

Higher Impact Adjustment Lending (HIAL): Initial Evaluation

(In Two Volumes)

Volume I: Main Report

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Operations Evaluation Department

Acronyms

AFTMI	Regional Economics and Social Policy Unit of the Africa Regional Office
AL	Adjustment Lending
APPI	Aggregate Project Performance Index (former DEI)
CAS	Country Assistance Strategy
CFA	Communauté Financière Africaine (African Financial Community)
CPIA	Country Policy and Institutional Assessment
CPR	Country Performance Rating
DEI	Development Effectiveness Index (renamed APPI)
ESAC	Economic and Social Sector Adjustment Credit
ESAF	Enhanced Structural Adjustment Facility
GDP	Gross Domestic Product
HAL	Higher Impact Adjustment Lending
IBRD	International Bank for Reconstruction and Development
ICRG	International Country Risk Guide
IDA	International Development Association
IMF	International Monetary Fund
OED	Operations Evaluations Department
OEDCR	OED Country Evaluations and Regional Relations Group
PSAC	Public Sector Adjustment Credit
PSR	Project Status Report
QAG	Quality Assurance Group
REER	Real Effective Exchange Rate
SAC	Structural Adjustment Credit
SAL	Structural Adjustment Loan
SECAL	Sectoral Adjustment Loan
SSA	Sub-Saharan Africa

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MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Higher Impact Adjustment Lending (HIAL): Initial Evaluation

This study reviews the HIAL initiative introduced in the Africa Region in 1995. HIAL is aimed at enhancing adjustment lending (AL) through improved country selection and better design (for example, improving effectiveness through innovative tranching arrangements and fewer, but more definite conditions). During FY96-98, HIAL lending to Sub-Saharan Africa (SSA) exceeded US\$2 billion through 21 operations in 17 countries. The HIAL Update, prepared by the Africa Region in 1998, found that during FY96-97 AL to SSA followed the recommendations of HIAL. This study extends that finding to FY98 and evaluates the effect the initiative has had on country performance in terms of policy outcomes and impact.

The main finding is that the HIAL group has a clear edge over the two IDA comparators—non-HIAL SSA (other SSA) and all non-SSA IDA countries—in terms of policy implementation such as fiscal adjustment, exchange and interest rate policy, and structural reforms. The group also achieved better results in terms of macro variables such as inflation, current account, foreign exchange reserves, growth, and debt sustainability, than the comparators. Fiscal adjustment was associated with both inflation reduction and growth in the HIAL group. Also, the HIAL share of poverty-focused operations is higher relative to the two comparators. However, social sector expenditures as a share of GDP have, on average, slightly decreased in HIAL countries, while the rest of SSA has shown a slight increase. Interpretation of these results must take into account the short time since the start of HIAL and the many gaps in social expenditure data.

The study addresses the question of attribution of results to the particular elements of HIAL: selectivity or design in terms of flexibility of disbursement and conditionality. It examines four possible criteria for selectivity. Of these, only prior Bank's Country Performance Ratings (CPR) marginally distinguished HIAL from other SSA countries. Of course, other selection criteria, such as ability to achieve fiscal adjustment, may have been applied.

In terms of design, 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. A HIAL operation had about half of the number of conditions of the SSA average during 1980-93. This is consistent with HIAL's objectives of improving the effectiveness of AL by providing greater flexibility in disbursement through fewer but more specific conditions. Thus, the results suggest that the HIAL approach led to improved outcomes.

OED is encouraged by the initial findings that the HIAL initiative is yielding positive results and encourages the Africa Region to continue with this innovative approach.

Executive Summary

1. This study reviews the Higher Impact Adjustment Lending (HIAL) initiative introduced in the Africa Region in 1995. HIAL is aimed at enhancing the results of the Bank's adjustment lending (AL) by applying greater country selectivity and improving the design of AL programs. During FY96–98, HIAL lending to Sub-Saharan Africa (SSA) exceeded US\$2 billion, through 21 operations in 17 countries. The HIAL Update, prepared by the Africa Region in 1998, found that during FY96–97 AL to SSA followed the recommendations of HIAL. This study extends that finding to FY98 and evaluates the effect the initiative has had on country performance in terms of policy outcomes and impact.
2. The HIAL countries achieved better policy outcomes in terms of fiscal adjustment, exchange and interest rate policy, and structural reforms, on average, than the comparator groups, other (non-HIAL) SSA and non-SSA countries. The HIAL countries also produced better results in terms of macro variables such as inflation, current account balance, foreign exchange reserves, growth, and debt sustainability. The extent of progress is assessed from two perspectives: pre-HIAL period (1993–95) compared with HIAL period (1996–98) and the HIAL group compared with all other IDA countries—non-HIAL SSA and non-SSA countries.
3. On fiscal outcomes, as measured by the primary fiscal balance, over 1996–98 compared with 1993–95 for the three groups of countries, the HIAL group had the best performance. All FY96–97 HIAL countries, with one exception, improved their fiscal positions. Furthermore, fiscal adjustment is largest for the HIAL group; on average, these countries cut their primary deficit relative to gross domestic product (GDP) by more than one-half, compared with less than one-third reduction in non-HIAL SSA countries. The HIAL group also had a clear edge over the two comparators in terms of inflation performance. On average, the rate of inflation was about 11 percent in 1996–98, reflecting nearly a two-thirds decline compared with 1993–95, which is a greater reduction of inflation than in the other groups.
4. The HIAL group outperformed the comparators in experiencing real devaluation during 1996–98 and consequently reducing its average current account deficit to just over 10 percent of GDP, a one-third improvement from its 1993–95 level. Other country groups reduced their deficits significantly less between the two periods.
5. The HIAL and non-HIAL SSA countries started out with the most distorted (highly negative) real interest rates of the three groups. However, the HIAL group has shown significant progress over time and again outperformed the other two comparators. Consequently, HIAL foreign exchange reserves have risen markedly in the three years after the start of HIAL-supported programs. In contrast, reserves have dropped in the rest of SSA and stagnated in other non-SSA countries.
6. The HIAL group also had a clear advantage over the two comparators in terms of growth of per capita real GDP. Growth in HIAL countries, which was negative at an annual average rate of nearly one percent during 1993–95, turned around substantially in 1996–98, averaging 2.1 percent per year. Non-HIAL SSA countries growth rates increased by approximately two percentage points, from negative one percent during 1993–95. Growth in non-SSA countries increased by only half a percentage point.
7. A regression analysis of growth on macro variables and the Bank's Country Performance Ratings (CPR) and Country Policy and Institutional Assessment (CPIA) measures of policy was conducted across the three groups of countries. The investment ratio and fiscal adjustment are

significantly correlated with growth in the HIAL countries. The CPR/CPIA variables have a positive correlation with growth in the regressions for all groups, half of them significant. Within the HIAL group, the most significant was “policies for sustainable and equitable growth.” In the HIAL countries, then, fiscal adjustment was associated with inflation reduction and growth, perhaps showing that successful fiscal adjustment is an indicator of governance. Governments that can manage their fiscal affairs could achieve other positive results as well.

8. The debt sustainability analysis shows that the percentage of countries with a sustainable debt path is much higher among the HIAL group—nearly 70 percent compared with 56 percent for non-HIAL SSA countries, and 36 percent for non-SSA countries. A comparison with the pre-HIAL period reveals a significant turnaround in the debt path for the majority of the countries selected for HIAL, from unsustainable to sustainable. For the rest of SSA, few countries reversed their debt path to sustainable. The fiscal adjustment among the HIAL countries was positively associated with this high success rate for the group.

9. HIAL differs from earlier AL in addressing social concerns. According to the World Bank Poverty Board’s criteria, 11 of the 14 FY96–97 HIAL operations are “poverty-focused.” While only one includes safety nets, the majority aim to reorient public spending toward infrastructure and/or basic services targeted to the poor or to eliminate distortions that disadvantage the poor. In the countries selected for HIAL, the share of poverty-focused operations has increased from 61 percent in FY93–95 to 71 percent in FY96–98, compared with virtually no change in the rest of SSA countries. In non-SSA countries, the share of poverty-focused adjustment operations increased from 22 to 55 percent.

10. The HIAL group had a high share of poverty-focused operations. However, expenditures on health and education as a share of GDP have, on average, slightly decreased from 1993–95 to 1996–97 in HIAL countries, while the rest of SSA has shown a slight increase. In contrast, OED’s (1996) *Social Dimensions of Adjustment* study showed that, based on 1980–93 AL, social spending as a share of GDP in most countries did not fall as a consequence of adjustment. However, interpretation of these results must take into account the short time that has elapsed since the start of HIAL and the many gaps in social expenditure data. In particular, evaluations of intrasectoral allocations in health and education toward services which are more frequently used by the poor, such as primary education and basic health and studies of changes in the efficiency of social spending are required.

11. The positive policy outcomes and impact on the HIAL countries relative to the comparators raise the question of attribution of the results to particular elements of HIAL: selectivity or program design. In order to establish whether the positive results were mainly due to selectivity, we compare countries’ performance at the time of selection with respect to four possible criteria: (i) compliance track record with agreed upon policy conditionality (OED 1997); (ii) the Bank’s Country Performance Ratings (CPR); (iii) OED’s (1995) measurement of program ownership; and (iv) debt sustainability. The HIAL countries’ performance at the time of selection was not significantly different from that of other SSA countries except on prior CPR, where it was marginally better. Of course, other selection criteria may have come into play. We do find that the HIAL countries’ fiscal performance was superior, and that this was associated with positive impacts. The ability to achieve fiscal results may have been an implicit selection criterion.

12. In terms of design, flexibility of resource flows has improved in HIAL through varied tranching arrangements. Nine HIAL operations have floating tranches, and five are single-tranche operations. The new tranching arrangements give governments increased freedom in the timing of reforms, allowing greater ownership. Because of a larger number and smaller size of

tranches, and more flexible timing, pressure on the Bank to disburse when conditions are not fully met has also been reduced. Furthermore, a typical HIAL operation has 21 conditions, which is significantly lower than the SSA average of 38 per AL operations during 1980–93. These results suggest that the policies mattered, and that the HIAL approach of improving the effectiveness of adjustment lending through flexible disbursements, floating tranches, and fewer but more definite conditions had positive effects.

13. On portfolio performance, the Quality Assurance Group (QAG) assessment of portfolio performance shows that, as of November 12, 1998, SSA was the region with the highest share of projects at risk—32 percent of the portfolio in terms of both the number of projects and share of commitments, well above the Bank-wide average of 25 percent and 22 percent, respectively. This assessment includes only four HIAL operations; of these, three were rated as non-risky and one as a potential risk.

14. OED is encouraged by the initial findings that the HIAL initiative is yielding positive results and encourages the Africa Region to continue with this innovative approach.

OVERVIEW

Higher Impact Adjustment Lending (HIAL) was proposed in 1995 by the Africa Region to improve the results of adjustment lending (AL) in Sub-Saharan Africa (SSA) through the application of greater country selectivity and improved design. This study assesses the performance of HIAL recipients, focusing on their adherence to the HIAL recommendations, and on the policy, economic, and social impact in HIAL countries.

Background

0.1 In 1995, the Africa Region introduced the Higher Impact Adjustment Lending (HIAL) initiative, following the World Bank's Working Group proposal. The Working Group's view supported by the Operations Evaluation Department's (OED) prior reviews of adjustment lending (AL), was that AL achieved weak results (Annex 1, "Setting the Stage for the HIAL Program," examines, in more detail, the nature and impact of AL in Sub-Saharan Africa [SSA] prior to HIAL). For instance, a 1997 OED study reviewed all AL to SSA during FY80–96 and found that only 60 percent had a satisfactory outcome, below the Bank average of about 70 percent.

0.2 The Working Group suggested that HIAL could improve AL results by (i) applying greater selectivity by securing country commitment, consulting stakeholders, and assessing recipient needs for lending and non-lending assistance in the context of a medium-term Country Assistance Strategy (CAS) framework; and (ii) improving AL program design and fine-tuning the instrument to specific country needs and conditions by matching transfers to needs and providing greater certainty and smoother resource flows through flexible disbursements, floating tranches, and fewer but more definite conditions. In addition, it was proposed that debt relief be separated from AL, so that pressure for debt relief would not bias the AL programs.

0.3 Based on the Working Group's proposal, all lending to SSA is considered HIAL. Twenty-one operations were approved during FY96–98 in 17 SSA countries for approximately US\$2.1 billion. Also, 11 International Development Association (IDA) adjustment credits were approved to 9 countries outside SSA, amounting to US\$547 million (Annex 1, Table 3).

0.4 The Africa Region's *Higher Impact Adjustment Lending in SSA: An Update* (HIAL Update) reviewed the experience of the first 13 recipients of HIAL support in FY96–97, with particular emphasis on analyzing the extent to which HIAL lending actually embodied the Working Group's recommendations. The main conclusion of the HIAL Update is that by and large the recommendations have been taken into consideration.

Objective of the Review and Methodology

0.5 This study reviews the Bank's experience with HIAL, with the objectives of determining whether there was an improvement in AL and assessing the difference the HIAL approach has made. Included is an evaluation of the extent to which HIAL lending actually embodied the objectives stated by the Working Group and whether an improvement in results can be discerned. The study covers both the "input variables" of HIAL—selectivity, tranching, conditionality, extent of HIAL implementation, and performance ratings—and the "output variables"—policy outcomes and economic and social impact.

0.6 The main report (Volume I) focuses on policy outcomes—fiscal adjustment, exchange rate and interest policy, structural policies, governance measures, and social spending—and their impact on inflation, current account balance, foreign exchange reserves, economic growth, poverty reduction, and debt sustainability. A detailed discussion of policy inputs is in Volume II,

Annexes 2.1 to 2.4. Volume II, available on request, contains all the annexes. The study will draw heavily on the HIAL Update, particularly on its judgment about the extent to which the FY96–97 HIAL drew on the Working Group’s recommendations. However, this study will move beyond the HIAL Update to cover policy outcomes and impact, assessing HIAL through comparisons with counterfactuals: (i) pre- and post-1996, and (ii) other IDA countries—non-HIAL SSA and non-SSA countries.

Main Findings and Interpretation of Results

0.7 Lending under HIAL followed the Working Group’s recommendations. The HIAL countries achieved better policy outcomes in terms of fiscal adjustment, exchange and interest rate policy, and structural reforms, on average, than the comparator groups. The HIAL countries also produced better economic results in terms of macro variables such as inflation, current account, foreign exchange reserves, debt sustainability, and growth, than the comparator groups. Fiscal adjustment in the HIAL countries was associated with both inflation reduction and growth, both of which have been shown to reduce poverty.

0.8 The study estimates growth regressions for the HIAL group and the comparators. The investment ratio and fiscal adjustment are significant for the HIAL countries. The Bank’s CPR/CPIA measures enter positively in the regressions for all groups, about one third of the measures significantly at the five percent level. This suggests that these measures pick up the positive effects of policy on growth. In the HIAL group the variable for “policies for sustainable and equitable growth” is significant at the five percent level.

0.9 The positive policy outcomes and impact on the HIAL countries relative to the comparators could raise the question of attribution of the results to particular elements of HIAL: selectivity or program design. Of our four possible selection criteria analyzed, only prior country performance ratings (CPR) marginally distinguished HIAL from other SSA countries. Of course, other selection criteria may have come into play. We do find that the HIAL countries’ fiscal performance was superior, and that this was associated with positive impacts. The ability to achieve fiscal results may have been an implicit selection criterion. However, this suggests that the policies mattered, and that the HIAL approach of improving the effectiveness of adjustment lending through flexible disbursements, floating tranches, and fewer but more specific conditions had positive effects.

Organization of the Study

0.10 The remainder of the study proceeds as follows. Chapter 2 defines HIAL and reviews the results on selectivity, flexibility in disbursements, HIAL implementation, and portfolio performance. Chapter 3 analyzes policy changes under HIAL and evaluates the impact of these policies from the two perspectives discussed above. The conclusion is that the HIAL group has a clear edge over the two comparators in terms of both policy outcomes and impact. Chapter 4 looks at the relationship between policy performance and growth and concludes that all of the policy measures examined are positively correlated with growth. Data on poverty reduction since the beginning of the HIAL approach are not available. Because the HIAL countries have performed better on both inflation and growth relative to the comparators, it seems reasonable—following OED’s (1996) *Social Dimensions of Adjustment* study—to assume that they are also performing relatively better on the poverty front. Finally, Chapter 5 summarizes key findings and makes recommendations to improve Bank support.

HIAL IMPLEMENTATION EXPERIENCE

This chapter evaluates the extent to which 21 HIAL operations in FY96-98 embodied the recommendations of the HIAL Working Group, with particular emphasis on country selectivity and program design. The main conclusion is that, by and large, the recommendations have been taken into account.

0.1 The Working Group proposed that HIAL emphasize selectivity in lending and flexibility in disbursement through fewer but more definite conditions and innovative tranching arrangements. The HIAL Update concluded that during FY96–97 HIAL lending to SSA followed the proposals of the Working Group. This chapter extends the analysis to include FY98 and reviews the results on selectivity and flexibility in disbursements, HIAL implementation, and portfolio performance.

Selectivity

0.2 There are four possible measurement criteria for selectivity: (i) compliance track record with agreed-upon policy conditionality (OED [1997]); (ii) the Bank’s Country Performance Ratings (CPR); (iii) OED’s (1995) measurement of program ownership; and (iv) debt sustainability. The HIAL countries’ performance at the time of selection was not significantly different from that of other SSA countries except on prior CPR, where it was marginally better.¹

0.3 The Bank’s CPR is established each year for the International Bank for Reconstruction and Development (IBRD) and IDA borrowers on a uniform basis. The CPR assesses country reform efforts over the most recent three-year period in 25 areas grouped into three categories: macroeconomic stability, structural reforms, and portfolio performance ratings.² Policy efforts in these areas are rated from 1 (lowest) to 5 (highest), with the primary focus on the quality and extent of policy reforms that governments have instituted, rather than outcomes that reflect the combined effects of both policy changes and exogenous developments. The overall rating is a weighted average of macro, structural reforms, and portfolio scores, with weights of 0.25, 0.68, and 0.07, respectively.

0.4 Table 2.1 compares reform efforts across countries using the CPR results for the FY96–98 HIAL countries and the CPR results for other SSA countries eligible for Bank lending in the year prior to approval of the loan.³ The comparisons are made for the overall rating as well as for the subcomponents: macroeconomic stability, structural reforms, and portfolio performance ratings (Annex 2.1). For the overall rating, the share of low policy performance is much lower among the HIAL group than among the rest of SSA for 1995–97 ratings. Similarly, the share of medium policy performance is higher among HIAL countries than among the rest of SSA countries. However, the results are mixed in terms of the share of high policy performance. The share of HIAL countries was higher in the 1995 ratings, lower in 1996, and equal (at zero) in 1997, leading to the statement that HIAL countries fared marginally better in the CPR ratings.

Table 2.1: Prior Performance Ratings for FY96–98 HIAL and Other SSA Countries
(in percent)

¹ These criteria are discussed in detail in Annex 2.1.

² The 25 indicators covered by CPR are spelled out in Annex Table 3.10.

³ The comparison excludes countries with no policy dialogue such as: Democratic Republic of Congo, Liberia, Somalia, and Sudan.

FY96 HIAL and other SSA countries	Performance rating 1995 (percentage of countries)					
	Low ^a		Medium ^a		High ^a	
		<i>Othe</i>		<i>Othe</i>		<i>Othe</i>
Overall CPR		40		57		3
Macroeconomic		43		43		13
Structural reforms		37		60		3
Portfolio ratings		33		57		10
FY97 HIAL and other SSA countries	Performance rating 1996 (percentage of countries)					
	Low		Medium		High	
		<i>Othe</i>		<i>Othe</i>		<i>Othe</i>
Overall CPR		33		63		4
Macroeconomic		42		46		13
Structural reforms		38		58		4
Portfolio ratings		46		4		50
FY98 HIAL and other SSA countries	Performance rating 1997 (percentage of countries)					
	Low		Medium		High	
		<i>Othe</i>		<i>Othe</i>		<i>Othe</i>
Overall CPR		42		58		0
Macroeconomic		42		38		21
Structural reforms		42		58		0
Portfolio ratings		54		21		25

a/ The low level corresponds to the range [1 – 2.66], the medium to [2.67 – 3.66], and high to [3.67 – 5].

b/ HIAL: 7 SSA countries; Other: 30 SSA countries.

c/ HIAL: 7 SSA countries; Other: 24 SSA countries.

d/ Countries that had a HIAL operation approved in the previous year are excluded.

Source: OED estimates.

Flexibility in Disbursement

0.5 Progress has been made in increasing the flexibility of resource flows through new tranching arrangements. Nine of the twenty-one FY96–98 HIAL operations have floating tranches (varying from one to five floating tranches each), and five are single-tranche operations (Annex 2.2). The new tranching arrangements give governments increased freedom in the timing of reforms, allowing greater ownership. Because of a larger number and, therefore, smaller size of tranches, and more flexible timing, pressure on the Bank to disburse when conditions were not fully met has also been reduced. Moreover, a typical HIAL operation has, on average, 21 conditions, which is significantly lower than the SSA average of 38 per AL operation during 1980–93 (Annex 1, Table 5). The conclusion is that greater flexibility of resource flows improved the effectiveness of AL. This conclusion is consistent with the World Bank Working Group's recommendations of fine-tuning the AL instrument to specific country needs and conditions by matching transfers to needs and providing greater certainty and smoother resource flows through flexible disbursements, floating tranches, and fewer but more definite conditions.

Extent of HIAL Implementation

OED Evaluations

0.6 OED has evaluated two HIAL operations: Niger's First Public Sector Adjustment Credit (PSAC I) and Zambia's Second Economic and Social Adjustment Credit (ESAC II). Both projects have satisfactory outcome and modest institutional development impact. Ratings on sustainability show likely sustainability for Niger's PSAC I, whereas Zambia's ESAC II is uncertain. A comparison with earlier AL performance in terms of the Aggregate Project Performance Index (APPI) indicates that HIAL has contributed to substantial performance improvement in Niger, but only marginal improvement in Zambia. Also, in terms of the APPI

measure, those two HIAL countries outperform other SSA countries but lag behind the rest of the Bank (Annex 2.3, Table 1).

Progress Assessment by Task Managers

0.7 Bank task managers report on the status of projects and programs in Project Status Reports, formerly called Form 590s. Of the 17 HIAL operations reviewed, overall implementation ratings were satisfactory during FY96–98. In FY96, 38 percent of the operations were rated highly satisfactory, 62 percent were satisfactory, and none were unsatisfactory. In FY98, 93 percent were satisfactory and 7 percent were unsatisfactory. Implementation ratings for two operations (Kenya Structural Adjustment Credit [SAC] and Cameroon SAC II) moved from satisfactory to unsatisfactory during FY96–97. As a result of continued unsatisfactory ratings, the Kenya operation was closed without disbursement of the second tranche in June 1998. However, Cameroon resolved its implementation problems, and its rating moved back to satisfactory in FY98.

0.8 In FY97, a risk rating was introduced as a new element in implementation reports. Of the 12 operations assessed by task managers, 5 operations carried “substantial” risks, 5 “modest,” 1 “low” or “negligible,” and 1 was not risk-rated. However, risk ratings improved slightly in FY98. In addition to the high-risk operation (Kenya SAC), 5 or one-third of the operations assessed were found to have “substantial,” 7 “moderate,” and 2 “low or negligible” risks (Annex 2.3, Table 2).

0.9 The most frequent risk factor was government administrative capacity. Political and security conditions, climatic and environmental conditions, and private-sector response were also considered important risk factors, but their relative weights differed in various years.

0.10 HIAL operations were also compared with existing policy-based lending (structural adjustment loan and sectoral adjustment loan [SECAL]) as well as new instruments (Adaptable Program Loan and Learning and Innovation Loan) in terms of implementation period, preparation, and supervision costs, and tranching arrangements (Annex 1, Table 5). The HIAL program emerged relatively well in those comparisons.

Portfolio Performance: QAG Assessment

0.11 The Quality Assurance Group (QAG) analysis of portfolio performance shows that, as of November 12, 1998, SSA was the region with the highest share of projects at risk—32 percent of the portfolio in terms of both the number of projects and share of commitments, well above the Bank-wide average of 25 percent and 22 percent, respectively. This assessment includes only four HIAL operations approved during FY97–98; of these, three were rated as non-risky—Guinea’s Public Expenditure Management Adjustment Credit (FY98), Tanzania’s SAC I (FY97), and Uganda’s SAC III (FY97)—and one as a potential risk—Cameroon’s SAC III (FY98) (Annex 2.4). This suggests that the share of projects at risk is lower under HIAL compared to other lending in SSA countries. Interpretation of this result must take into account that the HIAL sample is very small.

POLICY OUTCOMES AND IMPACT

The performance of the HIAL group of countries in terms of fiscal adjustment, exchange and interest rate policy, and structural reforms was superior to that of non-HIAL countries. The HIAL group also outperformed the comparators on inflation, current account balance, foreign exchange reserves, and economic growth. Though the HIAL group had a high share of poverty-focused operations, expenditure on health and education slightly decreased during 1996–97. The majority of HIAL countries significantly reduced their debt–GDP ratios and are now on a sustainable path, while the debt–GDP ratios in non-HIAL countries are rising.

0.1 This chapter analyzes policy changes under HIAL and evaluates the impact of these changes. Policy outcomes and impact can be assessed from a variety of perspectives. The most commonly employed in evaluations of adjustment programs are (i) a comparison of outcomes before and after the start of a program and (ii) a comparison over time with outcomes in a comparator group of countries. The total group considered here is all 72 IDA-eligible countries—13 FY96–97 HIAL SSA countries, 35 non-HIAL SSA (other SSA) countries, and 24 non-SSA countries (Box 3.1).⁴ The latter group is further divided into two subcategories: FY96–97 adjusting countries and non-adjusting countries.⁵ Using these two perspectives, this chapter evaluates the experience of the HIAL countries relative to their comparators in terms of policy implementation and economic and social impact. Since the HIAL initiative began only in FY96, data on impact are limited to standard macro variables, which can be linked to poverty reduction variables used in previous studies such as HIAL Update (1998) and OED’s (1996) *Social Dimensions of Adjustment* study.

Box 3.1: The Countries Under Review

FY9 6-97 HIAL SSA countries (13)	Non-HIAL SSA countries (35)		Non-SSA countries (24)	
			FY96-97 Adjusting countries	Non-adjusting countries
CFA				
Cameroon	Angola	Guinea-Bissau	Bolivia	Afghanistan
Chad	Benin	Lesotho	Cambodia	Albania
Côte d’Ivoire	Botswana	Liberia	Honduras	Bangladesh
Mali	Burkina Faso	Mauritius	Lao PDR	Bhutan
Niger	Burundi	Namibia	Mongolia	Guyana
Non-CFA	Cape Verde	Nigeria	Tajikistan	Haiti
Kenya	Central Afr. Rep.	Rwanda	Yemen, Rep. Of	Kiribati
Madagascar	Comoros	São Tomé & Prin.		Maldives
Malawi	Congo	Senegal		Myanmar
Mauritania	Congo, Dem. Rep.	Seychelles		Nepal
Mozambique	Djibouti	Sierra Leone		Nicaragua
Tanzania	Eq. Guinea	Somalia		Samoa
Uganda	Eritrea	South Africa		Solomon Islands
Zambia	Ethiopia	Sudan		Sri Lanka
	Gabon	Swaziland		Tonga
	Gambia, The	Togo		Vanuatu
	Ghana	Zimbabwe		Vietnam
	Guinea			

⁴ The HIAL group is further divided into two subgroups: five CFA and eight non-CFA countries (Box 3.1). The results in terms of policy outcomes and impact are not significantly different between these two subgroups except on exchange rate performance, since the CFA is in a different regime (Table 3.1).

⁵ To allow comparability with HIAL group, “adjusting non-SSA countries” are those receiving an adjustment credit during the same HIAL period (FY96–97). Operations approved in FY98 are not covered because the experience under these programs would be too short-lived to evaluate.

Macroeconomic Outcomes and Impact

0.2 The evaluation of macroeconomic outcomes and impact uses a standard model on internal and external balance that assigns fiscal policy to internal balance (inflation), the real exchange rate to the current account, and interest rate policy to external balance in terms of foreign exchange reserves (Mundell 1962; Jayarajah, Branson, and Sen 1996). This model will be used to establish the link between each policy instrument and expected outcomes for each target. In the application of this framework, it is assumed that an unacceptably high rate of inflation indicates the need for a reduction in the primary fiscal deficit, or an increase in the surplus. The normal direction for change in each policy instrument—that is, the right policy—and the expected outcome—that is, the right outcome—for the associated target, all in qualitative terms, are established. The first three panels of Table 3.1 and the corresponding top three pairs of charts in Figure 3.1 show the policy changes and impacts for each of these pairs of macro variables.

Fiscal Policy and Inflation Impact

0.3 Fiscal reform under HIAL was aimed at both revenue mobilization and public expenditure management. Of the 14 FY96–97 HIAL operations, 12 had conditionality on public expenditure reform and 10 on public revenues (Annex 2.2 provides detailed analysis).⁶ The fiscal policy record is assessed in terms of the primary balance, defined as the overall fiscal balance excluding net interest payments and grants. This policy measure captures the fiscal adjustment effort under the government’s control and indicates the sustainability of the fiscal position.⁷ It is assumed that an unacceptably high rate of inflation indicates the need for reducing the primary budget deficit or for increasing the surplus. This response can be interpreted as reducing inflation by reducing aggregate demand, or as reducing the need for inflation tax financing of the deficit. Also, tightening the fiscal position is generally required to maintain a sustainable debt path, as discussed in the section on debt sustainability.

0.4 The top panel of Table 3.1 indicates the extent of fiscal adjustment achieved in 1996–98 compared with 1993–95 for the three groups of countries under review. Of the 69 low-income countries for which fiscal data are available, 48 were successful in reducing their fiscal deficit as measured by the primary balance. Among these countries, the HIAL group has the highest success rate. All FY96–97 HIAL countries with the exception of one have improved their fiscal positions.

⁶ Furthermore, all 13 HIAL countries were implementing an International Monetary Fund (IMF) program of increasing revenue effort and containing expenditure in line with the targets agreed under the Enhanced Structural Adjustment Facility/Stand-by arrangements.

⁷ Burnside and Dollar (1997) in their measurement of policies used three quantifiable macroeconomic indicators: budget surplus, openness, and inflation. The fiscal position is partially endogenous, but we have no data on cyclically adjusted budget balances.

Table 3.1: Policy Outcomes and Impact (1996–98 compared with 1993–95)*

	<i>HIAL</i> <i>countries</i>	<i>HIAL,</i> <i>CFA</i> <i>countries</i>	<i>HIAL,</i> <i>non-CFA</i> <i>countries</i>	<i>Non-</i> <i>HIAL SSA</i> <i>countries</i>	<i>Non-SSA</i> <i>countries</i>	<i>Non-SSA</i> <i>adjusting</i> <i>countries</i>	<i>Non-SSA</i> <i>non-adjusting</i> <i>countries</i>	<i>All</i> <i>countries</i>
Primary Fiscal Balance (% of GDP)								
1993-95	-6.8	-7.1	-6.6	-7.0	-4.6	-9.3	-3.2	-6.2
1996-98	-3.2	-3.4	-3.1	-4.9	-3.8	-3.6	-3.8	-4.2
Change in Primary Balance	3.6	3.7	3.4	2.1	0.9	5.8	-0.6	2.0
No. of successful countries	12	5	7	22	14	3	11	48
Percentage of category	92	100	88	65	64	60	65	70
Inflation (% change in CPI)								
1993-95	28.4	13.9	37.4	18.4	17.0	29.0	13.4	19.8
1996-98	10.7	4.4	14.7	11.1	7.8	8.3	7.6	9.9
Change in Inflation	-17.7	-9.5	-22.7	-7.3	-9.2	-20.7	-5.8	-9.9
No. of successful countries	13	5	8	30	19	5	14	62
Percentage of category	100	100	100	91	86	100	82	91
Real Effective Exchange Rate (1990 = 100)								
1993-95	79.8	70.7	85.5	87.3	105.5	94.7	109.4	91.3
1996-98	84.4	66.1	95.8	87.8	123.6	115.5	126.5	98.0
Change in REER (+ denotes appreciation)	4.6	-4.6	10.3	0.4	18.1	20.8	17.1	6.7
No. of successful countries	6	5	1	18	1	0	1	25
Percentage of category	46	100	13	60	5	0	7	40
Current Account Balance (% of GDP)								
1993-95	-14.6	-11.0	-16.8	-16.4	-8.6	-6.6	-9.8	-14.0
1996-98	-10.2	-8.9	-11.0	-14.1	-6.7	-6.6	-6.8	-11.4
Change in Current Account Balance	4.4	2.1	5.9	2.3	1.9	0.0	3.0	2.6
No. of successful countries	12	5	7	22	8	3	5	42
Percentage of category	92	100	88	65	50	50	50	67
Interest Rate Differential								
1993-95	-8.2	-6.9	-8.9	-8.4	-1.5	...	-1.5	-1.2
1996-98	-1.1	-1.2	-1.1	-2.3	0.7	...	0.7	0.2
Change in Interest Rate Differential	7.1	5.8	7.8	6.2	2.3	...	2.3	1.4
No. of successful countries	6	3	3	17	2	...	2	26
Percentage of category	75	100	60	89	40	...	40	79
Non-Gold Reserves (in weeks of imports)								
1993-95	13.6	15.6	12.6	23.4	16.3	11.2	18.2	18.8
1996-98	17.3	16.0	17.9	22.0	16.6	19.0	15.7	19.1
Change in Non-Gold Reserves	3.7	0.3	5.4	-1.4	0.4	7.7	-2.5	0.3
No. of successful countries	7	2	5	7	9	4	5	23
Percentage of category	78	67	83	35	50	80	38	49
Gross Domestic Investment (% of GDP)								
1993-95	19.1	15.3	21.5	21.8	19.4	18.0	20.0	20.5
1996-98	19.6	18.0	20.5	22.9	18.7	14.6	20.4	20.9
Change in Gross Domestic Investment	0.5	2.7	-1.0	1.1	-0.7	-3.3	0.4	0.4
No. of successful countries	8	5	3	20	10	2	8	38
Percentage of category	62	100	38	59	42	29	47	54
Real Per Capita GDP Growth								
1993-95	-0.6	-1.7	0.1	-0.7	1.4	-1.5	2.6	0.1
1996-98	2.1	2.2	2.0	1.5	2.0	1.7	2.2	1.8
Change in Real Per Capita GDP Growth	2.7	3.9	1.9	2.2	0.6	3.2	-0.5	1.7
No. of successful countries	12	5	7	26	13	6	7	51
Percentage of category	92	100	88	79	54	86	41	73

* The conclusion that the HIAL group has a clear edge over the rest of SSA countries does not change if the following non-HIAL SSA countries are excluded: South Africa and Nigeria because of their size; and Liberia, Namibia, Somalia, and Sudan because of data problems. None of these countries received IDA resources in the 1990s (Annex Table 3.23). Equatorial Guinea has already been excluded because of its enormous GDP growth in the late 1990s due to oil discoveries.

Source: See Annex Tables 3.1 – 3.8.

0.5 On average, the HIAL countries cut their primary deficit relative to gross domestic product (GDP) by more than one-half over 1996–98 compared with 1993–95. However, the record of fiscal progress among the HIAL countries was diverse. In Cameroon, Côte d’Ivoire, and Mauritania improvements were sustained and by 1995, if not sooner, primary surpluses were registered. Although Chad and Mozambique made some progress in reducing primary deficits relative to GDP, deficits remained large—in excess of 10 percent of GDP. Chad’s large fiscal deficit resulted in an unsustainable debt path, as shown later. The remaining HIAL countries saw a steady reduction in the fiscal deficit.

0.6 By contrast, non-HIAL SSA countries achieved about a 30 percent reduction in their fiscal deficits during the two periods in question. Again, the record of fiscal tightening was diverse: fiscal progress occurred in 22 out of 34 non-HIAL SSA countries. Of these, six countries—Democratic Republic of Congo, Equatorial Guinea, Gabon, Senegal, Seychelles, and South Africa—achieved primary surpluses over 1996–98. On the other hand, fiscal slippages occurred in a few countries—Gambia, Lesotho, and Mauritius—where the primary surpluses experienced during 1993–1995 turned into deficits during 1996–1998.

0.7 For the non-SSA countries, the deficit decreased by less than one percent of GDP. However, a large degree of dispersion within this group colors the interpretation of group average. Of the 22 low-income countries for which we have fiscal data, 14 reduced their fiscal deficit, and among these only one country (Samoa) registered primary surpluses from 1996 on. Finally, a breakdown of this group into two subcategories—adjusting versus non-adjusting—reveals the substantial fiscal progress achieved by the former group. In fact, deficits widened in the majority of the non-adjusting non-SSA countries during 1996–98 compared with 1993–95.

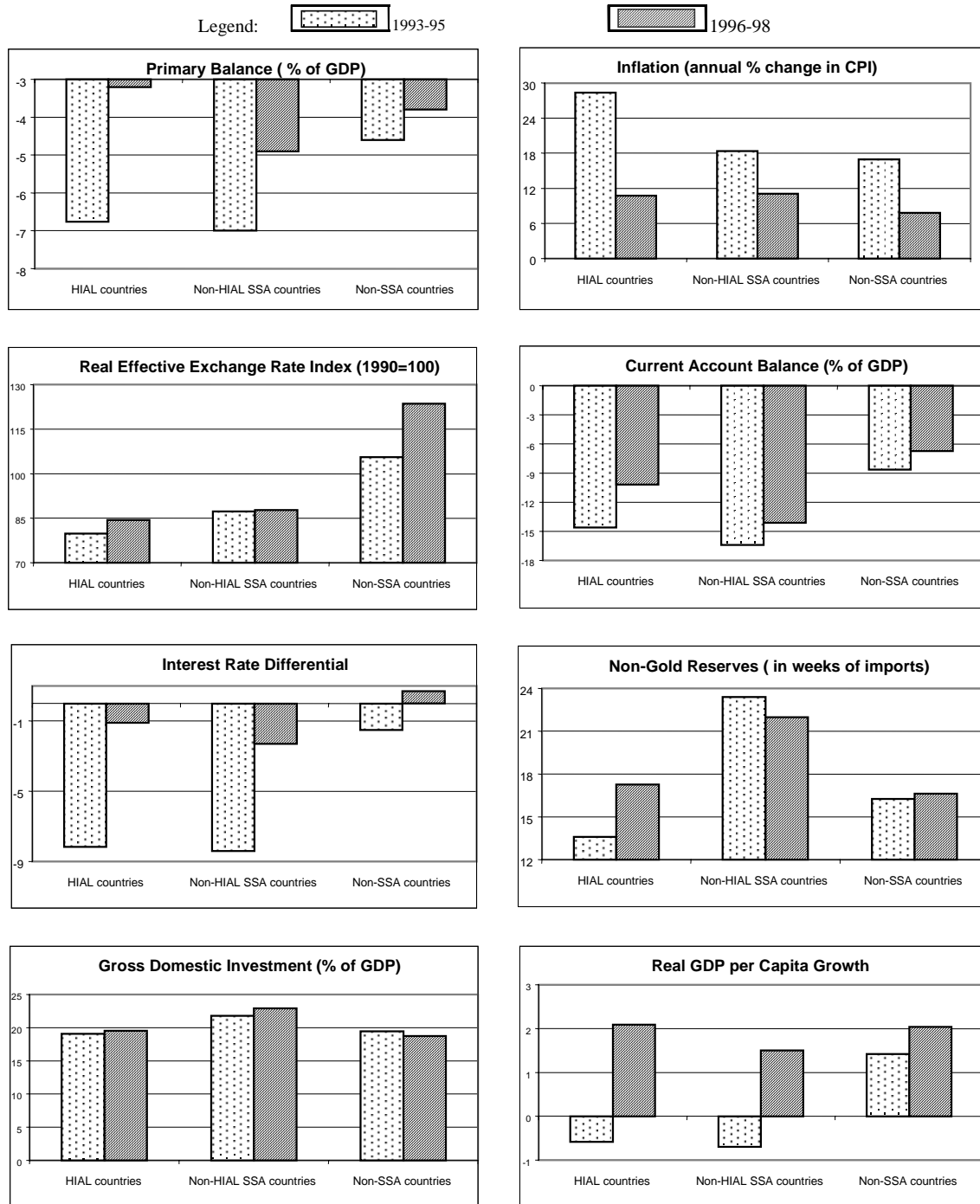
0.8 The results indicate that of the 69 low-income countries for which fiscal and inflation data are available, 44 were successful in reducing their fiscal deficits and experienced reduced inflation during 1996–98 compared with 1993–95. These are the relatively successful cases of movement toward establishment of internal balance. Among these countries, the HIAL group has the highest success rate (all FY96–97 HIAL countries, with the exception of one, have followed the right policy and achieved the right outcome). In fact, Kenya falls in the “lucky” category of following the wrong fiscal policy but getting the right result (i.e., reducing inflation). Presumably, Kenya experienced an unanticipated favorable shock. The top panel of Table 3.1 shows the extent to which HIAL and the other two country groups have been successful in reducing their inflation.

0.9 The fiscal trends, the 1993–95 average versus the 1996–98 average for HIAL and other comparator groups, are given in the first panel of Figure 3.1. Also, Figure 3.1 indicates the associated progress achieved toward lowering inflation. The HIAL countries had a clear edge over the other two comparators in terms of both fiscal policy and inflation performance. On average, the rate of inflation was about 11 percent in 1996–98, reflecting nearly a two-thirds decline from 1993–95. Compared with other groups, this is the largest reduction of inflation.

Exchange Rate Policy and Impact on the Current Account

0.10 If, at existing exchange rates, the fiscal and monetary package that provides internal and external balance also implies an unsustainably large current account deficit, a real devaluation is warranted. This would be achieved by devaluing in nominal terms and further tightening the

Figure 3.1: Policy Outcomes and Impact in HIAL and Other Developing Countries



fiscal position to reduce any inflationary effects of the devaluation. Furthermore, if in the short run, the nominal devaluation created destabilizing capital account speculation, monetary policy might have to be tightened temporarily to maintain external balance. Since most of the adjusting countries experienced some inflation before adjustment and did not adjust the nominal exchange rate at the same speed, their currencies became overvalued in real terms by the beginning of the adjustment period. Thus, one expects to see real devaluations during the adjustment period, which, if successful, produce an improvement in the resource or current account balance. A core element of the HIAL program is trade reform—elimination of anti-export bias through nominal exchange rate unification, liberalization of exchange and trade regimes, export price and marketing regimes, and public enterprise reform as well as real devaluation of the domestic currency secured by fiscal adjustment (Annex 2.2). In fact, countries did devalue or allow the value of their currencies to float down as they undertook reforms.

0.11 The macroeconomic framework targets the real exchange rate on the current account as shown in the second panel of Table 3.1. Of the 55 countries for which we have real exchange rate and current account balance data, 25 experienced real devaluation during 1996–98, and 17 of these had improvements in the current account balance excluding grants.⁸ These averages mask wide differences in policy performance among the three groups. Table 3.1 shows the extent of real devaluation among the HIAL group and the other comparators and indicates the associated outcome (i.e., reduction in current account balance as percentage of GDP). The HIAL group reduced its current account deficit to nearly 10 percent of GDP—a one-third improvement from its 1993–95 level. The other country groups reduced their deficits by smaller amounts.

Monetary Policy and Impact on Foreign Exchange Reserves

0.12 Many developing countries have some degree of international capital mobility. If their real interest rates get too far below international rates, there will be a capital outflow and loss of reserves. Thus, a positive real interest differential helps to relieve the pressure on foreign exchange reserves and the capital account. Furthermore, adjustment and stabilization-supported programs (HIAL and Enhanced Structural Adjustment Facility/Stand-by) aim to bring about positive real interest rates, partly for monetary reasons—for example, to help curtail demand for credit—and partly for structural reasons—for example, to improve resource allocation and promote financial intermediation.

0.13 The second objective of external balance is to maintain a positive real interest differential to relieve the pressure on the capital account and foreign exchange reserves, as shown in the third panel of Table 3.1. Of the 33 countries with interest rate and reserve data, 26 increased their real interest rates (or reduced a negative differential) from 1993–95 to 1996–98. Of these, 12 gained foreign exchange reserves. The distributions of these successful countries vary significantly among the three country groups. Where half of HIAL countries succeeded in narrowing their real interest rate differentials and subsequently improved their foreign exchange reserves position, only 43 percent of non-HIAL SSA countries and 33 percent of non-SSA countries achieved that objective. Thus, the HIAL group's performance is better than the other comparators.

0.14 The third panel of Table 3.1 shows the extent to which HIAL and the other two country groups have increased their foreign exchange reserves. Reserves rose markedly in the HIAL group, on average, in the three years after the start of the HIAL-supported adjustment compared with the three preceding years. In contrast, reserves in the rest of SSA countries dropped and

⁸ A better outcome measure is the resource balance, defined as the difference between exports and imports of goods and non-factor services. However, these data are not available for most countries under review.

stagnated in non-SSA countries. However, a closer look at the group average reveals that the reserves picture varied widely, with some adjusting countries showing sizeable gains through this period.

Structural Reforms

0.15 Structural reforms were an integral part of HIAL (Annex 2.2). This section examines structural reforms. It reviews available measures of structural reforms such as country performance ratings and civil service, legal and governance reforms.

Country Performance Ratings

0.16 The problems of defining and measuring structural policies can constrain the choice to relatively simple formulations applied uniformly to all countries in the sample. The World Bank's Country Policy and Institutional Assessment (CPIA) of 1998 (formerly known as CPR⁹) provides a measure of structural reforms. This measure assesses the quality of a country's present policy and institutional framework. Quality refers to how conducive that framework is to fostering sustainable and poverty-reducing growth and the effective use of development assistance. CPIA is composed of 20 different components covering four different categories: macroeconomic management and sustainability of reforms; policies for sustainable and equitable growth; policies for reducing inequalities; and public sector management. Each of the 20 components—which are rated ordinally by country specialists on a scale of 1 to 6, using standardized criteria—has a 5 percent weight in the overall rating. While the ratings include an irreducible element of judgment, they have a reasonable claim to being the best consistent and comprehensive policy data set, as considerable care is taken in their preparation to ensure that they are comparable both within and between regions.

0.17 An assessment of progress across countries over 1995–98 on a more systematic and comparable basis through the use of one set of indices—especially constructed for this section by mapping/matching the CPIA and the CPR component—was attempted. Annex Table 3.10 provides a detailed methodology for constructing this index. Chapter 4 will use these indices in its regression analysis of economic growth and policy.

0.18 The overall policy performance by country group for 1995–98 is given in Table 3.2 and Annex Figure 3.1. Progress in structural reforms was uneven across country groups. Although the process was protracted and faltering at times, the HIAL group, on average, performed better than the rest of SSA and non-SSA countries. For instance, a ranking of 136 low- and middle-income countries in terms of policy performance rating in 1998 shows that nearly 70 percent of the HIAL countries fall in the upper three quintiles and none in the bottom quintile. In contrast, for non-HIAL SSA countries, only 37 percent fall in the upper three quintiles, and 55 percent of non-SSA countries fall in that category (Table 3.3). Progress in each of the areas covered by the index is also shown in Table 3.2 and Annex Figure 3.1.

⁹ Annex 4.1 provides more detail on CPR.

Table 3.2: Trends in Country Policy and Institutional Assessment (CPIA), 1995–98*

	1995	1996	1997	1998
Overall rating				
HIAL average	2.95	2.99	3.02	3.34
Non-HIAL SSA average	2.87	2.64	2.67	2.93
Non-SSA, average	3.04	3.04	3.01	3.26
Adjusting	2.81	2.83	2.83	3.25
Non-adjusting	3.12	3.12	3.08	3.27
Macroeconomic Management & Sustainability of Reforms				
HIAL average	2.90	3.20	3.38	3.65
Non-HIAL SSA average	3.00	2.85	2.89	3.07
Non-SSA, average	3.10	3.26	3.21	3.49
Adjusting	2.65	2.92	2.99	3.55
Non-adjusting	3.24	3.39	3.29	3.47
Policies for Sustainable & Equitable Growth				
HIAL average	3.24	3.40	3.07	3.40
Non-HIAL SSA average	3.07	2.87	2.76	2.97
Non-SSA, average	3.12	3.29	3.00	3.28
Adjusting	2.96	3.06	2.90	3.32
Non-adjusting	3.16	3.38	3.04	3.26
Policies for Reducing Inequality				
HIAL average	2.79	2.87	2.89	3.21
Non-HIAL SSA average	2.54	2.51	2.48	2.74
Non-SSA, average	2.96	3.04	3.04	3.23
Adjusting	2.71	2.72	2.76	3.17
Non-adjusting	3.04	3.17	3.15	3.25
Public Sector Management				
HIAL average	2.67	2.86	2.85	2.94
Non-HIAL SSA average	2.66	2.55	2.50	2.80
Non-SSA, average	2.83	2.88	2.82	2.98
Adjusting	2.62	2.68	2.64	2.77
Non-adjusting	2.89	2.97	2.89	3.05

* Earlier CPR data were mapped into the newer CPIA categories following Annex Table 3.10 methodology.

Table 3.3: 1998 CPIA - Ranking by Quintile (percent of countries)

Country group	Top Quintile	2 nd Quintile	3 rd Quintile	4 th Quintile	Bottom Quintile
FY 96-97 HIAL	1	0	8	4	0
Non-HIAL SSA	3	6	4	8	14
Non-SSA	1	5	6	5	5
Other	22	16	9	10	9

Civil Service, Legal, and Institutional Reforms

0.19 Civil service and legal and judiciary reforms were featured in almost all HIAL countries, with a policy incidence of nearly 70 percent (Annex 2.2). For instance, of the 14 FY96–97 HIAL operations, 9 had a conditionality on the regulatory framework and 8 on reform of civil service and other government institutions.

0.20 The quality of these institutional reform measures is difficult to assess directly, particularly on a cross-country basis. Nevertheless, attempts have been made by private sources—such as the International Country Risk Guide, Freedom House, and The Heritage Foundation—to rate countries on various criteria of governance, property rights, investment regulations, and risks. These institutional measures are defined in Annex Table 3.11. Table 3.4 provides a snapshot of institutions ratings and compares performance across the three groups of countries. The results suggest that, on average, the HIAL group's performance is not significantly different from the other two comparators.

Table 3.4: The Quality of Governance in HIAL and Other Comparators (in percent), 1998

	<i>Low</i>	<i>Medium</i>	<i>High</i>
Government stability			
FY96-97 HIAL countries	0	0	100
Non-HIAL SSA countries	0	11	89
Non-SSA countries	0	27	73
Government ineffectiveness			
FY96-97 HIAL countries	83	17	0
Non-HIAL SSA countries	86	14	0
Non-SSA countries	8	14	0
Quality of bureaucracy			
FY96-97 HIAL countries	6	36	0
Non-HIAL SSA countries	5	42	0
Non-SSA countries	4	55	0
Democratic accountability			
FY96-97 HIAL countries	2	64	9
Non-HIAL SSA countries	4	56	0
Non-SSA countries	1	33	56
Civil liberties			
FY96-97 HIAL countries	1	77	8
Non-HIAL SSA countries	2	58	15
Non-SSA countries	3	64	0
Freedom of press			
FY96-97 HIAL countries	6	11	22
Non-HIAL SSA countries	4	31	25
Non-SSA countries	7	9	18
Law and order tradition			
FY96-97 HIAL countries	1	73	9
Non-HIAL SSA countries	2	63	16
Non-SSA countries	1	73	9
Corruption in government			
FY96-97 HIAL countries	0	36	64
Non-HIAL SSA countries	0	42	58
Non-SSA countries	0	55	45
Protection of property rights			
FY96-97 HIAL countries	3	54	8
Non-HIAL SSA countries	5	32	18
Non-SSA countries	6	33	0

Source: See Annex Table 3.11 for sources and definitions, and Annex Table 3.12 for actual ratings.

Economic Growth

0.21 During 1993–95, developing countries, on average, experienced stagnation in real per capita GDP. For the HIAL and other SSA countries, this period was particularly bleak, as real per capita incomes decreased at an annual average rate of nearly one percent. In the three years thereafter, growth in these countries picked up and the gap between their growth rates and the average of other low-income countries was eliminated if not reversed (the last panel of Table 3.1 and Figure 3.2). However, this improvement in growth among the low-income countries was not evenly distributed across the country groups. Growth in adjusting non-SSA countries, which was sharply negative during 1993–95, turned around substantially in 1996–98, while that of non-adjusting non-SSA countries remained steady.

Figure 3.2a: Real Per Capita GDP Growth in HIAL Countries Arranged Alphabetically (period averages, in percent)

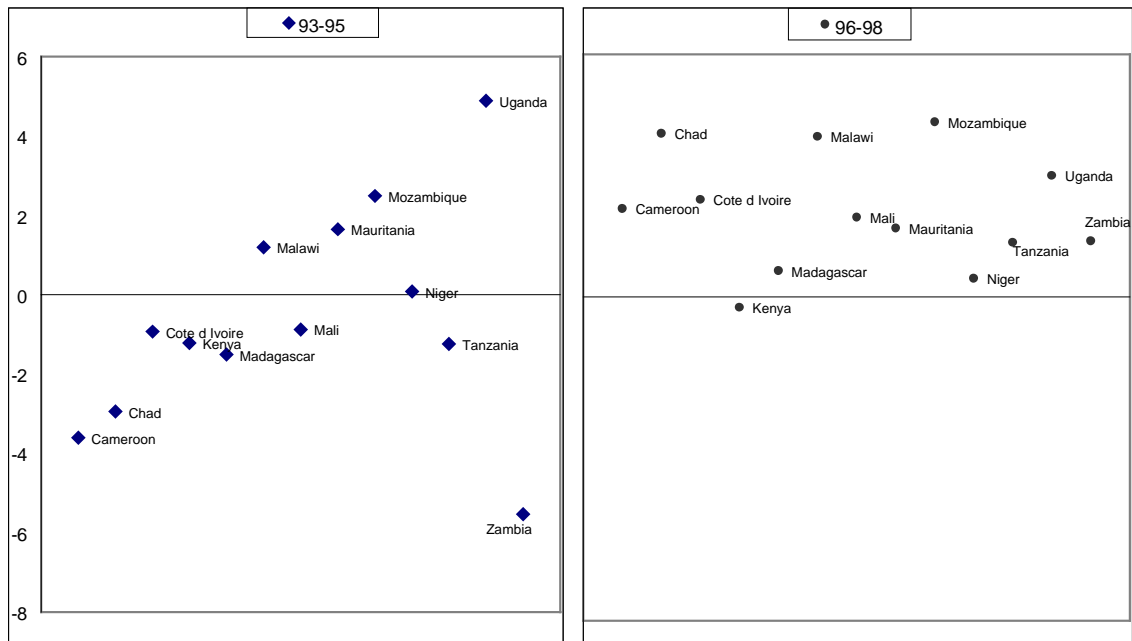


Figure 3.2b: Real Per Capita GDP Growth in Non-SSA Countries Arranged Alphabetically (period averages, in percent)

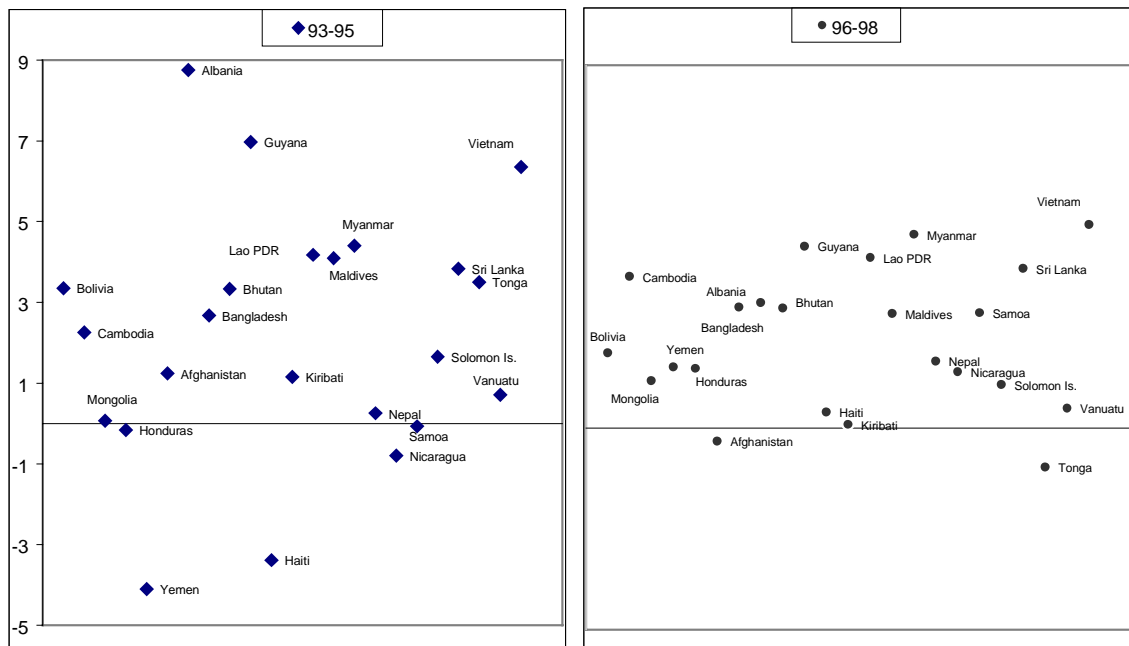
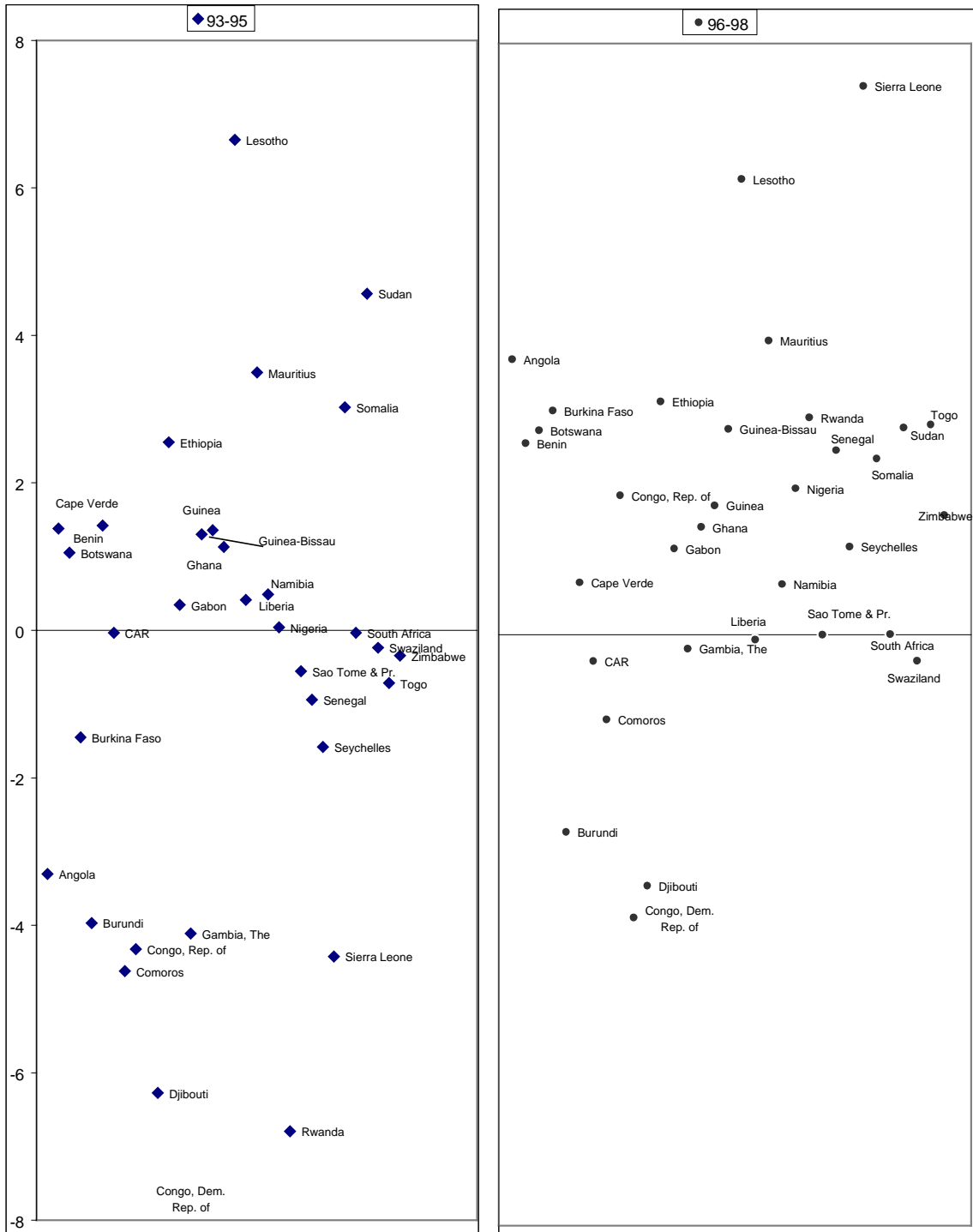


Figure 3.2c: Real Per Capita GDP Growth in Non-HIAL SSA Countries Arranged Alphabetically (period averages, in percent)



0.22 Similarly, there has been a marked upturn in growth across Africa since 1995. The intensity of progress reflected the severity of initial conditions. The HIAL countries' growth rate increased more than the other groups', except adjusting non-SSA countries (Table 3.1). Non-HIAL SSA countries also recorded a significant improvement in growth during 1996–98. Table 3.1 shows the largest increase in per capita GDP growth, on average, for HIAL countries in the three years after the start of HIAL-supported adjustment compared with the three preceding years, followed by the rest of SSA and non-SSA countries. However, a closer look at the individual African countries shows that the growth picture varied widely, with HIAL countries showing sizable gains through the period reviewed (Figure 3.2a, b, c). For instance, growth performance improved substantially in all HIAL countries with the exception of Uganda.¹⁰ Furthermore, in seven HIAL countries growth turned from negative during 1993–95 to positive during 1996–98.¹¹

0.23 The improvement in growth in HIAL and other SSA countries was, in general, mirrored in increased investment ratios, which remain higher in these countries, on average, than in non-SSA countries (Table 3.1). Investment picked up in HIAL and non-HIAL SSA countries, but it dropped in relation to GDP in non-SSA countries. Investment ratios before and during the HIAL programs are shown in Table 3.1. Here, too, there were marked improvements after 1995.

Poverty Reduction and Social Progress

Poverty-focused HIAL Lending

0.24 The HIAL operations supported macroeconomic and sectoral policies that promote growth and efficient resource allocation, which are essential for poverty reduction. Eleven of the fourteen FY96–97 HIAL operations contain specific poverty-reduction measures referred to as poverty-focused operations. According to the World Bank Poverty Board's classification, an adjustment operation is considered poverty-focused if it meets at least one of the three criteria in supporting government efforts to (i) reallocate public expenditure in favor of the poor; (ii) eliminate distortions and regulations that disadvantage the poor and limit their income-generating opportunities; and (iii) support safety nets that protect the most vulnerable group.

0.25 The HIAL group has made significant progress between FY93 and FY98 compared with other developing countries in terms of poverty-focused adjustment lending (Table 3.5). The HIAL share of poverty-focused operations has increased from 61 percent in FY93–95 to 71 percent in FY96–98, compared with virtually no increase in other SSA countries. In non-SSA countries, the share of poverty-focused adjustment operations has moved from 22 percent to 55 percent during the same periods, showing that HIAL is more poverty-focused than adjustment lending in the rest of the Bank. An examination of amounts committed also supports this conclusion.

¹⁰ Uganda's average per capita GDP growth dropped from 4.9 percent in 1993–95 to 3.0 percent in 1996–98.

¹¹ These HIAL countries are four CFA countries—Cameroon, Chad, Côte d'Ivoire, and Mali—and three non-CFA countries—Madagascar, Tanzania, and Zambia.

Table 3.5: Poverty-focused Adjustment Lending by Country Groups, FY93–98

Country group	Adjustment lending		Poverty focused	
	FY93–95	FY96–98	FY93–95	FY96–98
HIAL				
No. of projects	18	21	11	15
Total commitment (\$m)	1415	2062	743	1067
Other SSA				
No. of projects	7	4*	5	3
Total commitment (\$m)	591	476	270	426
Non-SSA				
No. of projects	9	11	2	6
Total commitment (\$m)	827	612	170	245
Other				
No. of projects	47	61	22	27
Total commitment (\$m)	7172	17525	3295	10259
All countries				
No. of projects	81	97	40	51
Total commitment (\$m)	10005	20675	4478	11997

* This figure includes three FY96 operations—Côte d'Ivoire Agricultural SECAL, Togo ERAC, and Zambia ESAC I, prepared prior to HIAL.

0.26 For FY96–97, only one HIAL, one non-HIAL SSA, and one non-SSA operation met all three criteria for a poverty-focused operation. In addition to these operations, seven HIAL operations and no non-adjusting operations were classified as poverty-focused on the basis of both public expenditure reforms and addressing distortions. All but one FY96 and FY97 poverty-focused operation met the reforming public expenditure criterion (Table 3.6).

Table 3.6 : Poverty Focus of FY96–98 Adjustment Operations in IDA Countries

	Reforming public expenditure	Addressing distortions	Targeted programs	Tranche release condition
HIAL				
<i>FY96</i>				
Cameroon SAC II	X	X		X
Chad SAC I	X	X		X
Malawi FRDP	X	X		
Mali EMC	X			X
<i>FY97</i>				
Chad SAC II	X	X	X	
Madagascar SAC I	X	X		
Mozambique TERC	X	X		
Niger PSAC	X	X		
Tanzania SAC I	X			X
Uganda SAC III	X			X
Zambia ESAC II	X	X		X
<i>FY98</i>				
Cameroon SAC III	X	X		
Cape Verde ERS	X		X	X
Guinea PEM	X			
Uganda Education	X	X		X
Other SSA				
<i>FY96</i>				
Côte d'Ivoire Agric. SECAL		X		
Togo ERAC	X	X	X	
Zambia ERC	X			X
Non-SSA Adjusters				
<i>FY96</i>				
Cambodia ERC	X			
Lao PDR SAC III	X			
Yemen ERC	X			
<i>FY97</i>				
Tajikistan, ARSPC	X	X	X	
<i>FY98</i>				
Tajikistan (Post-Conflict)	X	X	X	
Non-SSA Non-Adjusters				
<i>FY98</i>				

Albania Rehab Credit	X	X
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Source: World Bank 1998c, Annex E.

Social Expenditure and Progress

0.27 Social expenditure data are available for only a little over half of the HIAL countries and for one third of the non-HIAL SSA countries, and only through 1997. Thus, we have to treat results with caution. Using a recent compilation of expenditure data on health and education from Public Expenditure Reviews in the Africa Region (see Tables 3.7 and 3.8), we find that HIAL countries' expenditures on health and education as a share of GDP slightly decreased between 1993–95 and 1996–97. At the same time, the rest of SSA shows a modest improvement. The same is true for per capita expenditures on health and education. This is indeed surprising, not only in view of the high percentage of operations that included a refocusing of public expenditure toward the social sectors, but also given OED's 1996 study on Social Dimensions of Adjustment finding that, based on 1980–93 operations, social spending/GDP in most countries did not fall as a consequence of adjustment. It may be that the sharp fiscal adjustment in the HIAL countries temporarily reduced social spending/GDP. This issue requires further study, including evaluations of intrasectoral reallocations in health and education towards services which are more frequently used by the poor, such as primary education and basic and preventive health care and studies of changes in the efficiency of social expenditures.

Table 3.7: Government Total Expenditure on Health (as % of GDP)

Country group	Expenditure on health (% of GDP)		Period difference	No. of successful countries	Percentage of category
	1993–95	1996–97			
HIAL*	1.7	1.6	-0.1	3	43
Non-HIAL	1.7	2.0	0.3	8	62
SSA**	1.7	1.9	0.2	11	55

* Only seven HIAL countries have data on health expenditure for the two periods in question—Côte d'Ivoire, Kenya, Madagascar, Malawi, Niger, Uganda, and Zambia.

** Only 13 non-HIAL SSA countries have data on health expenditure for the two periods in question.

Source: Africa Region Social Expenditure Database, Mark 1 (see Annex Table 3.13).

Table 3.8: Government Total Expenditure on Education (as % of GDP)

Country group	Expenditure on education (% of GDP)		Period difference	No. of successful countries	Percentage of category
	1993–95	1996–97			
HIAL*	4.0	3.2	-0.8	3	38
Non-HIAL	4.8	5.0	0.2	6	46
SSA**	4.5	4.3	-0.2	9	43

* Only eight HIAL countries have data on education expenditure for the two periods in question—Côte d'Ivoire, Kenya, Madagascar, Malawi, Niger, Tanzania, Uganda, and Zambia.

** Only 13 non-HIAL SSA countries have data on education expenditure for the two periods in question.

Source: Africa Region Social Expenditure Database, Mark 1 (see Annex Table 3.14).

0.28 Several social indicators were analyzed for the three country groups. While social-sector data are rather limited, the sample size was adjusted to provide a set of comparable indicators. Gross secondary school enrollment rates between 1993 and 1996 increased by only 3 percent in HIAL countries compared with about 7 percent in non-HIAL SSA countries and 10 percent in non-SSA countries. Also, HIAL countries showed no change in infant mortality rates, while these rates between 1995 and 1996/97 improved in both non-SSA countries and non-HIAL SSA countries. Life expectancy between 1995 and 1996/97 improved at about the same rate in HIAL and non-HIAL SSA countries (1.6 percent), while the non-SSA countries' life expectancy rates grew by 3.5 percent (Annex Tables 3.15-3.19).

Poverty, Economic Growth, and Inflation

0.29 Actual changes in poverty—that is, changes in the number of people living below the national poverty line or below \$1 or \$2 a day are difficult to assess with household surveys conducted in ten- or at best five-year intervals. No country has data points available for poverty before and after HIAL. Therefore, we cannot measure changes in poverty before and after a HIAL operation. However, drawing on previous studies—Africa Region's HIAL Update (World Bank 1998b) and OED's (1996) *Social Dimensions of Adjustment* study—we use intermediate indicators as well as knowledge of how economic processes affect poverty to make a very tentative assessment of the impact of HIAL operations on poverty.

0.30 It is well accepted that economic growth is the most significant factor affecting poverty (OED's [1996] *Social Dimensions* study). Typically, poverty falls when incomes rise, and vice versa. For that reason, increasing economic growth is regarded as a necessary but not sufficient condition for poverty reduction. Growth elasticities of the extent and depth of poverty have been estimated from household surveys for most HIAL countries (HIAL Update). They describe the marginal change in poverty with a marginal change in growth for given population growth rate, income distribution, and neutral growth distribution. The minimum growth rate describes the rate of growth from which the number of poor starts to decline. Estimates of the minimum growth rate for FY96–97 HIAL countries range from 5 to 6 percent (HIAL Update).

0.31 With an average annual GDP growth rate of 5.2 percent, HIAL countries were able to almost double their average annual growth rate in 1996–98 compared with 1993–95, when GDP grew at only 2.7 percent on average. In both periods, HIAL achieved a better growth performance than did other SSA countries, which grew at an average annual rate of 4.3 percent¹² in 1996–98, compared with 1.5 percent average annual growth in 1993–95. The average GDP growth rate for non-SSA adjusters in 1996–98 is lower than for HIAL countries. However, since the non-SSA adjusters started at only 0.5 percent in 1993–95, they have indeed improved more. Table 3.9 shows that growth in HIAL countries is now in the range of the required growth rate for poverty reduction. Nevertheless, there are large differences among HIAL countries (for example, growth in three countries—Kenya, Madagascar, and Niger—is still far below the required growth rate).

¹² Equatorial Guinea was an outlier and therefore eliminated.

Table 3.9: Poverty and Economic Growth in FY96–97 HIAL Countries

Country	Minimum growth rate required (HIAL Update)	Actual growth rate (1996-98)	GNP per capita 1997
Cameroon	..	5.0	650
Chad	..	6.5	240
Côte d'Ivoire	5.7	6.2	690
Kenya	4.7	2.7	330
Madagascar	5.4	3.2	250
Malawi	5.9	7.1	220
Mali	..	5.1	260
Mauritania	5.0	4.5	450
Mozambique	..	7.4	90
Niger	5.2	3.8	200
Tanzania	4.9	4.3	210
Uganda	5.0	6.0	330
Zambia	5.9	5.1	380
Average	5.3	5.2	331
Standard Deviation	0.4	1.5	175

Notes: .. indicates non-available data.

0.32 HIAL countries have significantly reduced inflation from 1993–95 to 1996–98, and have outperformed the rest of SSA and other non-SSA countries. In the OED (1996) *Social Dimensions of Adjustment* study, macroeconomic stability—lower (and stable) inflation—was shown to be conducive to higher post-adjustment growth. Furthermore, two-thirds of successful adjusters had reductions in poverty. Given the strong link between growth and poverty reduction, the achievements in the reduction of inflation—if maintained—are likely to translate into higher growth and poverty reduction in the post-adjustment period.

Debt Sustainability

0.33 The analytical framework for the growth and sustainability of the debt path for the countries reviewed is provided by the OED (World Bank 1995b) *Structural and Sectoral Adjustment: World Bank Experience, 1980–92* study, in which the government's budget constraint in real terms was written as a formula for the growth of the ratio of debt to GDP:

$$db = (r - n)b + p - s \quad (1)$$

where:

- b = debt-GDP ratio
- db = arithmetic (not percentage) annual growth
- r = real interest rate
- n = growth rate of real GDP
- p = primary deficit as a share of GDP, and
- s = the ratio of seigniorage (both inflation tax and real growth in demand base

for money) to GDP.

0.34 As all of the adjusting countries are international borrowers, their debt-GDP ratios are positive. Thus, the sign of the growth term $(r - n)$ will determine whether the debt process is itself unstable. If $(r - n)$ is positive, the debt ratio will tend to grow by feeding on itself; the country is borrowing to service its debt. In this case, for the overall process to be stable, that is, for the change in the debt-GDP ratio to be negative, the primary deficit less seigniorage term $(p - s)$ would have to be negative. Conversely, if the growth term is negative, the primary deficit less seigniorage term could be zero or even slightly positive; the country could grow out of its debt burden.

0.35 The determinants of the movement in the ratio of debt-GDP for countries with unsustainable debt paths are given in Table 3.10. The first two columns show their growth factor, $(r - n)b$, and the primary deficit less seigniorage, $(p - s)$, terms. A positive entry in either of these two columns warns of an unsustainable debt path. The estimated annual change in their debt-GDP ratios—in the absence of additional concessional financing or rescheduling—is the sum of these two columns, shown in the third column. The last column shows the actual change in their debt-GDP ratios between 1995 and 1996.

0.36 Three-quarters of the countries listed in Table 3.10 have a negative growth factor—that is, they do not have an inherently unsustainable debt path. Their debt-GDP ratios are rising because of the current primary deficit. If they were to reduce that sufficiently, the path would become sustainable. For example, of the three HIAL countries with negative growth factors, Chad has such a large deficit that its debt-GDP ratio is growing by nearly 4 percentage points a year. In contrast, the non-HIAL SSA and non-SSA countries with negative growth factors have, on average, debt-GDP ratios growing by more percentage points a year than the HIAL group does. Most of these non-adjusting countries seemed to face somewhat serious debt problems in 1996–98.

Table 3.10: Countries with Unsustainable Debt Paths in the Period 1996–98

<i>Countries with unsustainable Debt paths</i>	<i>Growth factor</i> + $(r - n)b$	<i>Primary deficit less seigniorage*</i> $(p - s)$	<i>= Annual increase in db</i>	<i>debt-GDP between 1995 and 1996</i> <i>Change in</i>
HIAL countries				
Chad (CFA)	-6.2	10	3.7	1.9
Niger (CFA)	-2.4	4.5	2.1	-10.0
Tanzania (non-CFA)	1.6	0.9	2.5	-18.6
Uganda (non-CFA)	-3.0	3.6	0.6	-2.0
Non-HIAL SSA countries				
Benin	-2.3	2.6	0.2	-8.9
Burkina Faso	-3.7	7.3	3.6	-1.6
Burundi	-1.0	2.8	1.8	5.0
Cape Verde	-1.2	13.3	12.1	3.8
Central African Rep.	-2.7	5.5	2.8	7.3
Comoros	-2.0	11.4	9.4	0.5
Djibouti	0.1	2.3	2.4	4.6
Ethiopia	48.6	3.9	52.5	-8.7
Gambia, The	-2.5	4.4	1.9	2.4
Liberia	0.0	42.3	42.3	0.0
Mauritius	-0.5	1.7	1.2	1.2
Namibia	22.7	6.0	28.8	0.1
Rwanda	-7.3	12.1	4.8	-10.9
São Tomé & Príncipe	50.8	45.1	95.9	34.6
Swaziland	1.0	4.7	5.8	1.5
Non-SSA, adjusting countries				
Bolivia	-1.1	4.8	3.8	-8.7
Tajikistan	-2.6	4.4	1.8	-49.6
Non-SSA, non-adjusting countries				
Afghanistan	-0.4	2.8	2.4	0.6
Albania	-1.5	3.5	2.0	2.3
Bangladesh	-2.5	5.0	2.5	-5.3
Bhutan	-0.3	10.2	9.9	2.1
Guyana	-13.8	30.7	16.9	-97.6
Maldives	-2.6	3.3	0.7	-4.9
Myanmar	-0.3	4.3	4.0	-2.1
Nepal	-3.5	4.3	0.8	-3.4
Sri Lanka	-2.8	6.8	4.0	-9.8
Tonga	0.3	2.5	2.8	-0.2
Vanuatu	1.5	1.1	2.6	-1.4

* Seigniorage is defined as the change in the central bank's claim on the public sector (IMFIFS lines 12a, 12b, 12bx, and 12c) as percentage of GDP.

Source: OED estimates (see Annex Table 3.22).

0.37 A comparison with pre-HIAL debt sustainability analysis—see Annex 2.1—reveals a turnaround in the debt path for the majority of the countries selected for HIAL from positive GDP-debt ratio to negative.¹³ In the non-HIAL SSA group, few countries reversed their debt path from unsustainable to sustainable.¹⁴

0.38 In simple terms, the debt situation can be improved by changing some combination of the four variables: debt stock, interest rate, primary deficit, and GDP growth rate. Table 3.11 shows the debt paths for 69 countries. Of these, 36 countries (or 52 percent) have a sustainable debt path, that is, the change in the debt-GDP ratio is negative in 1996–98. The remaining 33 countries, also listed in Table 3.11, have rising debt-GDP ratios.

0.39 Of the 13 HIAL countries, 9 (or 70 percent) have a falling debt-GDP ratio. In contrast, our calculations of the debt paths for 34 non-HIAL SSA show 19 countries (or 56 percent) with a sustainable debt path. We have data on 22 of the 24 non-SSA countries; of these, 8 have a falling debt-GDP ratio. Furthermore, a breakdown of this group into two subgroups—adjusting versus non-adjusting—shows that 60 percent of the adjusting subgroup have a sustainable debt path, compared with nearly 30 percent of the non-adjusting. Thus, HIAL countries generally have had more success in attaining a sustainable debt than other IDA countries, especially outside SSA.

Table 3.11: Debt Sustainability Paths in the Sample Countries

	<i>HIAL countries</i>	<i>Non-HIAL SSA countries</i>	<i>Non-SSA countries</i>	
			<i>Adjusting</i>	<i>Non-adjusting</i>
Sustainable debt path	CFA Cameroon Côte d'Ivoire Mali Non-CFA Kenya Madagascar Malawi Mauritania Mozambique Zambia	Angola Botswana Congo, Rep. Of Congo, Dem. Rep. Equatorial Guinea Gabon Ghana Guinea Guinea-Bissau Lesotho Nigeria Senegal Seychelles Sierra Leone Somalia South Africa Sudan Togo Zimbabwe	Honduras Lao PDR Yemen	Haiti Nicaragua Samoa Solomon Islands Vietnam
Unsustainable debt path	CFA Chad Niger Non-CFA Tanzania Uganda	Benin Burkina Faso Burundi Cape Verde Central Africa Rep. Comoros Djibouti Ethiopia Gambia, The Liberia Mauritius Namibia Rwanda	Bolivia Tajikistan	Afghanistan Albania Bangladesh Bhutan Guyana Kiribati Maldives Myanmar Nepal Sri Lanka Tonga Vanuatu

¹³ In fact, seven HIAL countries turned their debt path from unsustainable to sustainable—three CFA countries: Cameroon, Côte d'Ivoire, and Mali; and four non-CFA countries: Kenya, Madagascar, Malawi, and Zambia.

¹⁴ Countries included are Gabon, Nigeria, Sierra Leone, Sudan, Togo, and Zimbabwe.

	São Tomé & Princ. Swaziland	
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Source: OED estimates (see Annex Tables 3.20, 3.21 and 3.22).

POLICIES AND GROWTH

Cross-country regression analyses show that growth in the HIAL countries is closely associated with the investment/GDP ratio and improved fiscal performance. The change in fiscal position is significant only for the HIAL countries, in contrast to other SSA or IDA countries. Indicators of good policy performance are positive in all the regressions and significant half of the time. In the HIAL case, the “policies for sustainable and equitable growth measure” is significant.

0.1 Chapter 3 reviewed growth performance across the groups of countries being compared. Average growth rates of per capita GDP are shown in Table 3.1, and growth rates of individual countries are shown in Figure 3.2. The improvement in growth in the HIAL countries from 1993–95 to 1996–98 is notable in Figure 3.2. Chapter 3 also noted the improvement in the HIAL countries’ fiscal and inflation performance over the same periods, as illustrated in Figure 3.1. This relationship will play a role in the analysis in this chapter.

0.2 Policy outcomes were discussed in Chapter 3. Some emphasis was placed on the Bank’s CPR in 1995–97, and CPIA the successor to the CPR in 1998. The mapping from CPR to CPIA is shown in Annex Table 3.10, and the trends in performance ratings are shown for the country groups in Tables 3.2 and 3.3 and Annex Figure 3.1. The HIAL countries emerge relatively well in those comparisons.

0.3 This chapter studies the relationship between policy performance and growth for the three groups of countries. The analysis is performed by estimating growth regressions for the HIAL period since 1996, adding the measures of policy performance from Chapter 3 once an initial growth regression is established. The essential conclusion is that all of the CPR and CPIA measures are positively correlated with growth, many significantly, and that only for the HIAL countries does fiscal performance stand out. This is consistent with the conclusion of the OED study of Social Dimensions of Adjustment (1996) that for SSA countries the only policy variable that was significant in explaining post-adjustment growth was fiscal reform, and the implication that a selection criterion for HIAL may have been the ability to carry out fiscal reform.¹⁵

Methodology and Data for the Regression Analysis

0.4 The regression analysis in the next two sections relates average per capita growth rates across countries for the HIAL period, 1996–98, from Chapter 3, to two sets of policy variables. The first set, following the regression analysis in the Social Dimensions study, includes the investment/GDP ratio in the same period, and changes in macro policy variables from the pre-HIAL period, 1993–95, to the HIAL period. The policy variables are the change in the ratio of the primary fiscal balance to GDP and the change in the real effective exchange rate (REER).¹⁶ These are taken from Chapter 3. These first regressions establish for each country group, as well as the full group, a “basic growth regression,” shown in Table 4.2.

¹⁵ Governance measures discussed in Chapter 3 are not significantly correlated with growth. These results are reported in Annex Table 4.2, regression equations 50–61.

¹⁶ The fiscal balance is partially endogenous. By using the change in the ratio of the primary balance to GDP, we attempt to minimize the effect of this endogeneity. Note that in Table 4.2 the coefficient of the change in the fiscal position is highly significant only for the HIAL countries. This is consistent with the results in World Bank 1995c and Fischer et al 1996.

0.5 Once the basic regression that includes these potentially important macro variables is established, a second set of regressions that includes the CPR/CPIA measures, one by one, is estimated. These measures are taken from Chapter 3. Lack of degrees of freedom in the estimation and multicollinearity of the CPR and CPIA measures precludes including them all simultaneously. The signs and significance of these policy variables are summarized in Table 4.3.

0.6 The construction of the data set is described in Table 4.1 (a, b). The macro data are straightforward measures of GDP growth, primary fiscal balance, and REER. The CPR and CPIA data were quantified and constructed following the discussion of Chapter 3. The earlier CPR data were mapped into the later CPIA categories as shown in Annex Table 3.10. The 1996–98 averages, following the CPIA categories, were then constructed for the four categories under CPIA in Annex Table 3.10, labeled *sa*, *sb*, *sc*, and *sd*, plus an overall weighted average *so*. We also tested the earlier CPR variables for 1996–97, labeled *ss2*, *ss3*, and an overall *sso*. The details of data construction are shown in Tables 4.1a and 4.1b, and the actual data are presented in Annex Table 4.1.

Table 4.1a: Definition, Source and Computation of Regression Variables

<i>Symbol used in the regression equation</i>	<i>Definition</i>	<i>Reference to Annex Table 3.10 to indicate "mapping" of CPR to CPIA</i>
y1	Per capita GDP Growth, average of 1996–98	na*
igdp	Investment as % of GDP, average of 1996–98	na
pbal	Primary balance, change between the averages of 1996–98 and 1993–95	na
reer	Real effective exchange rate, change between the averages of 1996–98 and 1993–95	na
sa	Macroeconomic management and sustainability of reforms, average of 1996–98	as "A" under the column CPIA
sb	Policies for sustainable and equitable growth, average of 1996–98	as "B" under the column CPIA
sc	Policies for reducing inequalities, average of 1996–98	as "C" under the column CPIA
sd	Public sector management, average of 1996–98	as "D" under the column CPIA
so	Overall combination (sa, sb, sc, and sd), average of 1996–98	na; <i>so</i> is the Overall CPIA rating of the country, which is the sum total of "weighted scores" of individual categories listed in A, B, C, and D [CPIA] and as shown in the sample computation.
ss2	CPR Macro, average of 1996–97	as "A" under the column CPR
ss3	CPR Structural, average of 1996–97	as "B" under the column CPR
sso	CPR Overall, average of 1996–97	<i>sso</i> is the overall CPR ratings of the country which is the sum of "weighted scores" of individual categories in A, B[CPR], and portfolio.
cl	Civil liberties, 1998	na
fp	Freedom of press, 1998	na
gd	Gross disbursement as % of current GDP, average of 1996–98	na
nd	Net disbursement, as % of current GDP, average of 1996–98	na
nt	Net transfers, as % of current GDP, average of 1996–98	na

Note: * na = not applicable

Table 4.1b: Sample "Mapping" of Cameroon's CPR to CPIA, 1997

			Average Score*	Weights	Weighted Score	Averaged weighted score by CPIA category	Sum of A, B, C, D, and Overall
A	<i>Macroeconomic management & sustainability of reforms</i>						
	1	inflation	4.33	0.25	1.08		
	2	debt management	2.33	0.25	0.58		
	3	fiscal balance	3.33	0.25	0.83		
	4	external balance	3.0	0.25	0.75	0.81	0.81
B	<i>Policies for sustainable & equitable growth</i>						
	1	trade policy	3.67	0.07	0.26		
	2	forex	4.33	0.07	0.30	0.28	
	3	financial stability	2.67	0.1	0.27		
	4	fin. management efficiency	2.67	0.1	0.27	0.27	
	5	legal & regulation	2.0	0.1	0.20		
	6	marketing	2.67	0.1	0.27		
	7	product markets	2.67	0.1	0.27		
	8	factor markets	3.0	0.1	0.30		
	9	privatization strategy	2.33	0.07	0.16	0.24	
	10	environment strategy	3.0	0.05	0.15		
	11	environment impact	2.0	0.05	0.10	0.13	
C	<i>Policies for reducing inequalities</i>						
	1	social strategy	2.33	0.1	0.23		
	2	social safety	2.0	0.1	0.20	0.22	
	3	poverty	2.67	0.05	0.13	0.13	
D	<i>Public sector management</i>						
	1	budgetary effects & special privileges	2.33	0.07	0.16		
	2	management	1.33	0.07	0.09	0.13	
	3	tax reform	2.67	0.14	0.37		
	4	volume & composition of expenditure	2.33	0.14	0.33		
	5	public expenditure management	2.33	0.14	0.33		
	6	civil administration	2.33	0.14	0.33	0.34	0.47
		<i>Portfolio</i>	1.0	0.07	0.07	0.07	0.07
		Computed Overall CPIA					2.61

Note: * Pool of average scores, from which individual items are evaluated: 1, 1+, 2, 2-, 2+, 3-, 3, 3+, 4-, 4, 4+, 5-, 5.

Basic Growth Regressions

0.7 The basic growth regressions have average per capita GDP growth, 1996–98, as the dependent variable. The initial independent variables were (i) the average ratio of total investment to GDP for the same period; (ii) the change in the ratio of the primary fiscal balance to GDP from 1993–95 to 1996–98; and (iii) the change in the REER over the same period. The

investment ratio is a standard element in cross-country growth regressions. The changes in the two policy variables from pre- to post-adjustment periods were found to be significant in the OED Social Dimensions study (1996). These are included in the HIAL group for the change from the pre-HIAL period to the HIAL period; we have no post-HIAL data. The same variables were included in the non-HIAL SSA and the non-SSA groups for comparison. Insignificant variables were then eliminated going from the full basic equation to the final equation for each sample.

0.8 The results for the full group and the three subgroups are summarized in Table 4.2. The estimated coefficients with t-ratios are listed for each equation in the column under each variable. The full regression output is reproduced in Annex Table 4.2. The equation numbers in Table 4.2 are the numbers from the regression output in Annex Table 4.2.

0.9 For the full group in equations 2 and 3, the only significant variable is the investment ratio. This makes sense, since the full group includes many non-adjusting countries. The same result appears in equations 27 and 28 for the non-HIAL SSA group, all of which were non-adjusters. In equations 40 and 41 for the non-SSA group, none of the basic variables are significant. We will see shortly that only the CPR/CPIA variables seem to matter for the non-SSA countries.¹⁷

0.10 In the HIAL group, equations 14 and 15, both the investment ratio and the change in the primary fiscal balance are significantly positive. This result corresponds to the finding in the OED Social Dimensions study that the policy variable that mattered for post-adjustment growth in the adjusting SSA countries was the fiscal balance. In Chapter 3 we saw that in the HIAL countries, improvement in the fiscal balance is associated with reduction of inflation. In Table 4.2 we see that it is also associated with faster growth. An interpretation of this result is that ability to control the fiscal balance is a proxy for governance. A government that can manage its fiscal affairs can manage other reforms. This result for the HIAL group may reflect governance as a selectivity criterion that paid off in faster growth.

Results for CPR/CPIA Policy Variables

0.11 The basic growth equation for testing the CPR/CPIA policy variables is established as the second equation for each group in Table 4.2. The CPR/CPIA policy variables were entered into the basic equation for each group to check sign and significance. The full regression results are shown in Annex Table 4.2 following the basic regression for each group. The actual coefficients do not have much meaning because the CPR/CPIA variables are somewhat arbitrary indexes. But a positive and significant coefficient means that the particular variable has a positive association with growth across countries in the relevant group.

0.12 The results of the regressions with the CPR/CPIA variables are summarized in Table 4.3. The four columns give the sign and significance level for each variable entered separately into the basic growth regression. The significant basic variables for each regression from Table 4.2 are given at the top of each column. The policy variables are as defined in Table 4.1; *sa* to *so* are the CPR/CPIA variables averaged for 1996–1998 and *ss2* to *sso* are the CPR variables averaged for 1996–97. In Table 4.3, a + means that the particular policy variable has a positive coefficient in the relevant equation. A single asterisk denotes significance at the 5 percent level; two asterisks denote significance at the 10 percent level.

¹⁷ Variables reflecting aid and loan flows to the SSA countries were also tried in the growth regressions. These were gross and net disbursements and transfers, all as a fraction of GDP. None were significant in any of the equations. See regression equations 62–73 in Annex Table 4.2. Changes in the terms of trade were not included in the analysis, as HIAL countries' average terms of trade did not change from 1993–95 to 1996–98.

Table 4.2: Basic Regressions of Growth on Macro Variables

Dependent Variable: Per Capita GDP Growth, Average of 1996-98					
Full Sample					
Equation No.	igdp	pbal	reer	Adj. R2	No. of Observations
2	0.07 [3.2]	-.09 [1.6]	0.01 [.8]	0.15	58
3	0.05 [2.6]			0.08	66
<i>Note 1: "t" ratios are shown in brackets.</i>					
<i>Note 2: Number of observation in equation 3 rises to 66 because of the absence of reer for the following 8 countries: Afghanistan; Bhutan; Comoros; Lao, P.D.; Liberia; Maldives; São Tomé & Príncipe; and Yemen, R.</i>					
HIAL Countries					
Equation No.					
14	0.07 [2.6]	0.40 [4.0]	-0.02 [.89]	0.64	13
15	0.07 [2.5]	0.41 [4.1]		0.65	13
Non-HIAL SSA Countries^{3/}					
Equation No.					
27	0.07 [2.4]	-.15 [1.7]	-.01 [.23]	0.19	30
28	0.06 [2.1]			0.10	33 ^{4/}
<i>Note 3: Non-HIAL SSA countries exclude Comoros, Equatorial Guinea, Eritrea, Liberia and São Tomé & Príncipe.</i>					
<i>Note 4: Exclusion of reer and pbal raises observations to 33 because Equatorial Guinea and Eritrea were missing values.</i>					
Non-SSA Countries					
Equation No.					
40	0.07 [.95]	-0.16 [1.4]	0.02 [0.98]	0.05	15
41	0.02 [.51]			-0.04	20
<i>Note 5: From a total of 24, the following had missing values: reer: Afghanistan; Bhutan; Lao, P.D.; Maldives; and Yemen, R. igdp: Cambodia, Kiribati, Mongolia, Vietnam.</i>					
<i>Note 6: Exclusion of reer raises the number of observations by 5 to 20.</i>					

Table 4.3: Signs of Policy Variables in Growth Regressions

<i>Dependent Variable: Per Capita GDP Growth, Average of 1996-98</i>				
	<i>Full sample: Basic Model</i>	<i>HIAL: Basic Model</i>	<i>Non-HIAL SSA: Basic Model</i>	<i>Non-SSA: Basic Model</i>
<i>Significant Macro Variables</i>				
	<i>igdp</i>	<i>igdp, pbal</i>	<i>igdp</i>	<i>non-significant</i>
Policy Variables				
sa	+**	+	+	+*
sb	+	+*	+	+
sc	+**	+	+	+*
sd	+*	+	+	+*
so	+*	+	+	+*
ss2	+*	+	+*	+
ss3	+*	+	+**	+*
ssO	+*	+	+**	+

Notes: * = significant at 5%; ** = significant at 10% level.

0.13 As can be seen in Table 4.3, all of the policy variables enter positively in all of the regressions. Of the 32 positive coefficients, 12 are significant at the 5 percent level, and another 4 are significant at the 10 percent level. In the HIAL equation, *sb*, “policies for sustainable and equitable growth,” is significant at the 5 percent level. Since the change in the primary fiscal balance is already in the equation, it is not surprising that *sa*, “macro management,” is not significant. In the non-SSA equation, several policy variables are significant at the 5 percent level, although the basic variables are not. Overall, the results suggest that the CPR/CPIA measures pick up the positive effects of policy on growth.

Summary: Policy Outcomes and Impact

0.14 Chapter 3 reported policy outcomes under HIAL, compared with non-HIAL SSA and non-SSA countries, and concluded that the HIAL group performed better, on average, than the two comparator groups. Chapter 3 also analyzed the economic impact and showed that the HIAL group, on average, achieved better results than the other groups in terms of macro variables, including improvement in inflation, growth, and debt sustainability. In this chapter, we have gone within the groups to look at the correlations of macro policy variables and the CPR/CPIA policy measures with growth outcomes. We find that the improvement in fiscal performance in the HIAL group is strongly associated with growth, as well as with inflation reduction analyzed in Chapter 3. All the CPR/CPIA variables are positively associated with growth for all groups.

0.15 The OED Social Dimensions study (1996) concluded that the most powerful variables in reducing poverty measures were inflation reduction and growth. Since the HIAL approach is so recent, we do not have data on poverty reduction since the beginning of the HIAL approach. However, it seems clear that the HIAL countries have performed better on both inflation and growth relative to the two other groups. Thus, it seems reasonable to assume that they are also performing relatively better on the poverty front.

FINDINGS AND RECOMMENDATIONS

Based on the initial positive outcomes of HIAL operations, OED recommends that the Africa Region continue with this approach. OED intends to revisit this evaluation in two years.

0.16 The Working Group's recommendations for HIAL emphasized selectivity in lending and improved AL design to meet specific country needs and conditions. Improved design would come by matching transfers to needs and providing greater certainty and smoother resource flows through flexible disbursements, floating tranches, and fewer but more definite conditions.

0.17 Based on an examination of four possible criteria for selectivity, the HIAL countries' performance prior to selection was not significantly different from that of other SSA countries, except on the CPR for the previous year, where it was marginally better. Of course, other selection criteria may have been applied. In fact, the ability to achieve fiscal results may have been an implicit selection criterion, as we know that HIAL countries' fiscal performance was better than for non-HIAL.

0.18 The study also evaluated the extent to which HIAL actually embodied the recommendations to improve the design of AL program. The main finding is that improvement has been made in increasing the flexibility of resource flows through varying the tranching arrangements. The adoption of floating and single-tranche operations was possibly the most important change. Of the 21 FY96–98 HIAL operations, 9 have floating tranches, and 5 are single-tranche operations. These tranching innovations give governments increased freedom in the timing of reforms, allowing greater ownership. Also, pressure on the Bank to disburse when conditions were not fully met has been reduced because of the larger number and smaller size of tranches. Furthermore, the HIAL initiative reduced the average number of conditions to 21, compared with 38 per AL to SSA during 1980–93. The conclusion is that greater flexibility of resource flows improved the effectiveness of AL.

0.19 The adoption of the HIAL initiative was associated with positive policy outcomes in terms of fiscal adjustment and exchange and interest rate policy. The initiative was also associated with positive impact in terms of lower inflation, improved current account balance, stabilized foreign exchange reserves, faster growth, and sustainable debt path. Policy changes and impact were assessed from two perspectives: (i) a comparison of outcomes before and after the start of HIAL and (ii) a comparison with outcomes in all other developing countries eligible for Bank lending. The HIAL countries emerge favorably well in these comparisons.

0.20 OED is encouraged by the initial findings that the HIAL initiative is yielding positive results and encourages the Africa Region to continue with this innovative approach.

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