



# EVALUATION BRIEF

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## HIAL

**H**igher Impact Adjustment Lending is designed to improve the results of adjustment operations by more carefully selecting recipient countries, and by more closely matching the lending program to country needs. The four selection criteria are: a good record of complying with conditionalities, satisfactory country performance ratings, a good record of program ownership, and good debt sustainability. Countries that meet these standards are then eligible for the more flexible disbursement conditions and the fewer conditionalities of HIAL loans. The result is increased freedom in the timing of reforms and greater ownership of programs.

### BRIEF

Based on *Higher Impact Adjustment Lending (HIAL): Initial Evaluation*, to be presented to CODE on July 28, 1999.

OED's evaluation of the first generation of HIAL loans found that:

- HIAL countries performed better than comparators (IDA countries in SSA and elsewhere) in fiscal adjustment, exchange and interest rate policy, and structural reforms.
- Better results were also achieved in economic growth, inflation, the current account, foreign exchange reserves, and debt sustainability.
- Fiscal adjustment in the HIAL group was associated with both inflation reduction and growth.
- There were more poverty-focused operations in the HIAL group; however, social expenditures decreased slightly as a share of GDP, while they rose modestly in non-HIAL SSA countries.

### Background

Higher Impact Adjustment Lending was introduced in the Africa Region in 1995, following recognition that only 60 percent of adjustment operations were achieving satisfactory outcomes. At the time, the Africa Region's Working Group on Adjustment Lending proposed that results could be improved by: (1) applying greater country selectivity; and (2) improving adjustment lending program design and fine-tuning the instrument by matching transfers to needs, and providing smoother resource flows through flexible disbursements and fewer, but

more definite, conditions (numbering about half the SSA average during 1980–90). The new design was intended to give governments increased freedom in the timing of reforms and greater ownership of programs.

All subsequent lending to SSA has been based on the Working Group's recommendations. Twenty-one HIAL operations were approved during FY96–98 in 17 SSA countries, totaling US\$2.1 billion. This report examines whether HIAL lending actually embodied the objectives stated by the Working Group. The report also evaluates the effect the

HIAL has had on country performance in terms of policy outcomes and economic and social impact.

## Main Findings and Interpretation of Results

OED found that the recommendations of the Working Group were being followed. In assessing the impact of HIAL lending, OED looked at both input (selectivity, tranching, conditionalities, extent of HIAL implementation, performance ratings) and output (policy outcomes, economic and social impact) variables. The adoption of the HIAL initiative was associated with more positive policy outcomes in fiscal adjustment, exchange and interest rate policy, and structural reforms than were seen in the two IDA comparators—non-HIAL SSA and non-SSA countries. The initiative was also associated with faster growth, lower inflation, improved current account balance, stabilized foreign exchange reserves, and sustainable debt path, outdistancing the comparators.

The HIAL share of “poverty-focused” operations is higher relative to the two comparators. However, expenditures on health and education as a share of GDP decreased slightly in HIAL countries between 1993–95 and 1996–97. At the same time, the rest of SSA showed a modest improvement. In contrast, OED’s (1996) *Social Dimensions of Adjustment* study concluded that, based on 1983–93 adjustment lending, social spending as a share of GDP in most countries did not fall as a consequence of adjustment. This issue requires further study, including evaluations of intrasectoral allocations in health and education toward pro-poor services, such as primary education and basic health; studies of changes in the efficiency of social spending are also needed.

The study addresses the question of attribution of results to the particular elements of HIAL: selectivity or project design. In considering the effects of selectivity, the analysis examines four possible selection criteria—record of complying with conditionalities, the Bank’s country performance ratings (CPR), OED’s measurement of program ownership, and debt sustainability. The analysis finds that at the time of selection, only prior CPR marginally distinguished HIAL from other SSA countries. This finding may indicate that selectivity did not play a major role. But it is possible that other selection criteria, such as ability to achieve fiscal adjustment, may have been applied. In any case, it is likely that both selectivity and program design contributed to the HIAL group’s performance.

By enhancing the flexibility of resource flows in HIAL through varied tranching arrangements, governments gain increased freedom in the timing of reforms and greater ownership of programs. On average, an HIAL operation had about half the number of conditions of adjustment lending to SSA during 1980–93. This is consistent with HIAL’s objectives of improving the

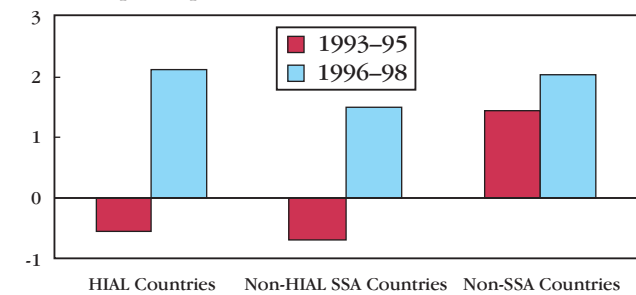
effectiveness of adjustment lending by providing greater flexibility in disbursement through fewer, but more specific, conditions.

## Recommendation

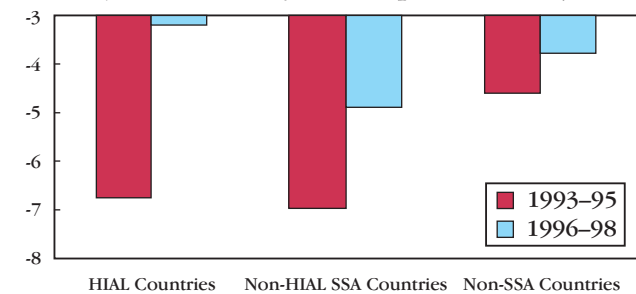
Based on the initial positive outcomes of HIAL operations, the Africa Region should continue with this approach.

## Policy Outcomes and Impact in HIAL and the Two IDA Comparators

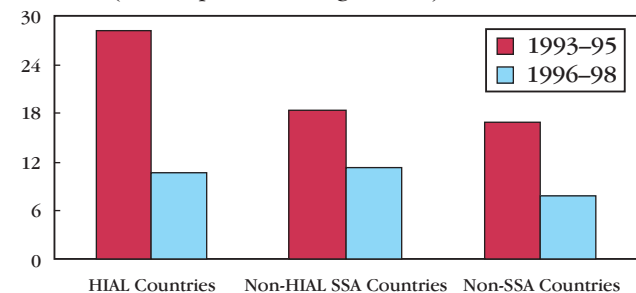
Real GDP per Capita Growth



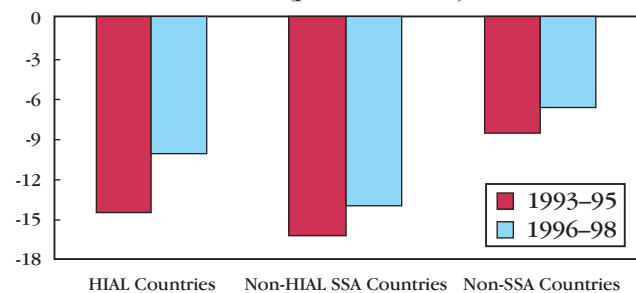
Fiscal Adjustment: Primary Balance (percent of GDP)\*



Inflation (annual percent change in CPI)



Current Account Balance (percent of GDP)



\* The primary balance is defined as the overall fiscal balance, excluding net interest payments and grants.

