it, the World Bank *rhetoric* can be considered as fixed over a certain number of years, before the next big wave of reform. We will thus assume it as given for the period of time under consideration here. Moreover, as it is fixed at the international level, there is no differentiation of the instrument with respect to different recipient countries. These assumptions considerably facilitate our analysis in that we do not need to consider maximization over two distinct variables.

We will now turn to the other instrument of interest which can be fine tuned over the short term and adjusted to the individual country context. *Support* to the participatory process can be provided by the World Bank to different degrees. It varies on at least two dimensions: the intensity of support and the coverage of support. The intensity of support ranges from no action, to information sharing, to the active promotion of the participation of certain groups and their inclusion into actual decision making and finally to binding conditionality with respect to the participatory process. Coverage may be defined over the share of policy areas and / or the share of civil society organizations and democratic institutions considered in the process. Overall, *support* will be regarded as strong, if its intensity and coverage are high, and as weak, if intensity and coverage are low. In between combinations will have to be considered on a case by case basis later.

Now, how is *support* related to the objectives in the World Bank's utility function? Given the international *rhetoric*, NGOs, bilateral donor agencies and the general public can expect the Bank to guarantee that broad-based participation actually takes place. If the Bank does not, and this is known to these external groups, this will have a negative impact on *prestige*. By the same token, if the Bank's support of participatory processes is high and this becomes known, it will be seen as successful which has a positive impact on *prestige*. For this positive relationship between *support* and *prestige*, it does not matter whether the external perception of success is related to achieving the declared objectives of participation and country ownership, or to the indirect effect of greater aid effectiveness. What does matter, however, is transparency (e.g. through international media), so that the World Bank's effort to enhance participation can get effective recognition from outside observers.

At the same time, *support* can have a negative impact on *budget.* As for any other bureaucracy, spending the available funds is usually necessary to avoid budget cuts in later periods. Now if aid disbursements were effectively made conditional to democratic processes such as parliamentary debates, and the inclusion of the civil society (including, in particular, the most marginalized groups) it might either take very long until these conditions were met, or they might not be met at all. Thus disbursements would frequently be delayed, and there would even be a risk that they could not take place at all.

In addition, *support* is negatively related to *power*. To some extent, this is a direct corollary of the discussion in Section 2 as illustrated in Figure 1. As long as the government is the only relevant political decision maker within a developing country, but is itself strongly accountable to the World Bank and the IMF, the *power* of these institutions is highest. Hence, by definition, any attempt to strengthen horizontal and vertical accountability at the expense of international accountability reduces the Bank's own power position.

In addition, the World Bank's power towards bilateral donors is enhanced through its role as the coordinating agent of much of the overall aid flows allocated to the PRS. If this role could truly be assumed by agents in the developing country (e.g. government or parliamentary committees) the World Bank would lose much of its current relevance. Therefore, even from this perspective, *support* is negatively related to *power*.

The effect of *support* on a comfortable working environment, however, is not so easily determined. The relationship depends on the type of group whose participation is supported. Groups with which the World Bank needs to work closely together (such as senior staff in the finance ministry) can spoil the local World Bank economists' working climate if they do not receive the support they demand. Local CSOs can also be relevant for *comfort*, if they are vocal, constantly present in the policy debate and have a strong local constituency. It may then considerably ease working conditions to take their opinions into account rather than to work against them. This implies that, the stronger the role of any group before the PRS, the greater will be the World Bank's incentive for its inclusion in the participatory process. As there can be conflicts of interest between various CSOs (e.g. trade unions versus private sector associations or government ministries), this aspect may be even more relevant. With respect to the type of group which is supported, the impact on *comfort* depends on the relevance this group has in the first place.

In addition, the policy areas in which the different groups could participate plays a role, too. In the area of macroeconomic and trade policies where the IFIs' relevant peer group consists of economists, bankers, and experts in other financial organizations, the effect of *support* on *comfort* will be rather negative, at least if support for broad-based participation leads to policy decisions which are not consistent with mainstream economic thought. Given the long standing tradition of the IFIs in this area, a World Bank economist might find it difficult to explain such a policy shift even within his own organization. In other areas, such as health and education, the development of new ideas in a broad consultation and / or decision making process may be highly welcome. To sum up, whether and to what extent the *support* of the participation of a particular group will raise or diminish *comfort* depends on both, its political relevance and the sector of its activities.

Finally, we consider that for local World Bank representatives, to the extent that *support* is an extra activity outside their core functions and requirements, it requires extra effort and thus reduces *slack.*

Assuming decreasing marginal effects of *support*, we can summarize the above relationships as follows:

$$Budget = g_1(support), \qquad g_1'<0,\ g_1''<0 \tag{2}$$

$$Power = g_2(support), \qquad g_2'<0,\ g_2''<0 \tag{3}$$

$$Prestige = g_3(\theta \cdot support), \qquad g_3'>0,\ g_3''<0, \qquad 0<\theta<1 \tag{4}$$

$$Comfort = g_4(\Sigma_i(\alpha_i \cdot support_i)), \qquad \alpha_i \cdot g_{4i}'\geq 0,\ g_{4i}''\leq 0, \qquad -1<\alpha_i<1, \quad 0\leq support_i \leq S \tag{5}$$

$$Slack = g_5(support), \qquad g_5'<0,\ g_5''<0 \tag{6}$$

where *g*' and *g*'' are the first and the second derivatives with respect to *support* or $support_i$, $support_i$ is support for participation of group i, and α_i is a parameter reflecting the group's positive or negative influence on *comfort*, whereby α_i is itself a positive function of the initial relevance of this group (*relevance*$_i$) and a negative function of the importance of the policy area / sector for the World Bank's image as an international bank (*sectorimp*$_i$), $\alpha_i = h(relevance_i, sectorimp_i)$. θ is a parameter indicating the level of transparency which is important for *support* to be perceived outside the country. Maximal support which can be offered to any single group is limited to *S*. Finally, overall support is the sum of support to the individual groups: $support = \Sigma_i\, support_i$..

To simplify our model, let us now assume that we do not have to consider any interaction effects between the different arguments in the World Bank's utility function so that we can express (1) as the weighted sum of the functions $g_1 - g_5$:

$$U = f\,(budget,\ power,\ prestige,\ comfort,\ slack)$$
$$= \gamma_1 g_1(support) + \gamma_2 g_2(support) + \gamma_3 g_3(\theta \cdot support) + \gamma_4 g_4(\Sigma_i(\alpha_i \cdot support_i)) + \gamma_5 g_5(support), \quad (7)$$

where γ_j are the respective weights with $0 \le \gamma_j \le 1$ and $\Sigma_j \gamma_j = 1$.

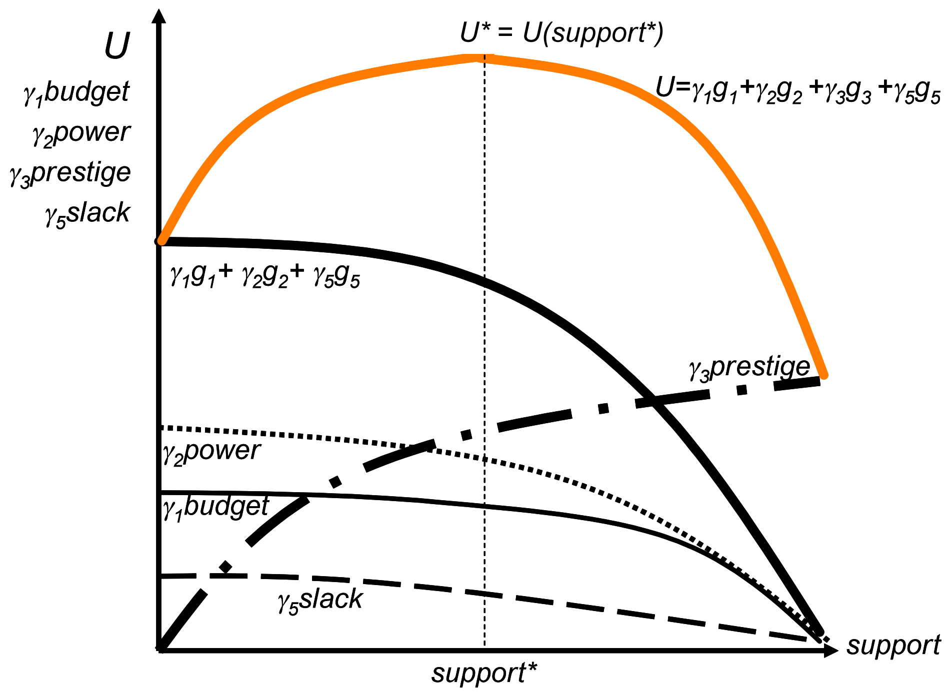
Assuming an interior solution, the conditions for utility maximization are then given by:

$$\delta U / \delta support_i = \gamma_1 g_1' + \gamma_2 g_2' + \gamma_3 g_3' + \gamma_4 g_{4i}' + \gamma_5 g_5' = 0\,, \quad \text{for all i,} \quad (8)$$

whereby g_3' depends on θ, and g_{4i}' depends on α_i.

To illustrate what this implies, let us first consider the most simple situation, in which $\alpha_i = 0$ for all i, i.e. a situation in which we do not have to distinguish between different groups as comfort is not driven by their support. (Note that the same situation arises if $\gamma_4 = 0$, i.e. if *comfort* receives a zero-weight in the World Bank's utility function.) Figure 2 illustrates this situation. Summing up the three negatively sloped concave functions related to *budget, power* and *slack* as well as the positively sloped concave function *prestige*, we obtain maximum utility at *support**. At this point, the marginal utility gained by further *support* via higher *prestige* is exactly offset by the marginal utility losses via reduced *budget*, *power* and *slack*. As a corollary, the steeper the slope of the prestige function as compared to the joint slope of the other three functions, the higher will be the World Bank's optimal level of support.

Figure 2: The World Bank's utility maximization problem for $\alpha_I = 0$



In our model, the steepness of the slope of the prestige function depends upon θ, i.e. the higher the level of transparency, the greater should be the World Bank's overall *support*. Usually, the information which international NGOs, head offices of bilateral donor agencies or the generally interested public obtains about development policies implemented in specific countries varies across developing countries and over time. This leads us to the following pair of testable hypotheses:

H1: If there is a different level of (international) transparency for two developing countries, broad-based participation will be more strongly encouraged in the more transparent one.

H2: If, for any given developing country, the level of (international) transparency changes over time, broad-based participation will be more strongly encouraged during the period in which transparency is higher.

Note that the slopes of the different curves also depend on the weights γ_j attached to each of them in the World Bank's utility function. With respect to the *slack* function, the theoretical discussion suggests a link between γ_5 and the binding character of activities to promote broad-based support. We imagine that World Bank officials usually have a rather tight schedule of activities even if they fulfill only their most relevant obligations. While a certain set of tasks must be handled because of binding commitments or regular reporting duties, extra effort is required for additional activities, and the latter compete with the (anyway strongly constrained) opportunity for leisure. If *support* belongs to the binding commitments, there is no way the effort can be avoided, the slack function becomes irrelevant and its weight γ_5 is very small. At the extreme, it becomes zero so that the slack function vanishes completely. As one can make out from Figure 2, this reduces the (joint) steepness of those functions which negatively depend on *support*, i.e. of $\gamma_1 g_1 + \gamma_2 g_2 + \gamma_5 g_5$, thereby shifting *support** to the right. The opposite must be expected, if γ_5 is very high because effort with respect to *support* is at the sole discretion of the local World Bank officials without any reporting requirements. We can therefore formulate a third hypothesis:

H3: The higher the discretion of the local World Bank representatives with respect to support, i.e. the lower its binding character, the lower will be the level of effort for broad-based participation actually provided in any developing country.

Let us now return to a discussion in which we also acknowledge for different utilities out of the support of different local groups. In our model, this implies that we must relax our preliminary assumption of $\alpha_I = 0$ for all i. In (8) we assumed an interior solution, but note that in fact, this assumption will be satisfied only under very restrictive conditions once we take into account the different groups and the limitations of the $support_i$ to each of those to S. To see that, we return to the first order conditions for a utility maximum. Equating any pair of these conditions yields:

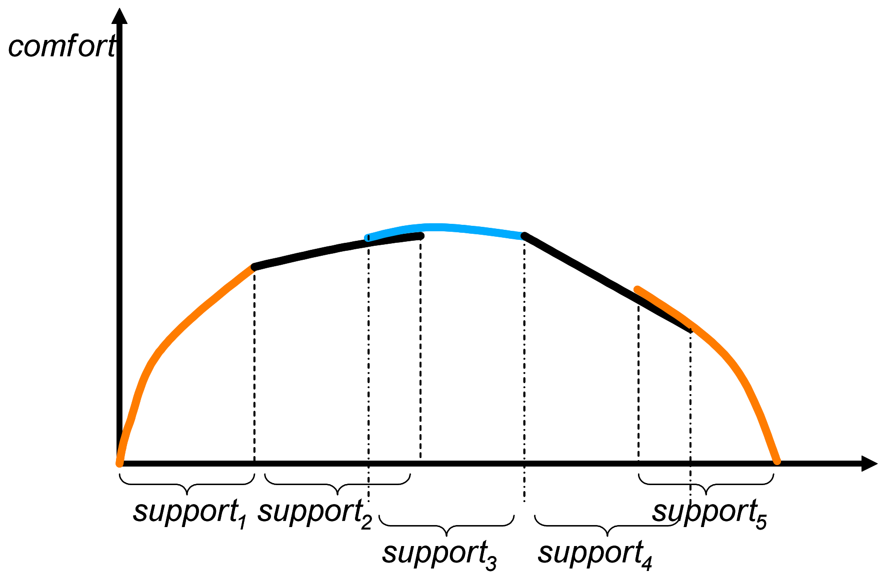
$$g_{4i}' = g_{4j}', \quad \text{for all i,j} \tag{9}$$

i.e. marginal utility must be equal for the support of any two different groups. (Trivially, the equation always holds if the groups are equal, i.e. if i=j.). If α_i and α_j are of the same sign, according to (5), g_{4i}' and g_{4j}' must also be of the same sign, and in this case, equation (9) can hold at least in principle. However, if α_i is positive while α_j is negative or vice versa, (9) cannot be satisfied. What this means is that if we compare two groups whose inclusion into a participatory process has a positive effect on *comfort* in one case, but a negative effect on *comfort* in the other case, there is no possible level of *support* for which marginal utility will be equalized.

If marginal utilities cannot be equalized within the possible range of $support_i$ [0,S], utility maximization will yield corner solutions. For instance, if we have a society with only two groups for which α_1>0 and α_2<0, then the World Bank will first support group 1, and only consider supporting group 2 if $support^* > support_1$ and $support_1 = S$, so that further support for group 1 is no more possible. A similar situation arises when $\alpha_1 > 0$ and $\alpha_2 > 0$, but if the (positive) marginal utility of supporting the participation of group 1 is always higher than the (equally positive) marginal utility of supporting group 2 (even at maximum support S for group 1). More generally, this implies that in order to maximize utility, the Bank will order the different groups with respect to their marginal utility, starting with those groups for which marginal utility is highest.

As marginal utility from *comfort* decreases with rising $support_i$, there will be certain overlaps where the marginal utilities for certain groups become equal. Considering the whole spectrum of groups the *comfort* function can be illustrated as in Figure 3 below.

Figure 3: Comfortable working conditions and the support of individual groups

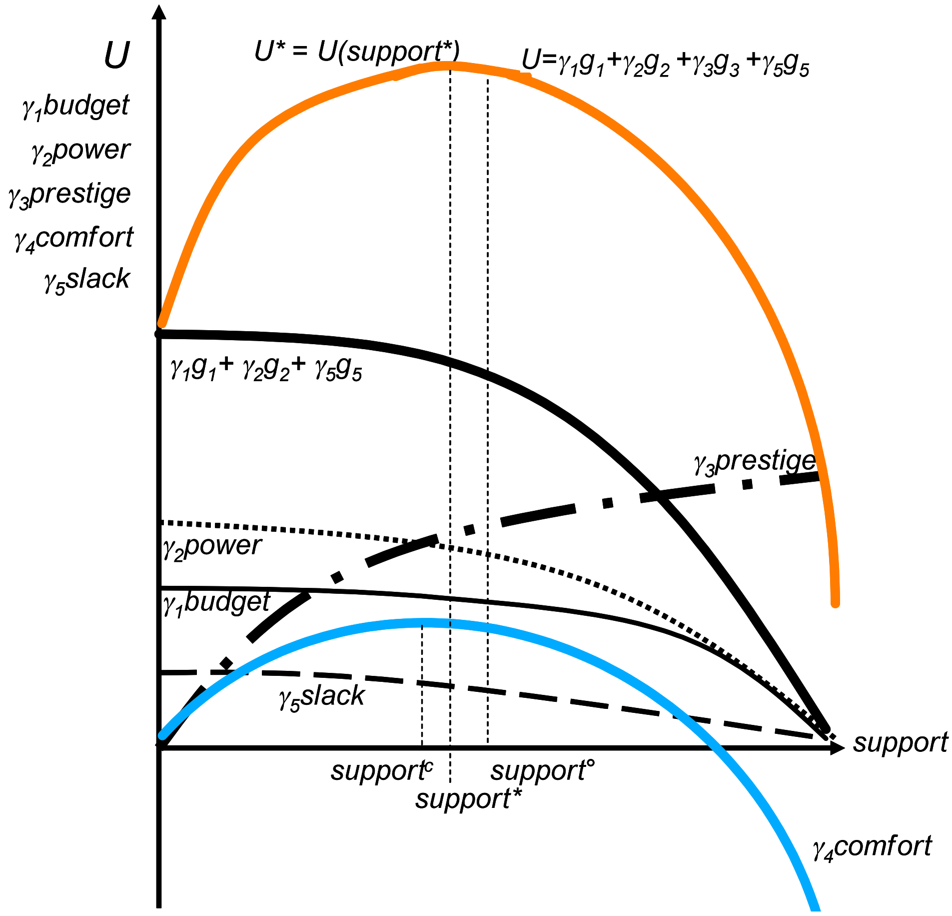


If the areas with overlaps were stretched in order to take into account that the simultaneous support of two groups implies double support, we could present the same figure with *comfort* as a function of overall support. The smaller S and the higher the number of groups, the smoother will be this curve. At the limit we can even assume *comfort* to be a continuous function of overall *support*. From the above discussion, we then only need to keep in mind the underlying ordering of different groups. This considerably facilitates the remaining analysis as it allows us to replace the complex *comfort* function in the World Bank's utility maximization problem. The utility function (7) can be replaced accordingly by:

$$U = f(budget, power, prestige, comfort, slack)$$
$$= \gamma_1 g_1(support) + \gamma_2 g_2(support) + \gamma_3 g_3(\theta \cdot support) + \gamma_4 g_4(support) + \gamma_5 g_5(support) \qquad (10)$$

This leads to a straightforward maximization over *support*. Figure 4 illustrates the overall optimization problem by integrating the simplified comfort function into Figure 2.

Figure 4: The World Bank's overall utility maximization problem



As drawn here, the *comfort* curve has its maximum at *support*^{c} to the left of the original optimum (now identified as *support*°). To the right of *support*^{c} the slope is negative thereby adding to the (unchanged) negative effect of support on power, budget and slack. This draws the new optimum to the left towards *support*^{c}. The new optimum *support** is thus somewhere between *support*^{c} and *support*°.

The latter would also be true if the *comfort* curve had been drawn in a way that *support*^{c} had been to the right of *support*°. However, here, the curve was purposefully drawn with its peak to the left of *support*°. This is because this illustrates the more interesting case in which the overall optimum lies to the right of the optimum of the *comfort* curve, i.e. in an area where – remembering the underlying ordering of groups supported – the 'last' groups benefit from support despite a negative influence on *comfort*.

In general, the addition of the comfort curve does not change any of the previous argumentation related to the slope of the other curves. However, it adds the perspective of the integration of different groups. Without consideration of the *comfort* curve, fostering *support* could have been equivalent to increasing support across the board, with equal support for each group. The above discussion shows, however, that utility maximization implies a ranking of groups which will usually lead to full support for some and zero support for others, depending on their contribution to *comfort*. As in our model the individual group's contribution to *comfort* is driven by α_i, which in turn is a function of $relevance_i$ and $sectorimp_i$, we can formulate the following hypotheses:

H4: The higher the initial relevance and power of any group, the higher are the chances that its participation will be supported.

H5: The higher the importance of a particular sector of activities for the image of the World Bank, the higher are the chances that the participation of groups active in this sector will be avoided.

Moreover, we can come back to the above discussed impact of an enhanced (international) transparency via greater prestige, and / or a reduced weight of the slack function due to an inclusion of *support* into the World Bank local representatives binding commitments. In both cases, the overall optimum is shifted to the right. For any given comfort function, this now implies that even more "uncomfortable" groups will be included in the World Bank's overall support for broad-based participation. If we have a shift in the opposite direction, however, even groups whose participation may actually render World Bank officers' work more comfortable might no more be included. Let us summarize these arguments in our final two hypotheses:

H6: The higher international transparency (and thereby prestige from support), the lower (or even: the more negative) will be the impact on comfortable working conditions by the marginal group.

H7: The stronger the binding character of support, the lower (or even: the more negative) will be the impact on comfortable working conditions by the marginal group.

We will now continue our analysis of World Bank behavior on the basis of our case studies and examine the consistency of the empirical evidence with our theoretical hypotheses.

4. Case study evidence for Malawi and Uganda

Clearly, the model predictions summarized in the above hypotheses are consistent with some of the concerns raised in the literature based on the empirical observation of PRS processes in different countries (see Section 2). However, our model suggests focusing more specifically on the World Bank's direct effort to foster these processes. To some extent, this will also enable us to avoid confounding political developments which would have taken place anyway with those which are truly driven by the PRS. Moreover, we need to adopt a comparative perspective in order to discuss the differences between countries which must be expected on the basis of our model.

With Malawi and Uganda we selected two former British colonies located in East Africa, both ranked as partly free by Freedom House (2008a, 2008b). While both carry out presidential and parliamentary elections which are relatively free at least in Malawi, they show many other democratic deficiencies, related, in particular, to the role of the judiciary, and the role of the legislature and political parties. In both cases, we are thus looking at countries in the process of democratization or, more narrowly, democratic consolidation.[3]

In addition, both countries are highly dependent on international development assistance. In 2006, the latest year for which data is available, the share of aid in gross national income was 16.9% for Uganda and 30.5% for Malawi (OECD/DAC 2008). This is much higher than average aid dependence in low income countries (3%) and in Sub-Saharan Africa (6%) (World Bank 2008b). This implies that public expenditure is largely driven by aid. Within overall aid, in both countries, the multilateral share – clearly dominated by the World Bank's International Development Agency (IDA) – is very high, between 40 and 50% for 2004 and 2005, and even over 80% in 2006 (OECD/DAC 2008). Thus, in both countries, the World Bank is an important political actor with the potential to effectively influence institutional structures and political accountability through the PRS process.

Now, in the context of our model, the interest of comparing Malawi and Uganda lies primarily in two areas in which they differ:

First, international transparency is much higher for Uganda. This may be related to the fact that Uganda is about twice as large as Malawi, in terms of population size and country surface, and about thrice as large economically. In addition, it lies in a region which has traditionally attracted relatively high interest in the Western World. Whatever the reason is, the evidence for this greater transparency with respect to Uganda is clear: Looking at the number of articles related to either of the two countries in the international press since January 2000, we find that Uganda is mentioned about five to six times as often as Malawi (LexisNexis 2008). If we specify our search and combine the country name with a reference to the World Bank and to "Poverty Reduction Strategy", we obtain 913 hits for Uganda and 379 for Malawi. This shows that with reference to this specific context, Malawi is mentioned

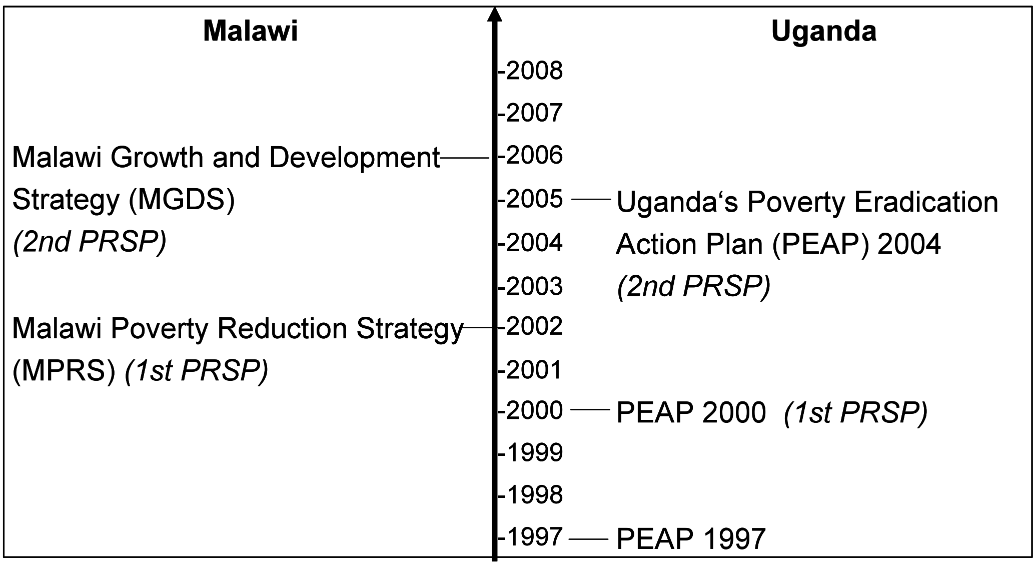
[3] Malawi is clearly in the phase of democratic consolidation while this may be debatable for Uganda.

relatively more often than for any general news, but still Uganda is mentioned about thrice as much.

Second, the relevance of different groups is different in Uganda and Malawi. Uganda has long been known for its vibrant civil society, including multiple NGOs and various special interest groups who even have representatives in parliament (see e.g. Piron and Norton 2004, Freedom House 2008b). At the same time, there were no competing political parties in Uganda until 2005. In Malawi, competing political parties do exist ever since the introduction of democratic elections in 1994. However, the civil society remains weak and largely unorganized in Malawi, and even existing organizations apart from the Churches, face severe capacity problems and lack strong membership bases (Bertelsmann Foundation 2006: 5, Bwalya et al. 2004: 12).

For these two reasons, Uganda and Malawi are interesting country-cases for a comparative analysis. Moreover, as the PRS processes have now been followed for about a decade, we can extend our comparison over time. During this period, three poverty reduction strategies have been adopted in Uganda, the first in 1997, i.e. even before the PRS approach became an official policy of the IFIs. A revised version was recognized as an official PRSP in 2000, and a second edition of the latter was endorsed in 2005. In Malawi, the first PRSP was adopted in 2002 and a second version in 2006. Figure 5 provides an overview of these dates and the local names under which the strategies are known in the two countries.

Figure 5: Poverty reduction strategies in Malawi and Uganda



Five sources of evidence were explored to gain the information necessary to carry out the empirical analysis: expert interviews, electronic questionnaires, informal conversations, direct observation, and document analysis. In the case of Malawi, the empirical data was gathered during a two-month stay in Malawi between July and September 2007. This also allowed us to access interesting local documents such as the minutes of parliamentary sessions which could be explored by quantitative content analysis. For Uganda, a field study was not deemed necessary as much information on the PRS process in this country was already available. However, additional information was gathered using electronic questionnaires and telephone interviews. For details of the empirical methodology, including the lists of interviewees and the questionnaires see Dürr (2008) and Vollenweider (2008). In both cases, data triangulation was considered an important principle to ensure the reliability of the results.

Let us now examine what our theoretical hypotheses imply in these different country contexts and to what extent they are consistent with the results of our empirical analysis.

The first two hypotheses are related to the impact of transparency across countries (H1) and over time (H2). As Uganda is much more strongly represented in the international media, both in general and with respect to the PRS and the role of the World Bank, the Bank's role is under much closer scrutiny here. According to our model, the Bank's prestige should therefore more strongly depend upon effective broad-based participation in Uganda than in Malawi. Indeed, Uganda is among those countries where CSOs have been relatively influential throughout. For this reason, the country has also been considered in the literature as one of the most successful examples of the new PRS approach (Canagarajah and van Diesen 2006, World Bank 2008a: 547). The Bank supported the involvement of CSOs primarily through the active spread of information, in particular by translating the relevant documents into regional languages. Moreover, it invested heavily in the establishment of a strong coordination unit within the government, situated at the Ministry of Finance, Planning and Economic Development (MFPED). This unit was supported not only through information sharing, but also through intensive capacity building and training.

In Malawi, it is difficult to make out any active role of the World Bank with respect to fostering participation. This is clearly in line with our expectations considering the comparatively low international media coverage of Malawi. Compared to Uganda, average participation was certainly less. CSOs have had a much weaker role, and even within government, the PRS was largely at the responsibility of only a few administrative officials. This is true, in particular, for the second PRS adopted in 2006. Interviews consistently showed that given the change of the PRSP's name from "Malawi Poverty Reduction Strategy" (MPRS) to "Malawi Growth and Development Strategy" (MGDS), the drafting process of the second edition actually went virtually unnoticed by most stakeholders, even by the majority of those who had been involved in the first PRS.

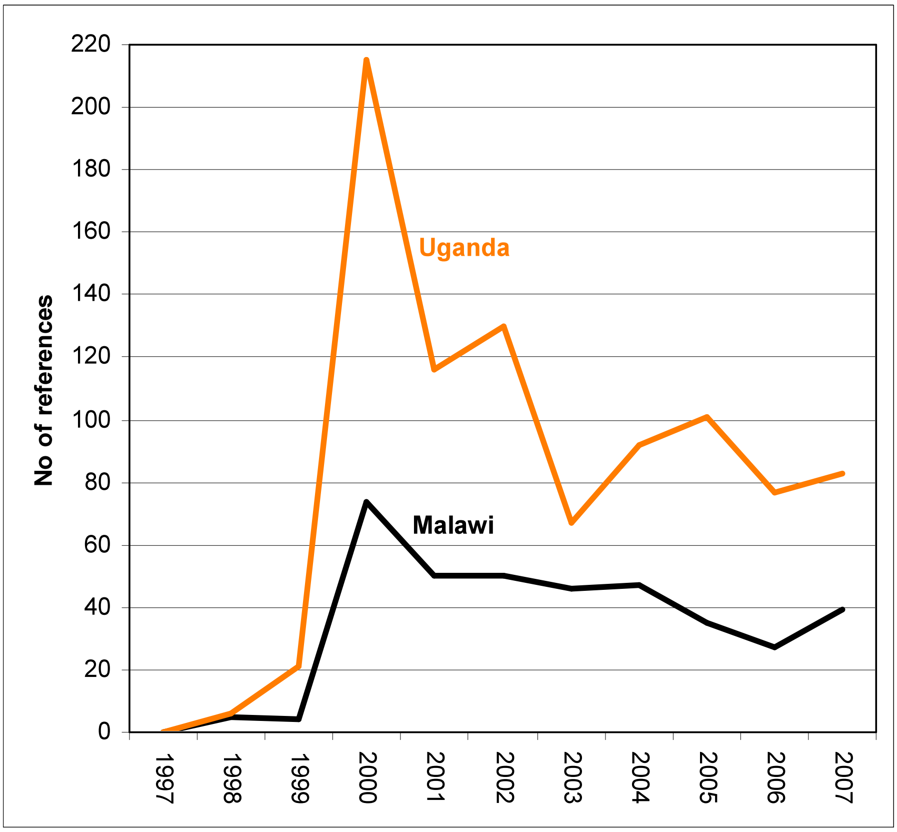
These differences between the two countries are clearly in line with H1. Let us now examine more closely the change over time. In Malawi, the first PRS at least included some consultative processes whereby interested CSOs and members of parliament were invited to participate in various thematic working groups (Bwalya et al. 2004, Chirwa and Nyirenda 2003, James and Chirwa 2006). Indirectly, the inclusion of CSOs further strengthened the role of the legislature since CSOs passed relevant information on to members of parliament. In fact, a rather intensive collaboration between CSOs and parliament developed in particular with respect to the budget. Since the first PRS, CSOs have distributed their PRSP based budget analyses to parliament, and opposition parties have taken up some of these positions in parliamentary debates (Bamusi 2006a). This effectively highlights the potential of the PRS to strengthen the role of parliaments (and thereby, indirectly, horizontal accountability).

However, as mentioned above, effective opportunities for participation decreased substantially in the formulation process of the MGDS. Unlike in the first PRS, government first established the framework of the strategy and consulted stakeholders only thereafter. Moreover, in the formulation process of the second PRS, there were no established thematic working groups but only ad hoc groups. The absence of established thematic working groups considerably decreased the opportunities to participate for both CSOs and members of parliament (Bamusi 2006b). This is exemplified by the fact that no members of parliament participated in the formulation of the second PRS, that the PRS was hardly mentioned in parliamentary debates, and that many CSOs that actively participated in the first PRS were not consulted anymore. The only stakeholder gaining weight in the second PRS was the private sector (see also Record 2007).

According to H2, a decline in international transparency could explain this reduction in the support of participation. On the basis of the counts of references in the international press (LexisNexis 2008) Figure 6 shows that indeed, transparency has decreased considerably over time. Interestingly, we do not even observe peaks for the years of adoption of the PRS, but a rather continuous decline ever since the PRS became a topic of the international discussion in 2000.

Interviews in Malawi also revealed a direct link between international transparency and participation. In fact, it appears that during the first PRS process, international interest in the issue was strong enough to enable local CSOs to launch a media campaign in order to increase the time frame for the drafting process initially foreseen to last only four months, a time frame clearly insufficient for any meaningful participation. As a consequence, international NGOs put pressure on the IFIs, an effort which finally resulted in a process lasting over one year, thereby allowing CSOs and the parliament to participate in a more significant way.

Figure 6: PRS in the international press



Note: “No of references” refers to the number of sources quoted as a result of a search for <country name> & World Bank & Poverty Reduction Strategy.
Source: LexisNexis (2008).

In Uganda, the situation is somewhat different. Uganda’s first PRS recognized by the IFIs coincides with the start of the international debate which results a particularly high peak in the year 2000 with an even stronger decrease of international interest thereafter. However, after a nadir in 2003, the international interest rises again until the adoption of the second PRS in 2005. Nevertheless, in Uganda just as in Malawi, the overall decline in international interest is clearly visible. The corresponding decline in participation, is, however, not as obvious as in Malawi. Nevertheless, even in Uganda interviews indicate a (slight) general decline as government seemed to be less inclined to incorporate the CSOs’ perspectives into the official documents. Moreover, looking at the time prior to the official introduction of the PRS approach, we also find evidence in line with H2. Note that the national PRS adopted in

Uganda in 1997 goes almost unnoticed by the international press. We do not get more than eight counts even when replacing “Poverty Reduction Strategy” by the appropriate national term “Poverty Eradication Action Plan” and when omitting the simultaneous reference to the World Bank. Evidence from our interviews indicates that participation clearly increased from the national PEAP to the first PRSP in which consultations with local CSOs took place for the first time (see also McGee 2000: 87).

Let us now turn to the third hypothesis emanating from our model. It leads us to expect that World Bank officials would rather engage in fostering broad-based participation if support of stakeholder participation were part of their binding commitments. To our surprise, our country-case studies show that despite the World Bank’s principles laid out in the PRSP Sourcebook (World Bank 2008a) neither in Uganda, nor in Malawi, supporting participation in the PRS is considered a binding requirement by local World Bank representatives. Interviews with local World Bank economists underscore this point. The only requirement is to include a description of the participatory process in the IMF and World Bank annual staff reports (World Bank and IMF 2004). There is no requirement to monitor the participatory process. Clearly, participation has not become a precondition for development assistance. Thus, while World Bank statements and official documents in the initial phase of the PRS approach made external observers believe that a firm requirement concerning participatory processes would replace traditional policy conditionality by a new “process conditionality” (see Section 2), the available evidence today clearly contradicts this initial impression. As before, traditional conditionality defines the overall credit extended by the World Bank through its Poverty Reduction Support Credit (PRSC), which effectively predefines the margins for policy options in the PRS (IDA 2005). This also implies that international accountability remains as dominant as before. Participatory processes have not been turned into conditionality. Criteria to measure effective participation have not been introduced either into the Country Performance Rating (CPR) that is the basis for measuring country progress and represents the major set of indicators used for the World Bank’s decisions on credit disbursements. This situation strongly suggests that despite the introduction of the PRS approach and the principle of “country ownership including broad-based participation” institutional incentives for World Bank staff to encourage participation are very limited.

Given that the IFIs’ overall staff instructions are identical for all developing countries, we do not find any difference in this respect for our two country-cases. However, H3 can be assessed on the basis of change over time. Closer examination of the IFIs’ joint staff reporting guidelines reveals that the (even initially very limited) reporting requirements seem to have been relaxed over time. With the change from 'Joint Staff Assessments' to 'Joint Staff Advisory Notes' in 2004, the Executive Boards of both IFIs explicitly requested local staff *not* to evaluate but only to describe to what extent participation was realized (World Bank and IMF 2004: 5, fn. 4). In line with our hypothesis, this went hand in hand with a clear reduction in actual depth and length of reporting. Over time, any element of criticism with respect to government effort to ensure participation vanished from the reports (see e.g. for Malawi: IMF and IDA 2003, 2006a, 2006b).

Let us now turn to the remaining hypotheses which will consider the composition of groups in the participatory process. While the previous hypotheses focused on the overall level of participation, the following hypotheses allow us to differentiate between groups. Obviously, this analysis is most critical to assess the PRS potential to mitigate the accountability problems discussed in Section 2.

H4 and H5 suggest that at any given level of overall support for the participatory process, a group's initial power and its area of activity determine its chances to be included. With respect to initial power, our theoretical argument is consistent with the empirical observations by Brown (2004). Looking at our two country-cases we observe that in Uganda, indeed, ever since president Museveni came into power in 1986, it has been part of the ideological position of the government of Uganda to support the political participation of special interest groups (including their representation in parliament). Therefore, certain CSOs were quite powerful even before the World Bank introduced the PRS approach and the Bank does not seem to have attempted to change the prevailing power structure and to give stronger voice to initially marginalized groups. Democratic deficiencies related to hollow citizenship – via the inclusion of some groups to the detriment of others – was thus not questioned or countered by the Bank and, if at all, reinforced through information sharing in the context of the PRS approach. Moreover, as already mentioned above, the Bank's strongest support went to the Ministry of Finance, Planning and Economic Development which already had the most powerful position within a government itself dominating the political system. Here, interestingly, training was so intensive that over time, many positions at the Ministry of Finance became indistinguishable from those of the Bank. Parliament was traditionally very weak and did not receive any specific support by the Bank although this would have raised horizontal accountability. Similarly, political parties were not supported, either. Before 2005 competing political parties were not even legalized, i.e. their initial role in the political process was negligible (Freedom House 2008b). Supporting party building around discussions of the PRS would have been an interesting option to enhance their role, but would have opposed the position of President Museveni and would have led to very difficult working conditions for World Bank staff, especially when directly cooperating with the Ugandan government. After all, as indicated above, government, especially the Ministry of Finance, was the Bank's most important partner in the PRS process. As a consequence, responsibility to include or not to include certain groups was completely left to the government, too. Thus indeed, the PRS approach in Uganda does not seem to have resulted in changed power relations and stronger vertical and / or horizontal accountability. This confirms both, the predictions of H4 and the concerns expressed in earlier studies focusing on this aspect of the PRS.

The situation in Malawi is somewhat different in that the first PRS included consultations with a number of newly established and hence rather weak CSOs as well as with some members of parliament. In addition, the Churches which have always been the most relevant non-public actor in Malawi did not play a significant role in the process. Finally, the weak private sector became an important stakeholder in the drafting process of the second PRS. While the support of CSOs under these conditions might appear to be in contradiction to our hypothesis, this is not necessarily the case.

First, while relatively weak as compared to Western standards of democracy, the parliament in Malawi has a relatively important role as compared to many other African countries, notably as compared to Uganda. Second, it appears that the Churches did not search for a direct involvement in the process but preferred to be represented by the Public Affairs Committee (PAC), an umbrella organization including all relevant religious organizations in Malawi (including Muslims), and which was consulted, at least on the first PRS (not on the second, however). Third, while virtually non-existent before the start of the first PRS process, some politically active CSO networks were actively supported by other (bilateral) donors in parallel to the PRS process, which may have strengthened their position. Finally, among CSOs, the degree of popularity and analytical capacity clearly played a role in the inclusion decision. This certainly excluded the most marginalized groups.

Malawi also provides some interesting evidence for our hypothesis on the impact of a CSOs area of activities (H5). According to the majority of participants interviewed, the working groups which were initiated for the consultations prior to the adoption of the first PRS, mostly functioned well, and the final document integrated many aspects of the discussions. This was true at the notable exception of the macroeconomic working group which was eventually abandoned. In the preparation process of the second PRS, macroeconomic policy was fully excluded from any discussion. This indicates how the selections of topics for discussion provide an indirect means for the World Bank and government to include or exclude certain CSOs.

For Uganda, similar evidence for H5 is available. Interviews with local CSOs as well as local World Bank staff reveal that macroeconomic issues were excluded from consultations right from the beginning. In addition, both CSOs and staff of the Ministry of Finance observe that, while thematic working groups were initiated on a continuously widened range of themes, World Bank staff was present in each of these groups and exerted an indirect control over the subjects discussed.

Our sixth and seventh hypotheses finally combine the question of which group is included at the margin with the influences of transparency (H6) and the binding character of participation (H7) on overall support. Clearly if the optimal level of overall support is higher, our model predicts that the marginal group can be somewhat more uncomfortable to work with. As both international transparency and the IFI reporting requirements decreased over time (see discussions of H2 and H3) both hypotheses lead us to expect that groups with low political relevance and 'uncomfortable' subjects should have been avoided during the second PRS even more than during the first. Moreover, as international transparency is higher for Uganda, we should observe that if at all 'uncomfortable' groups are included this should be the case there, rather than in Malawi.

In Uganda, we observe that the number of groups included is high, so that it may indeed encompass some 'uncomfortable' CSOs. As opposed to H6 and H7, their number even increased over time making the inclusion of less agreeable groups even more plausible. However, at the same time, the intensity of consultations considerably decreased, so that even if they participated, their actual role in the process was weakened. Overall, the evidence for Uganda with respect to the type of the marginal group is thus inconclusive.

As we have seen in Malawi, if CSOs are prepared to work in areas in which they might challenge relevant World Bank positions, these areas are simply excluded from the discussion process. While an initial attempt to include such topics into the consultations was made in the first PRS, in the second PRS, these subjects were excluded right from the beginning. This development over time is in line with H6 and H7. At the same time, this finding again underscores the failure to use the PRS approach as a means to mitigate problems of hollow citizenship, and missing accountability mechanisms.

All in all our empirical analysis is generally in line with the predictions of our model. Hypotheses 1 and 2 on the relevance of international transparency for effective support of participation were clearly in line with evidence across the two countries and over time. Hypothesis 3 on the discretion of World Bank staff with respect to their engagement for participation could not be assessed by comparing the two case study countries for lack of variation in the explanatory variable. However, there is some variation over time which is consistent with the predictions of our model. Hypothesis 4 on the relatively stronger support for relatively more powerful groups is consistent with evidence for Uganda, and somewhat ambiguous for Malawi. Hypothesis 5 on differential treatment by sector of activity is again consistent with evidence for both countries. And finally, Hypotheses 6 and 7 which lead us to expect a stricter exclusion of "uncomfortable" groups over time are somewhat ambiguous for Uganda, but in line with the evidence for Malawi.

It should be noted, however, that despite the plausibility these results provide for our theoretical model, we cannot infer any causal relationship. First, we cannot exclude reverse causality. For instance, if stronger participation is observed along with stronger public attention and transparency, the reason could be that functioning PRS processes attract international attention rather than being a consequence of the latter. Second, our empirical observations do not allow us to clearly distinguish between all the different lines of the arguments in the model. Thus, if we observe a decline in participation over time, this may be due either to reduced international transparency or reduced World Bank staff reporting requirements. In fact, as opposed to the corresponding simplification in our model, these different causal mechanisms may interact. For instance, reduced reporting requirements may themselves be a consequence of the decline in international interest in the issue of participation in the PRS process. Analyzing such complex interactions is beyond the scope of this paper.

Finally, it should be noted that despite the variance observed over time and across countries, the overall engagement of the Bank in order to support the participatory processes appears very limited. Even under the best possible conditions of high international transparency, i.e. during the preparatory phase of the first PRSP in Uganda in 2000, the World Bank's direct support for any actor outside the government was generally limited to information sharing – an activity which ranges at the very low end of participatory inclusion. If participatory processes do work, they seem to work because governments want them to happen anyway, and not due to a targeted influence of the World Bank. Without stronger incentives within the Bank to support these processes, it can therefore not be expected that democratic deficits such as hollow citizenship and low horizontal and vertical accountability will be mitigated through the instrument of the PRS.

5. Conclusions and policy recommendations

Based on an assessment of typical democratic deficits in developing countries, a rational choice model of World Bank behavior and empirical evidence drawn from two case-studies for Malawi and Uganda, we observe that the PRS approach introduced almost a decade ago by the international financial institutions does indeed have some potential to foster democratization. However, it seems that the World Bank, which is the driving force behind this approach, effectively lacks the incentives to make use of this potential.

This leads to a situation where overall, direct involvement of the Bank is extremely limited. Active support is more or less restricted to the government, and to selected ministries within the government. While “country ownership” is the keyword usually employed to describe the new priorities of the Bank in the context of the PRS approach, this seems to be interpreted primarily as “government ownership”. Obviously, if there is no direct involvement, there is also no inclusion of previously marginalized groups and hence no mitigation of hollow citizenship.

While the Bank does not interfere with respect to strengthening the position of certain political or social groups, it does intervene with respect to the topics opened for discussion. Both in Malawi and Uganda, macroeconomic issues have eventually been excluded from consultations with CSOs. The World Bank influence in this context is rather indirect, other than at the times of the Structural Adjustment Programs.

In addition, traditional conditionality still prevails when it comes to the agreement on the Poverty Reduction Support Credit which effectively predefines the range of policy options in the PRS. Obviously, this would be difficult to reconcile with open consultation processes in the same area.

Nevertheless, the PRS *potential* to strengthen democratization does become apparent, even in our empirical analysis. The situation of the first PRS in Malawi shows that the participation of CSOs in the consultation process (albeit limited) led to fruitful interaction between the legislature and CSOs, and helped opposition parties to find thematic positions which could be debated in parliament. In addition, the PRS has directly contributed to a strengthening and better coordination of civil society. However, there was no more follow up on these positive developments in the second PRS.

In order not to leave the PRS potential for democratization unexplored, several incentive mechanisms can be inferred from our model: First and directly related to the above example, international attention to the implementation of the PRS process appears to be highly relevant.

If international NGOs follow the ongoing activities and inform the media, World Bank prestige is directly at stake and induces the Bank to bring in line their rhetoric with actual support for participation. So far, especially information on positive impacts, such as in Malawi during the first PRS, is extremely rare.

Second, local World Bank officers' support of participation could be made somewhat more binding through administrative rules and regulations. This would reverse the developments observed between 2000 and 2005. In principle, they could even replace or complement traditional conditionality, so that "process conditionality" would become a reality.

Before doing so, however, clearly some further analysis is needed on who actually ought to be supported through effective inclusion into consultations and / or decision making processes. The underlying questions related to the legitimization of different actors to participate in these political processes are already pointed out in the literature. Somewhat surprisingly, the World Bank, which carries out detailed analysis on virtually all economic and socio-economic sectors of activity at both the international and the national level, has so far left this area almost totally unexplored. Admittedly, this does not belong to the Bank's traditional fields of expertise – but when activities are now supposed to move into new areas, they require an equally strong analytical foundation as traditional macroeconomic policy advice. An additional step would be to select and / or further develop criteria for effective participation and accountability which could then be taken into account in the Country Performance Rating.

One might of course wonder why the World Bank should be legitimized to interfere to this extent with national politics. However, it does so anyway, and by using its influence in the way outlined above, in the long run, international accountability would be reduced relative to horizontal and vertical accountability.

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