The World Bank

PREMnotes

MAY 1999

NUMBER 22

PUBLIC SECTOR

Looking for more from adjustment: Africa's experience

The Africa Region has changed its approach to adjustment lending to deliver more impact to reforming economies.

By the mid-1990s, after more than 15 years of adjustment lending, it had become clear that adjustment programs in Africa had not accelerated growth or reduced poverty, except in a handful of countries. The main reasons? Recipient governments did not "own" the reform programs, and they perceived the conditionality attached to the programs as being imposed on them. Adjustment programs were often unresponsive to country conditions and changes in external circumstances. In most cases the World Bank and recipient governments did not have a shared vision on what adjustment programs were supposed to achieve.

In response to this diagnosis, in 1995 the Bank's Africa Region introduced the Higher Impact Adjustment Lending (HIAL) initiative. The initiative aimed to achieve a quicker, stronger, broader, and longer supply response from structural adjustment programs by:

- Increasing country selectivity and strengthening government ownership.
- Allowing more flexibility in adjustment operations—in particular, introducing new tranching mechanisms.
- Introducing performance indicators to define expected results and assess actual outcomes.

After the Higher Impact Adjustment Lending initiative was adopted, 14 adjustment operations (in 13 countries) were approved in fiscal 1996 and 1997, financed by $1.2 billion in credits from the International Development Association (table 1). This note describes how the approach and design of these operations were adapted to achieve higher impact.

Selectivity, ownership, and sustainability of reforms

The Bank faces two risks in policy-based lending: approving a credit for a country that then does not carry out the agreed reform program, or declining timely support to a borrower that is committed to reform. Minimizing these risks requires a reliable assessment of government commitment.

Compliance with the conditionality of previous adjustment operations proved not to be an entirely reliable predictor of commitment to reform. Thus the Higher Impact Adjustment Lending initiative introduced six indicators for assessing commitment to a reform program:

- The country's track record on implementing reforms.
- The fit between the country's official statements and the content of the proposed reforms.
- The fit between government tax and spending policies and the content of the proposed reforms.
- The quality of national support for the economic reforms.
- A country's willingness to draft its own policy framework paper, letter of development policy, and adjustment program.
- The extent of desirable "lock-in" actions to be completed before negotiation of an adjustment credit.

The Higher Impact Adjustment Lending initiative seeks a quicker, stronger, broader, and longer supply response from structural adjustment programs

Task managers involved in the program retrospectively rated government commitment at the time of loan approval as good or very good in only 6 of the 13 Higher Impact Adjustment Lending countries. It is a valid question whether the Bank had been sufficiently rigorous in refusing loans when government commitment was considered ambiguous. But implementation experience to date, with only one operation derailed, suggests that there has been progress in addressing such situations. Judging commitment is always tricky—especially with a new government—and more than half the countries involved in the program had seen a change in administration in the 2.5 years before approval of the credit. The Higher Impact Adjustment Lending initiative also aimed to strengthen the Bank's ability to manage situations with initially weak government commitment.

Judging commitment is always tricky

To increase support for adjustment, Bank staff consulted with a broad range of civil society during the preparation of operations, explained the rationale for the reforms to a wider audience (including the opposition), and encouraged governments to go public with reform plans. This approach fostered transparency and ownership of the reforms, reduced some of the negative sentiment toward adjustment, and helped counter the potential backlash against reforms. In most countries involved in the Higher Impact Adjustment Lending initiative, the business community and the private sector are now viewed as the backbone of the reforms. In some countries nongovernmental organizations (NGOs) are also counted among the supporters of the program.

TABLE 1 HIGHER IMPACT ADJUSTMENT LENDING OPERATIONS, FISCAL 1996–97

Credit	*Amount[a] (millions of U.S. dollars)*	*Compliance in previous operations*	*Number of tranches[b]*
Cameroon Structural Adjustment II	150.0	Poor	1 + 2f
Chad Structural Adjustment I	30.0	Poor	1
Chad Structural Adjustment II	25.0	Poor	1
Côte d'Ivoire Public Sector Adjustment	180.0	Weak	1 + 5f
Kenya Structural Adjustment I	90.0	Poor	2
Madagascar Structural Adjustment I	70.0	Weak	1
Malawi Fiscal Restructuring and Deregulation	106.4	Strong	1 + 1f
Mali Economic Management	60.0	Strong	3 + 2f
Mauritania Public Resource Management	20.0	Strong	3 + 2f
Mozambique Third Economic Recovery	100.0	Strong	2
Niger Structural Adjustment I	30.0	Weak	1
Tanzania Structural Adjustment I	125.0	Strong	1 + 4f
Uganda Structural Adjustment III	125.0	Weak	2 + 2f
Zambia Economic and Social Assistance II	90.0	Weak	2
Total	1,201.4		

a. Excludes International Development Association reflows.
b. An "f" after the number of tranches indicates floating tranches.

Changes in adjustment operations

The Higher Impact Adjustment Lending initiative changed the design of adjustment operations to strengthen the ownership and sustainability of reforms.

Introducing single and floating tranches

The introduction of single- and floating-tranche operations was possibly the most far-reaching change. These tranching innovations sought to:

- Give governments more flexibility in the timing of reforms—thereby increasing ownership.
- Give the Bank a more credible option for canceling a tranche without jeopardizing macroeconomic stability.

Only three operations adopted the traditional two-tranche design. Four operations used single tranches and seven used floating tranches, with between one and five floating tranches each (see table 1). Floating tranches are linked to reforms in a particular institutional area so that unexpected delays in one area do not hold up the entire program.

Although no floating tranche has had to be cancelled, five of the seven floating-tranche operations have required an extension—possibly indicating that institutional reforms take even longer than expected.

Single-tranche operations support a completed program of reforms and so require full up-front conditionality. Such operations are used when the track record of reform is limited or when information on the country is rudimentary because they reduce the risk for the Bank and help the borrower build a positive track record. For sustainable success, single-tranche operations should be embedded in longer-term reform programs.

Streamlining and refocusing conditionality
Excessive conditionality contributed to the failure of earlier adjustment programs. The Higher Impact Adjustment Lending initiative reduced the average number of conditions to just 15—compared with 43 in pre-1990 operations in Africa. It is easier to have a complete dialogue with government and stakeholders when discussing a limited menu. Moreover, a more complete dialogue improves ownership and sustainability.

Short and simple formulations of conditionality are preferred. Highly complicated formulations should sound an alarm bell: is "micromanaging" being used as a substitute for genuine commitment to and ownership of the reforms?

Easy agreement with government on conditions does not necessarily foretell a problem-free implementation. It might well indicate lack of intracabinet or stakeholder consultation. For Kenya's Structural Adjustment Credit I, for example, none of the conditions was difficult to negotiate. Yet the operation turned out to be most difficult to implement. In other countries the conditions most difficult to agree on were typically not those that posed the most problems in implementation. These findings highlight the benefits of thorough—even if controversial—discussions in the preparation of credits.

Linking conditionality and poverty reduction
The typical Higher Impact Adjustment Lending operation includes four reform areas. As box 1 shows, reforms are focused on restructuring public spending and revenue, strengthening the regulatory framework, and reorganizing the public sector, including privatization of state enterprises.

In eight operations regulatory reforms aim to eliminate distortions that disadvantage the poor—such as small-scale producers of export crops. This approach, as well as restructuring public spending toward infrastructure and basic services for the poor (in eleven operations) and including safety nets (in one operation), allows operations to be classified as poverty-focused.

Reducing rent seeking
Even though the Higher Impact Adjustment Lending initiative was launched two years before the Bank's anticorruption initiative and did not make specific reference to corruption, operations included conditionality aimed at reducing opportunities for rent seeking—and so had a direct bearing on corruption (box 2). The three main avenues for reducing rent seeking were increasing competition, improving legal and regulatory frameworks, and strengthening institutions.

Importance of performance indicators

It is important to establish a strong empirical base for the proposed measures and to include ex ante performance indicators in operations. This goal has proven difficult to achieve.

Eight Higher Impact Adjustment Lending operations specified performance indicators. But the indicators did not systematically differentiate among inputs, intermediate outcomes, and indicators. Most focused on input indicators, such as budget allocations, rather than results—despite the weak relationship between budget spending and development outcomes. Poorly

Performance indicators help develop a joint vision and realistic expectations

Box 1 Reform areas of the 14 Higher Impact Adjustment Lending operations, fiscal 1996–97

Reform area	*Number of operations that included reform area*
Public spending (planning and management)	12
Increased budget allocations to social services	6
Revenue measures (excluding trade)	10
Regulatory framework (product and factor markets, agriculture)	9
Civil service or government organization	8
Financial sector (including privatization of financial institutions)	6
Privatization of state enterprises (excluding financial institutions)	5
Trade-related reforms	3
Other (such as removal of gender biases in access to land and credit)	2

Box 2 Remedies for rent seeking in Higher Impact Adjustment Lending operations

Source of rent seeking	*Agreed remedial measures*
Underinvoicing and overinvoicing in public sector contracts and investments	Contracting independent assessments of imports Introducing performance contracts with managers Privatizing firms, particularly key parastatals Agreeing on parastatal investment policies prohibiting unsound investment
Discretionary exemptions and evasion of taxes and tariffs	Eliminating or curtailing exemptions Ruling out new exemptions Implementing reforms aimed at simplifying taxes and tariffs and broadening the tax base Establishing clear tax procedures and publishing taxpayer guidelines Strengthening tax and tariff administration and establishing revenue authorities Contracting preshipment inspection firms Undertaking complete reconciliation of revenues due and paid
Politically motivated loans to powerful or well-connected people	Forbidding delinquent borrowers from new borrowing Privatizing state banks
Regulatory constraints to private investment, including barriers on access to land for foreigners	Revising investment codes Introducing 99-year mortgageable leases Defining maximum delay for response to applications

defined indicators and unclear benchmarks made it difficult to monitor impacts. Performance indicators should be defined before an operation starts rather than put off until the implementation stage. This approach allows the Bank, the government, and stakeholders to develop a joint vision for the purpose of and realistic expectations for the outcome of the program. In addition, the country assistance strategy should describe what would have happened without the adjustment program, to establish a common frame of reference for indicators and later evaluations.

Despite the difficulties in incorporating all Higher Impact Adjustment Lending recommendations in recent operations, there are preliminary indications of concrete economic results for many participating African countries. These include a more reliable banking sector, lower maritime transport costs, increased production and diversification of agricultural exports, better procurement in the public sector, and increased economic activity in areas where land tenure has been legalized.

This note was written by Elisabeth Pape (Economist, Chief Economist's Office, Africa Region) based on the 1998 report "Higher Impact Adjustment Lending in Sub-Saharan Africa: An Update," which she prepared under the direction of Alan Gelb (Chief Economist and Sector Director, Africa Region) and Deepak Bhattasali (Economic Adviser, Africa Region).

If you are interested in similar topics, consider joining the Country Strategy and Performance Thematic Group (contact Victoria Elliott, x80535, or Sudhir Shetty, x81939) or the Political Economy of Reform Thematic Group (contact Dan Morrow, x33804), or click on Thematic Groups on PREMnet.