

## After Structural Adjustment, Then What? Lending Selectivity by the World Bank

by Elisa Van Waeyenberge, Department of Economics, School of Oriental and African Studies

**The World Bank** has been at the forefront of a redefinition of aid conditionality since the late 1990s. This has implied a change from providing finance in return for the promise of policy reforms, as was typical under structural adjustment, to a disbursement of funds *conditional* on the reforms that a country has already achieved. The latter practice has become known as aid 'selectivity' or performance-based aid.

When aid flows are allocated selectively, donors set conditions on the policies and institutions of countries prior to disbursing aid. So funds are withheld from countries until they obligingly change their policies or institutions.

The World Bank's selectivity in aid allocations is based on an assessment tool called the Country Policy and Institutional Assessment (CPIA). The CPIA is derived from the judgment of World Bank staff on a country's performance on a set of macroeconomic, structural, social and governance criteria. See below a listing of the CPIA's 16 components, grouped in four clusters.

### The CPI Components

#### A. Economic Management

1. Macroeconomic Management
2. Fiscal Policy
3. Debt Policy

#### B. Structural Policies

4. Trade
5. Financial Sector
6. Business Regulatory Environment

#### C. Policies for Social Inclusion

7. Gender Equality
8. Equity of Public Resource Use
9. Building Human Resources
10. Social Protection and Labour
11. Policies and Institutions for Environmental Sustainability

#### D. Public Sector Management and Institutions

12. Property Rights and Rule-based Governance
13. Quality of Budgetary and Financial Management
14. Efficiency of Revenue Mobilisation
15. Quality of Public Administration
16. Transparency, Accountability and Corruption in the Public Sector

Source: World Bank (2006). 'Country Policy and Institutional Assessment.'

The CPIA essentially embodies a set of well-known neo-liberal economic norms that are awkwardly augmented with social and governance concerns. For example, the economic core of the CPIA reflects preferences for low inflation, a surplus budgetary position, minimal restrictions on trade and capital flows, 'flexible' goods, labour and land markets, and the prohibition of directed credit.

Furthermore, the imperatives in the social cluster are often inconsistent with the economic imperatives. The governance cluster is noteworthy for imposing a one-size-fits-all formula on countries that exhibit a very wide range of diversity. Also, both the social and governance priorities are simply added onto the predetermined and unaltered economic imperatives (see Van Waeyenberge 2008).

The CPIA score feeds into a formula for aid allocations that is 16 times more sensitive to changes in policy and institutional variables than to changes in income per capita. One consequence is that developing countries scoring in the top performance quintile of the CPIA recently received on average five times as much World Bank aid per capita as countries in the bottom quintile.

The implication is that the quality of a country's policies and institutions, which are based on a set of predetermined norms, is more important than a country's need for assistance. Hence, resources are directed to countries where it is alleged that they will be most effective, not necessarily where they are most needed.

### The Adverse Effects

The rewards to 'good performing' countries are also supposed to provide a 'demonstration effect'—namely, encourage 'poor performing' countries to adopt the World Bank's predetermined policies and institutions. But this approach could have a particularly severe effect on low-income countries that remain highly dependent on aid as their main form of external finance.

First, selective allocation of aid based on the CPIA risks locking in an extensive policy agenda with ambiguous, if not adverse, repercussions for growth. For instance, the CPIA persistently precludes the various types of strategic interventions that were successfully deployed by the East Asian tiger economies.

Second, aid selectivity hampers the ability of poor countries to raise their investment rates and/or protect their pro-poor expenditures. In such countries, aid represents a significant proportion of national budgets and total investment. Yet the underlying structural features of such economies mean that they are highly likely to have low CPIA scores. For example, the average per capita income of the countries in the top quintile of the CPIA ranking is at least three times the average per capita income of the countries in the bottom quintile.

The CPIA approach also assumes that national governments have significant control over policy outcomes when many other domestic and international factors can have a much more powerful impact. These include a heavy debt burden, declining terms of trade, low productive capacity throughout the economy and a low skill base.

Third, such an aid delivery system can adversely affect the macroeconomic stability of countries with large aid/GDP ratios. Since the allocation formula for aid is sensitive to small changes in CPIA scores, especially for the governance criteria, the uncertainty and volatility of aid flows can be exacerbated.

In sum, aid selectivity implies that aid effectiveness is assumed to depend exclusively on recipient behaviour, to the complete neglect of mitigating structural features of the recipient country or other factors, unrelated to aid, that determine its environment. Furthermore, since the core of the CPIA continues to embody a set of predetermined neo-liberal norms, the Bank's aid practices seem to have progressed little in recent years despite its purported graduation from the Washington Consensus.

### Reference:

Van Waeyenberge, E. (2008), 'Tightening the Web: Country Policy and Institutional Assessments at the World Bank', paper presented at the seminar on 'The Influence of Neoliberalism', CPPR Seminar Series, 25 April 2007, University of Glasgow.  
Available at: <http://www.cppr.ac.uk/centres/cppr/esrcneoliberalismseminar/>.