Evaluation Report

The IMF and Aid to Sub-Saharan Africa

Independent Evaluation Office of the IMF

2007

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The following conventions are used in this publication:

- In tables, a blank cell indicates "not applicable," ellipsis points (. . .) indicate "not available," and 0 or 0.0 indicates "zero" or "negligible." Minor discrepancies between sums of constituent figures and totals are due to rounding.
- An en dash (–) between years or months (for example, 2005–06 or January–June) indicates the years or months covered, including the beginning and ending years or months; a slash or virgule (/) between years or months (for example, 2005/06) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY2006).
- "Billion" means a thousand million; "trillion" means a thousand billion.
- "Basis points" refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percentage point).

As used in this publication, the term "country" does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.

Some of the documents cited and referenced in this report were not available to the public at the time of publication of this report. Under the current policy on public access to the IMF's archives, some of these documents will become available five years after their issuance. They may be referenced as EBS/YY/NN and SM/YY/NN, where EBS and SM indicate the series and YY indicates the year of issue. Certain other documents are to become available 10 to 20 years after their issuance, depending on the series.

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Foreword

In the context of continuing debate about the role of the IMF in aid to low-income countries, the Independent Evaluation Office evaluated what, and how well, the IMF has done on aid to Sub-Saharan Africa. It focused on IMF policy and practice in operations supported by the Poverty Reduction and Growth Facility (PRGF), the IMF's main instrument for operational work in low-income countries during the 1999–2005 review period.

The report finds ambiguity and confusion about IMF policy and practice on aid and poverty reduction. Affected areas include the IMF's role in the mobilization of aid, the analysis of alternative aid scenarios, poverty and social impact assessments of macroeconomic policies, and pro-poor and pro-growth budget frameworks. The report also finds a disconnect between the IMF's external communications on aid and poverty reduction, and its practice in low-income countries.

More fundamentally, the report finds differences of views among members of the Executive Board about the IMF's role and policies in low-income countries. Management—along with the Board—should have done more to resolve these differences. Lacking clarity on what they should do on the mobilization of aid, alternative scenarios, and the application of poverty and social impact analysis, IMF staff tended to focus narrowly on macroeconomic stability, in line with the institution's core mandate and their deeply ingrained professional culture.

How these differences are to be narrowed going forward—whether by managing commitments and communications *down* or by ramping implementation *up*—remains a central policy challenge for the IMF. The overarching message of the evaluation is that the Fund should be clearer and more candid about what it has undertaken to do, more assiduous, transparent, and accountable in implementing its undertakings, and more proactive in working with partners, such as the World Bank, with complementary mandates.

This message is especially important for the IMF's work in low-income countries of Sub-Saharan Africa, given the major challenges those countries face in meeting the Millennium Development Goals and other objectives.

Thomas A. Bernes
Director
Independent Evaluation Office

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The IMF and Aid to Sub-Saharan Africa

This evaluation report was prepared by a team led by Joanne Salop and including Martin Kaufman, Markus Berndt, Steve Kayizzi-Mugerwa, Scott Standley, and Tim de Vaan. Contributions also were provided by Thomas Reichmann, Luis Alvaro Sanchez Baracaldo, and Misa Takebe. David Bevan, Kwesi Botchwey, and David Peretz provided useful comments. Administrative support was provided by Annette Canizares, Arun Bhatnagar, and Jeanette Abellera, and editorial assistance by Esha Ray. The report was approved by Thomas A. Bernes, Director of the Independent Evaluation Office (IEO). The IEO is responsible for all judgments—and any errors—contained in the report.

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Abbreviations

AfDB	African Development Bank
AFR	African Department (IMF)
AFRITAC	African Regional Technical Assistance Center
AFRODAD	African Forum and Network for Debt and Development
CG	Consultative group
CGD	Center for Global Development
CPI	Consumer price index
CSO	Civil society organization
DFID	Department for International Development (U.K.)
EPA	Ex post assessment
ESAF	Enhanced Structural Adjustment Facility
EXR	External Relations Department (IMF)
FAD	Fiscal Affairs Department (IMF)
GDP	Gross domestic product
HIPC	Heavily Indebted Poor Country
IEO	Independent Evaluation Office (IMF)
IFI	International financial institution
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IT	Indicative targets
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MONA	Monitoring of Fund Arrangements
MTS	Medium-Term Strategy
NGO	Nongovernmental organization
NIR	Net international reserves
ODA	Official development assistance
OECD	Organization for Economic Cooperation and Development
PA	Prior action
PAF	Poverty Action Fund
PC	Performance criterion
PDR	Policy Development and Review Department (IMF)
PEFA	Public expenditure management and financial accountability
PFP	Policy Framework Paper
PRE	Poverty-reducing expenditure
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and social impact analysis
SSA	Sub-Saharan Africa
SWAp	Sector-wide approach
TA	Technical assistance
UNAIDS	Joint United Nations Program on HIV/AIDS
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNICEF	United Nations Children's Fund
VAT	Value-added tax
WHO	World Health Organization

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Executive Summary

This report sets out the main findings and recommendations of an independent evaluation of the IMF's role and performance in the determination and use of aid to low-income countries in Sub-Saharan Africa (SSA). The evaluation focused on 1999–2005. This was a time of improving macroeconomic performance in much of SSA, with increasing growth and falling inflation. It was a time when aid to SSA recovered from earlier declines, debt relief gained momentum, and donors began to move to multidonor budget support. It was a time when the Poverty Reduction Strategy Paper (PRSP) was introduced—in late 1999—and the IMF transformed its Enhanced Structural Adjustment Facility (ESAF) into the Poverty Reduction and Growth Facility (PRGF).

As the above changes unfolded during the period, variations on long-standing criticisms of the IMF's work in SSA emerged, with three providing a point of reference for the evaluation. The first is that IMF-supported programs have blocked the use of available aid to SSA through overly conservative macroeconomic programs. The second is that such programs have lacked ambition in projecting, analyzing, and identifying opportunities for the use of aid inflows to SSA countries, which may in turn have tempered donors' actual provision of aid. The third is that IMF-supported programs have done little to address poverty reduction and income distributional issues despite institutional rhetoric to the contrary.

Policies approved by the IMF Executive Board underpinned the assessment framework used by the evaluation team in examining staff performance. Also relevant is management's translation of Board decisions into operational guidance to staff. IMF communications, through management and senior staff speeches, press releases, articles, and correspondence with newspapers are germane as well. These communications constitute an important channel for articulating Fund positions and informing external audiences about what the IMF has undertaken to do; they create expectations against which Fund performance is judged externally.

A recurring theme of the evaluation concerned the disconnect in external perceptions between the IMF's rhetoric on aid and poverty reduction and what it actually did at the country level. In a number of instances, the Fund's partnership with the World Bank in support of the Poverty Reduction Strategy (PRS) process, Global Monitoring, and other initiatives—and related communications—has blurred perceptions of Fund accountabilities on aid and poverty reduction at the country level. To distinguish the Fund's work from that of the World Bank and other partners—and the authorities whom their efforts support—the evaluation team focused narrowly on evidence from programs supported by the PRGF, for which the IMF is a principal and on which 29 SSA countries drew during the 1999–2005 evaluation period.

Findings

Underlying the theme of disconnect is a larger issue of attempted—but ultimately unsuccessful—institutional change. When the PRGF was introduced, it was meant to be more than a name change. It set out a new way of working, grounded in the PRS process, with programs based on specific country-owned measures geared to poverty reduction and growth, and an ambitious vision of the IMF's role on the analysis and mobilization of aid, working in close partnership with the Bank. But in the face of a weakening consensus in the Board and a staff professional culture strongly focused on macroeconomic stability—and, most important, changes in senior management and a resulting lack of focused institutional leadership and follow-through—the IMF gravitated back to business as usual.

The good news is that country performance has improved in a number of SSA countries over the period—thanks in part to the advice and actions of the IMF, including through the Heavily Indebted Poor Country (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), and in larger part to the actions of the country authorities—and that donor performance has improved as well. In such cases, PRGF-supported macroeconomic program design has eased and become more accommodative of aid. The combination of improved country and donor performance and the associated adaptation of PRGF program design

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have materially improved SSA's prospects for growth and poverty reduction.

The evaluation's specific findings follow:

- *PRGF-supported macroeconomic policies have generally accommodated the use of incremental aid in countries whose recent policies have led to high stocks of reserves and low inflation; in other countries additional aid was programmed to be saved to increase reserves or to retire domestic debt.* Reserves in the two–three months-of-imports range were found to be the threshold for determining whether the increased aid should be used to expand the current account deficit or to increase reserves. The estimated inflation threshold for determining whether the country got to spend or save additional aid lies within the 5–7 percent range. These findings are consistent with Board-approved policy on the accommodation of aid, management guidance and feedback to staff, and staff views. However, they also help to explain why outside observers perceive the IMF as "blocking" the use of aid: PRGFs in countries with inflation above the threshold are likely to program the saving of at least part of additional aid.
- *PRGFs have neither set ambitious aid targets nor identified additional aid opportunities—where absorptive capacity exceeds projected aid inflows.* They have indirectly catalyzed aid—through their macroeconomic assessment and support for country efforts to improve the underlying macroeconomic environment and fiscal governance. Their medium-term aid forecasts have shown signs of adapting to the increased persistence of aid to SSA—after having been overly conservative at the start. But IMF staff have done little to analyze additional policy and aid scenarios and to share the findings with the authorities and donors. They have not been proactive in mobilizing aid resources, a topic where the Board remains divided and IMF policy—and operational guidance to staff—are unclear.
- *Of the key features distinguishing the PRGF from the ESAF, fiscal governance has been far more systematically treated than other elements, such as the use of social impact analysis or the pro-poor and pro-growth budget provisions.* The strong PRGF efforts on *fiscal governance* reflect clear, consistent, and continuing support from the Board; the issue's centrality to the IMF's core macroeconomic objectives through its links to budget execution; and effective Fund-Bank collaboration, grounded in professional capacity in both institutions. Executive Directors' support for poverty and social impact analysis (PSIA), though strong, has been more measured; social analysis is less central to the IMF's core mandate; and the tailoring of PSIA to PRGF needs was initially stymied by unrealistic expectations of how Fund-Bank collaboration might work on the issue, with more recent efforts focused on in-house analysis. Weak Fund-Bank collaboration has also been a factor in the IMF's failure to pay more attention to infrastructure-related growth and competitiveness linkages and their possible macroeconomic implications for the programmed spending and absorption of additional aid.
- *IMF communications on aid and poverty reduction have contributed to the external impression that the IMF committed to do more on aid mobilization and poverty-reduction analysis.* The resulting disconnect has reinforced cynicism about, and distrust of, IMF activities in SSA and other low-income countries. It was especially large in the early years of the evaluation period, when management communications stressed the two-way linkages between growth and poverty reduction. But it remains a concern even today, in the context of external communications on IMF support for alternative scenarios, strategies for attaining the Millennium Development Goals (MDGs), and the mobilization of aid that overstate what the IMF is doing in the context of PRGFs.
- *The IMF has missed opportunities for communicating with a broader audience in SSA.* The IMF has a network of resident representatives in SSA. Demands on their time have increased in recent years with the changing aid environment and donors' increased decentralization and use of budget support instruments. But staff resources and skills have constrained their ability to fully engage with local partners in this changing environment. Meanwhile, they remain a largely untapped source of information on what is happening on the ground among donors and civil society; their observations do not systematically inform institutional positions.

Recommendations

Going forward, the evaluation points to three recommendations for improving the coherence—actual and perceived—of the institution's policies and actions relating to aid to SSA. They may also be relevant to several undertakings included in the Medium-Term Strategy (MTS).

- *The Executive Board should reaffirm and/or clarify IMF policies on the underlying performance thresholds for the spending and absorption of additional aid, the mobilization of aid, alternative scenarios, PSIA, and pro-poor and pro-growth budget frameworks.* Based on these reaffirmations and/or clarifications, management should provide clear guidance to staff on what is required, encouraged, permitted, and/or prohibited—including in working with the World Bank and other partners—and ensure effective implementation and results. The External Relations Department (EXR) should ensure the consistency of

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institutional communications with Board-approved operational policies and IMF-supported operations.

- *Management should establish transparent mechanisms for monitoring and evaluating the implementation of the clarified policy guidance.* The IMF's ex post assessments should explicitly cover staff actions and contributions to the implementation of existing and clarified policies. But in view of widespread external concerns about IMF staff accountability in SSA, a more periodic and transparent stocktaking across country programs is needed, possibly in the context of Board reviews of the PRGF—or in future reviews of the MTS.
- *Management should clarify expectations—and resource availabilities—for resident representatives' and missions chiefs' interactions with local donor groups and civil society.* It should monitor trends in the institution's country-level operating environment, including for aid, periodically assessing the cross-country implications for IMF policies and strategies.

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CHAPTER

Introduction

This report sets out the main findings and recommendations of an independent evaluation of the IMF's role and performance in the determination of the external resource envelope in low-income countries in Sub-Saharan Africa (SSA). The evaluation concentrated on aid—the principal source of external financing for most such countries—and in particular on how the IMF has interfaced with country recipients and donors in shaping the provision and use of aid in the pursuit of poverty reduction and other development goals. It focused on programs supported by the Poverty Reduction and Growth Facility (PRGF)—the IMF's primary instrument for operational work in SSA.

The evaluation focused on 1999–2005—a period of major changes in the external context for IMF activities in SSA. This was a time of improving macroeconomic performance in a number of SSA countries, with increasing growth rates and decreasing inflation rates—but almost no change in the share of the population living in poverty. It was a time when the international community came together on the Millennium Development Goals (MDGs), supported by the Monterrey Consensus on the need for better policies by developing countries and more and better aid and trade opportunities by developed countries. It was a time when aid to SSA recovered from the declines of the early 1990s, and donors began to move to multidonor budget support in many SSA countries. All had implications for the IMF's work.

Within the IMF, the evaluation period begins with the introduction of the PRGF—in the final year of the term of then Managing Director Michel Camdessus—and ends with the launch of the Medium-Term Strategy (MTS). The new millennium was approaching, and pressures were building on IMF shareholders for action on debt forgiveness and poverty reduction. Major topics at the Annual Meetings of September 1999 were the enhanced HIPC Initiative, the Poverty Reduction Strategy (PRS) process, and the transformation of the Enhanced Structural Adjustment Facility (ESAF) into the PRGF. Under the new approach, which was operationalized by the Executive Boards of the IMF and World Bank before end-1999, the roles of the IMF and the Bank closely intertwined through the PRSP and HIPC processes. The next few years saw much experimentation, with country ownership through the PRS process gaining momentum.

As the above changes unfolded during the period, variations on long-standing criticisms of the IMF's work in SSA emerged, with three providing a point of reference for the evaluation. The first is that IMF-supported programs have blocked the use of available aid to SSA through overly conservative macroeconomic programs. The second is that such programs have lacked ambition in projecting, analyzing, and identifying opportunities for the use of aid inflows to SSA countries, which may in turn have tempered donors' actual provision of aid. The third is that IMF-supported programs have done little to address poverty reduction and income distributional issues despite institutional rhetoric to the contrary.

Board-approved policies underpin the assessment framework used by the evaluation team in examining staff performance in these areas. Such policies summarize what the IMF Executive Directors have decided is to be the IMF's role in these areas, thereby providing the mandate for staff behavior.[1] Also relevant to the assessment framework is management's translation of Board decisions into operational policies for guidance to staff on implementation. IMF communications, through management and senior staff speeches, EXR press releases, articles, and correspondence with newspapers, are germane as well. These communications constitute an important channel for articulating Fund positions and informing external audiences about what the IMF has undertaken to do.

A recurring theme of the evaluation concerned the disconnect in external perceptions between what the IMF committed to do on aid and poverty reduction and what it actually did at the country level. In a number of instances, the Fund's partnership with the World Bank in support of the PRS process, Global Monitoring, and other initiatives—and related communications—has blurred perceptions of Fund accountabilities on aid and

[1]As background for the discussion, Annex 1 quotes the Chairman's Concluding Remarks and Summings Up of relevant Board discussions; it also includes a timeline to guide the reader through the evolution of Board thinking. See Annex 1, Table A1.1.

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poverty reduction at the country level. To distinguish the Fund's unique role and mandate from that of the World Bank and other partners—and the authorities whom their efforts support—the evaluation team focused narrowly on evidence from programs supported by the PRGF, which is the IMF's instrument for supporting countries in implementing the PRSP approach, and on which 29 SSA countries drew during the 1999–2005 evaluation period.

Against this background, the report distills the main points of the evaluation, focusing on what the IMF actually did on aid and poverty reduction in SSA against what it had committed to do. The remainder of the report is structured as follows. Chapter 2 examines the empirical and documentary evidence on how SSA PRGFs have treated (1) the accommodation of aid via the design of macroeconomic policies; (2) the forecasting and analysis of aid; and (3) the PRGF pro-poor and pro-growth agenda. Chapter 3 looks at IMF staff interactions with the authorities—the Fund's main client—bilateral and multilateral donors, and civil society on aid and related issues. Chapter 4 looks at drivers of Fund behavior—Board-approved policies, management leadership, communications, guidance, and staff views. Chapter 5 sets out the evaluation's findings and recommendations. Annex 1 summarizes relevant Board conclusions. Annex 2 describes the evaluation's quantitative analysis. Annex 3 profiles the 29 countries in the evaluation sample and discusses the findings of the country desk reviews. Annex 4 examines the case-study results. Annex 5 summarizes the evaluation survey's methodology and results.

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CHAPTER

2 Country Policies and Programs

This chapter reports on the evaluation's findings about aid-related issues in the design of PRGF-supported programs. It covers (1) the links between aid and current account and fiscal adjustment in PRGFs; (2) PRGFs' analysis of aid; and (3) the PRGF's pro-poor and pro-growth agenda.[1] The chapter's focus is on program design—both for the initial PRGF program period and for subsequent program periods following reviews—as it is at the design stage that Fund staff's inputs and contributions are most clearly seen.

Figure 2.1 provides an overview of developments in SSA on aid, macroeconomic indicators, growth, and poverty reduction. Panel A summarizes recent aid trends. As illustrated, official development assistance (ODA) to the 29 SSA countries under study declined during the ESAF period, bottomed out in 1999, and recovered during the PRGF period. These developments reflect the changing aid environment for SSA since the adoption of the MDGs and the improving performance of many SSA countries, a factor in donor aid plans. Panel A also shows trends in debt relief grants, which surged starting in 2002.

Three factors in the changing aid profile are worth noting. First, the ESAF period's aid downswing affected almost all SSA countries, while the PRGF period's upswing has mainly affected two groups of countries—post-conflict countries and good-performing countries. Second, aid volatility has remained high throughout the period[2] (see panel B). Third, the aid shown in panel A includes grants and concessional loans with a grant element of at least 35 percent. Under Fund guidelines, all PRGFs strictly limit—and often totally preclude—government contracting or guaranteeing of nonconcessional foreign debt, with specific limits placed on the minimum degree of concessionality.[3]

Figure 2.1 also illustrates the improving macroeconomic policies and outcomes in the 29 SSA PRGF countries. As shown in panels C and D, both the government deficit and inflation have dropped sharply since the mid-1990s. Growth in per capita income, while still low, has become much more consistently positive, and per capita incomes have begun to recover from their lows of the mid-1990s. Going forward, enormous challenges clearly remain, especially in terms of poverty reduction, which has not yet seen a significant reduction of the proportion of people living on less than $1 a day.

Accommodation of Aid

This section reports on the evaluation's findings on the design of PRGF-supported programs as a basis for addressing critics' concerns that the IMF "blocks" or prevents the full use of available donor funding. To this end, the evaluation looked at how changes in the aid forecast mapped into changes in *programmed* levels of the fiscal and current account deficits.[4] In the parlance of the IMF's 2005 "spend and absorb" framework (see Box 2 .1), this section of the report asks: (1) how much of increased aid was programmed to be absorbed (in higher net imports); and (2) how much of increased aid was programmed to be spent (in higher net public expenditures)? It also examines (3) how PRGFs analyzed aid absorptive capacity and (4) PRGF program "adjusters" to see whether and how much of aid surprises could be spent and absorbed.

[1]See IMF (2000a).

[2]The end-of-period increase shown in Figure 2.1's volatility chart (panel B) reflects the step-up in aid to SSA discussed in the preceding paragraph in the text.

[3]See IMF (2006g). These debt limitations have stemmed from concerns about debt sustainability and free-rider issues in connection with debt relief initiatives. Until recently, they were generally not binding as market conditions limited creditor interest. But in a post-HIPC and post-MDRI world, the situation has changed, with major issues related to controlling the accumulation of new debt going forward.

[4]More specifically, it looked at the correlation between changes in net aid inflows and changes in the net current account deficit before grants and interests (*absorption of aid*) and changes in the net primary fiscal deficit before grants (*spending of aid*) for those program years, in which the Fund anticipated *increases in aid* compared to one year before. The analysis relied on data from an internal IMF database—Monitoring of Fund Arrangements (MONA)—which contains macroeconomic variables for about 600 ESAF and PRGF requests and reviews, covering the period between 1993 and 2005. See Annex 2 for further details.

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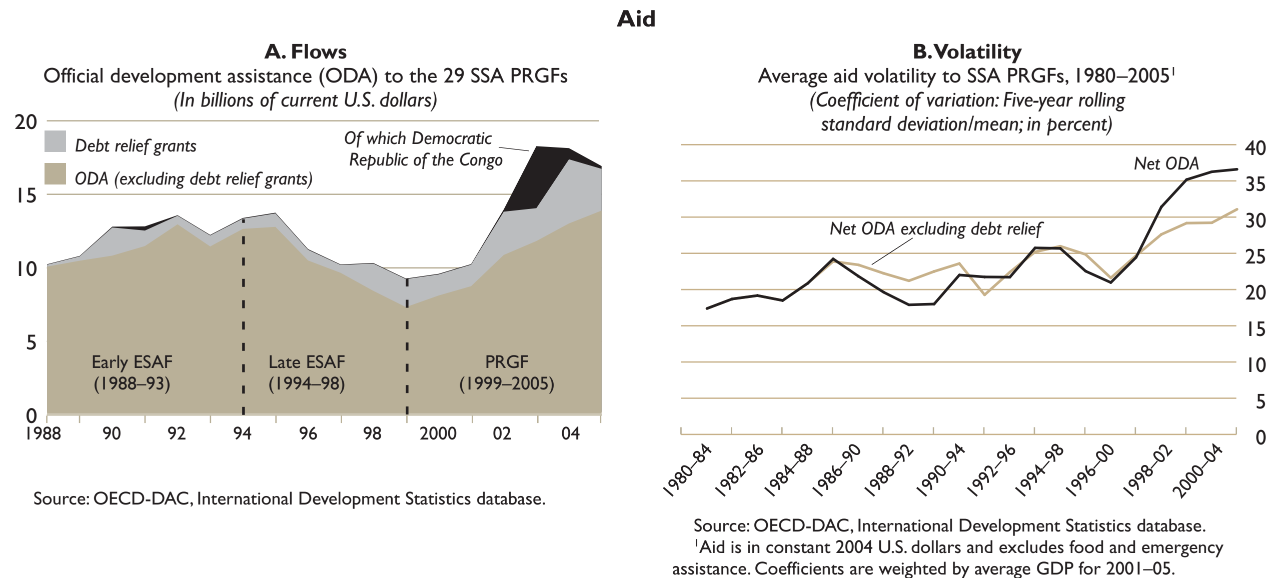
Figure 2.1. Trends in Aid, Policies, and Outcomes in Sub-African Africa

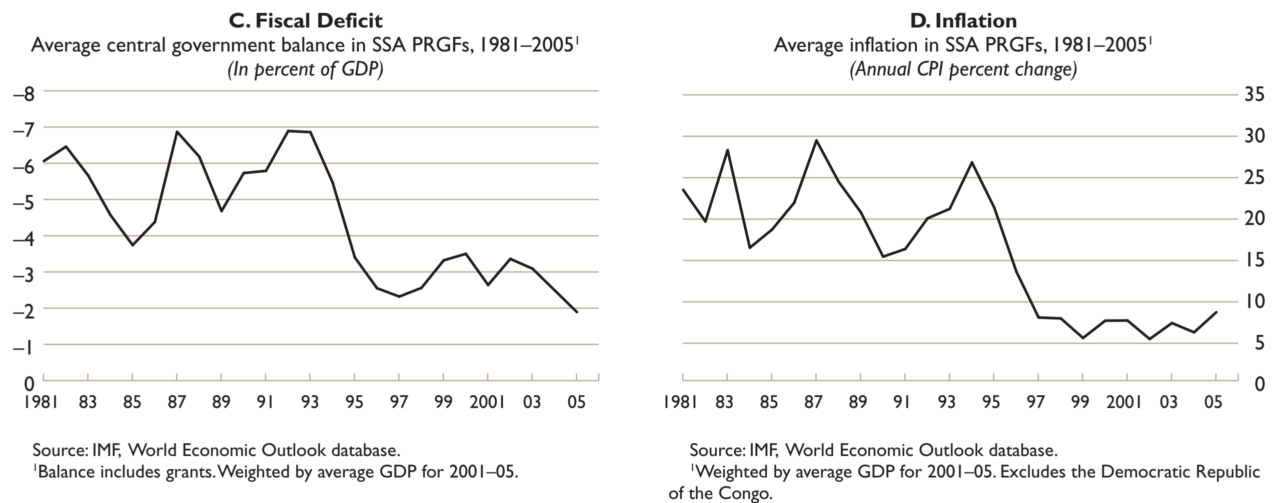
Aid



Source: OECD-DAC, International Development Statistics database.

Source: OECD-DAC, International Development Statistics database.
[1]Aid is in constant 2004 U.S. dollars and excludes food and emergency assistance. Coefficients are weighted by average GDP for 2001–05.

Macroeconomic Performance



Source: IMF, World Economic Outlook database.
[1]Balance includes grants. Weighted by average GDP for 2001–05.

Source: IMF, World Economic Outlook database.
[1]Weighted by average GDP for 2001–05. Excludes the Democratic Republic of the Congo.

Current account adjustment

The evaluation's empirical analysis finds that country conditions, as proxied by the level of international reserves, are the main determinants of whether and to what extent PRGFs permit the absorption of incremental aid. It also finds that on average SSA PRGFs do not call for current account adjustment during the first program year. This represents a departure from SSA ESAFs, which typically called for significant current account adjustment in the initial program year. The evidence points to increased expectations regarding aid inflows for the initial program year as well as improved reserve levels as reasons for this shift in program stance. Abstracting from these two determinants of program design, there is no evidence of an independent shift over time in program design with respect to the programmed absorption of increased aid.

On average, across time and countries, SSA PRGFs programmed an immediate absorption of 63 percent of anticipated aid increases. As illustrated in Figure 2.2, anticipated aid increases in SSA PRGFs are on average correlated with a widening of the current account[5] of 63 percent of the anticipated increase. The remain-

[5]Excluding official transfers and interest payments.

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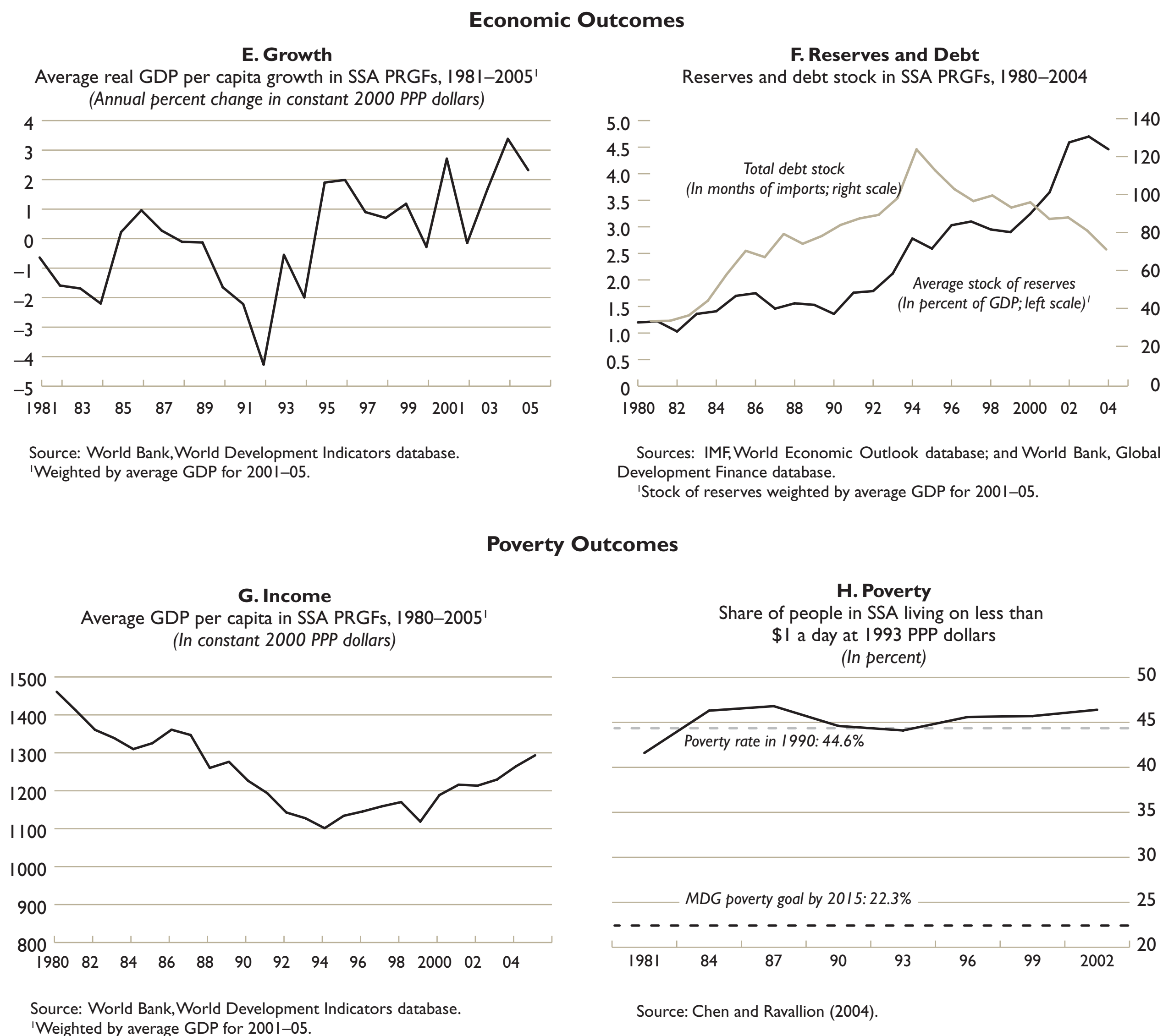
Figure 2.1 ***(concluded)***



ing 37 percent is programmed to increase international reserves.[6] This relationship is significantly affected by the initial stock of reserves measured in months of imports.

Underpinning the average rate of programmed absorption out of incremental aid are country differences in net international reserves. As shown in Figure 2.2, for countries with reserves below a threshold of 2.5 months of imports, absorption of incremental aid is nearly zero—as those countries are programmed to build their reserve position. This result is consistent with the evidence from the evaluation's desk reviews, which found programmed increases in international reserves—in cases where initial reserve positions are low—identified as a way to manage vulnerabilities to external shocks associated with variations in the terms of trade or aid volatility (see Annex 3). For countries with reserve levels above the threshold, programmed absorption averages 100 percent of incremental aid.[7]

[6]Assuming no private net capital outflows. The increased reserves do not necessarily have to be accumulated at the central bank but could also be held by the private sector.

[7]For aid decreases, the estimated empirical relationship between programmed absorption levels and reserve stocks is smooth—with higher reserves associated with greater reserve financing of aid shortfalls. This is in contrast to the estimated relationship for aid increases, where the threshold of 2.5 months of reserves applies (see Annex 2).

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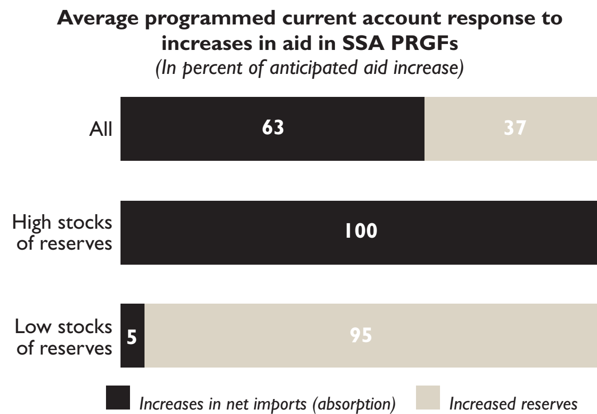
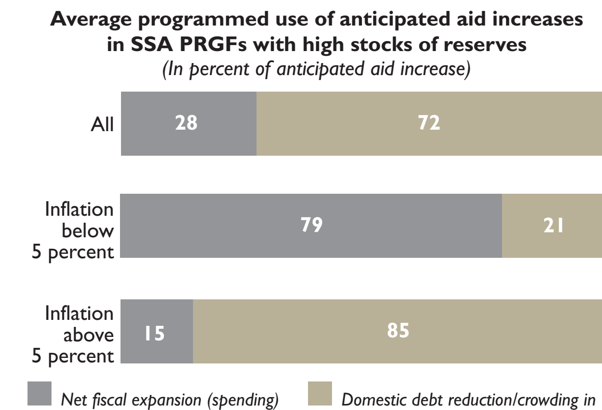
Figure 2.2. Programmed Absorption of Aid Increases



Note: The cutoff for low and high stocks of reserves is 2.5 months of imports. See Annex 2 for definitions, methodology, and a discussion of robustness.

Figure 2.3. Programmed Spending of Aid Increases



Note: See Annex 2 for definitions, methodology, and a discussion of robustness.

Case study analysis indicates that debt-sustainability concerns may be an additional factor reducing the programmed level of absorption—and increasing the programmed buildup of reserves—in response to an increase in aid[8] (see Annex 4).

Fiscal adjustment

The empirical analysis finds that country macroeconomic conditions, as proxied by the inflation rate, are the main determinants of whether and to what extent PRGFs permit the spending of incremental aid.[9] It also finds that the sustained decline in SSA inflation rates—coupled with the recovery (and more) of donor inflows—has reduced the average fiscal correction in the first program year of new programs by about 1 percentage point of GDP relative to the ESAF period. The results of staff interviews and desk reviews are consistent with these findings.

On average—that is across all countries experiencing aid increases during the PRGF period—SSA PRGFs programmed immediate spending of about 30 percent of anticipated aid increases. Figure 2.3 illustrates how much of the programmed full absorption that can be observed in SSA countries with sufficient reserve stocks is translated into fiscal expansion (spending). On average, anticipated aid increases in SSA PRGFs are correlated with a widening of the fiscal deficit[10] amounting to 28 percent of the anticipated increase. The remaining 72 percent is programmed as public savings, often through the retirement of domestic public debt.

Within the average, the evidence points to inflation concerns as a major driver of cross-country differences in programmed spending of incremental aid.[11] As shown in Figure 2.3, differences in programmed spending levels of anticipated aid increases are highly correlated with initial inflation levels. According to the estimation, countries with inflation rates below 5 percent[12] get to spend 79 percent of anticipated aid increases, on average, whereas countries with higher inflation get to spend only 15 percent of such increases, on average.[13] Consistent with this finding and as illustrated in Figure 2.4, cross-country analysis shows that on average SSA PRGFs have targeted inflation rates below 5 percent—with even lower program assump-

[8]Of course, debt sustainability is also a factor affecting the assessment of country aid absorptive capacity with respect to grants versus concessional credits.

[9]Lack of MONA data on public domestic debt precluded the statistical analysis of its implications for program design, similar to inflation. Desk reviews, however, identified domestic debt as a key program driver (see page 10, third paragraph).

[10]Excluding grants and interest payments.

[11]The statistical analysis suggests that the programmed fiscal adjustment to aid *reductions* is determined not by the initial inflation rate, but by the initial stock of reserves. In other words, even when inflation is 5 percent or less, IMF-supported programs do not allow domestic financing to offset reductions in external aid. If there are sufficient reserves, they can be utilized. But if not, programs on average require the mobilization of increased domestic revenues and/or expenditure cuts to compensate for the reduction in aid.

[12]Controlling for other initial conditions such as domestic financing and growth, similar results are also found for higher thresholds up to 7 percent. See Annex 2.

[13]The statistical tests suggest that the 79 percent (associated with inflation rates below 5 percent) is not significantly different from 100 percent, while the 15 percent (associated with inflation rates above 5 percent) is not significantly different from zero.

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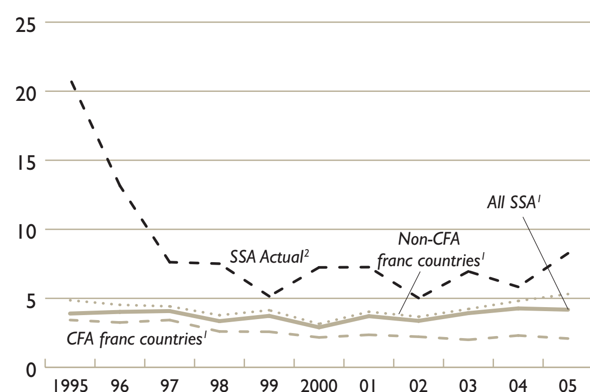
Figure 2.4. Inflation Targets in PRGFs and ESAFs in Sub-Saharan Africa
(Annual CPI percent change)



Sources: IMF, MONA and World Economic Outlook databases.
[1]Data include ESAF and PRGF inflation targets for two periods forward (t + 2) for SSA countries with current programs.
[2]Actual data are for the initial conditions when the targets were made (t0) weighted by average GDP for 2001–05.

Box 2.1. Spending and Absorbing Additional Aid

This section's empirical analysis utilizes the "spend and absorb" terminology set out in "The Macroeconomics of Managing Increased Aid Inflows—Experiences of Low-Income Countries and Policy Implications."[1] The latter was a background paper for the Board's 2005 PRGF review. Focusing on five countries with aid increases during 1998–2003—Ethiopia, Ghana, Mozambique, Tanzania, and Uganda—it compared how much was "absorbed" (as measured by changes in the current account deficit) with how much was "spent" (as measured by changes in the fiscal deficit). It focused on program *outcomes,* especially on the authorities' performance in program implementation, which is not subject to this evaluation. This evaluation's analysis focused on program design, as the primary conduit of the IMF's influence.

[1]See IMF (2005h) and Annex 2 of the current report.

tions in countries that use the CFA franc. Recently, in 2004 and 2005, while the average remained around 5 percent, greater upside and downside variation in PRGF inflation targets has emerged, with a significant number of programs targeting inflation rates above 7 percent in non-CFA franc zone countries.

Critics argue that these inflation targets are unnecessarily low and prejudicial to country growth and poverty-reduction objectives. Drawing on the IMF's own analysis, they argue that the targets could be raised without sacrificing stability and growth objectives, thereby providing an additional source of fiscal space for priority programs.[14] Survey results illustrated elsewhere in this report suggest that Fund SSA mission chiefs are evenly divided on whether (or not) the Fund should tolerate higher inflation rates in good performers, with no support for relaxing inflation targets in weak performers.[15] During interviews, staff said that the authorities—especially of countries where there has been considerable success on stabilization—tended to resist an easing of targets. Meanwhile, IMF policy staff acknowledge that the empirical literature on the inflation-growth relationship is inconclusive, but weighing benefits and costs of inflation argue for an inflation target range of 5 percent to 10 percent since in their view "the scope for creating more fiscal space through a higher inflation tax is likely limited, if it exists at all."[16] This is consistent with IMF Board policy of single-digit inflation.[17]

The evaluation's desk reviews support the finding that inflation control and domestic debt management have been key drivers of programmed spending levels. Program documents frequently cite the control of inflation as a factor in explaining program design, especially the setting of monetary and fiscal targets. And interviews with staff confirm that inflation remains a key driver of program design. Desk reviews show that domestic debt considerations loom large in PRGFs—with most programs limiting domestic financing of the government amid concerns about inflation, debt sustainability, and private sector crowding out (see Annex 3). Among the evaluation's case studies, Mozambique was a clear case where concerns about crowding-out motivated the limitations on domestic borrowing, while in Ghana the level and sustainability of domestic debt was the main concern behind the program's constraint on domestic financing.

Aid absorptive capacity

The desk reviews also point to PRGF analysis of three aspects of aid absorptive capacity—including competitiveness risks, fiscal and debt sustainability, and fiscal governance—but almost no attention to sectors such as education, health, and infrastructure. The macroeconomic analysis of absorptive capacity typi-

[14]See, for example, ActionAid International (2005).
[15]See the middle panel of Figure 4.3. Of the 22 mission chief respondents to the survey, only one said that he/she agreed/strongly agreed that higher inflation should be tolerated in *all* countries, that is, regardless of performance.

[16]See IMF (2005g).
[17]IMF (2005k).

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cally focused on "Dutch disease" and competitiveness risks, which were generally found not to be a concern for the levels of aid inflows under discussion.[18] Debt sustainability analysis was also common—given the preponderance of HIPCs in the evaluation sample countries—using the Fund's standard framework for analyzing debt dynamics for low-income countries.[19] On fiscal governance, PRGFs included structural conditionality on public financial management and accountability, often supported by technical assistance.[20] But PRGF attention to aid absorptive capacity constraints in education, health, or infrastructure, where the Bank is the lead agency, were rare, as was the integration of the individual dimensions into an overall assessment that takes account of synergies and trade-offs across the individual dimensions.

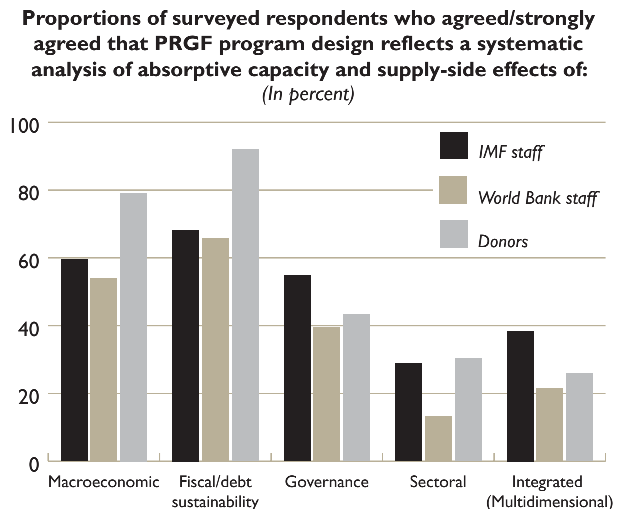
These findings are generally consistent with the responses to the evaluation survey's questions on absorptive capacity (see Figure 2.5). They show much lower scores for the coverage of sectoral and integrated approaches than for the core Fund areas of macroeconomic issues, fiscal governance, and debt sustainability. This pattern is in line with agreed division of labor between the IMF and the Bank, and the IMF's comparative advantage vis-à-vis the World Bank and other partners. But it suggests a missed opportunity for considering synergies and trade-offs between areas where the Bank has the lead on one issue and the Fund on another—such as the Bank's lead on infrastructure, with its obvious supply-side effects and the Fund's lead on macroeconomic stability and sustainability, including exchange rate competitiveness. The evidence from the evaluation survey suggests that in appraising the feasibility and consistency of the underlying program and its financing—and in determining the corresponding levels for the programmed spending and absorption of aid—IMF staff looked at the macroeconomic aspects of absorptive capacity. There is no evidence that staff took into account possible trade-offs with sectoral constraints and opportunities.

Adjusters

Almost all SSA PRGFs include automatic adjusters to deal with unanticipated aid shortfalls or windfalls.[21] Such adjusters set out the preprogrammed response for targets on international reserves (affecting the current account) and domestic financing of the budget. They typically cover six-month periods; beyond that, program design is reconsidered at the next review.[22]

[18]See also IMF (2005g).
[19]See IMF (2005a and 2006i).
[20]See the discussion in the section "Fiscal governance."
[21]See Annex 2 for a comparison with adjusters in non-SSA countries.
[22]See IMF (2006g).

Figure 2.5. Survey Views on PRGF Analysis of Absorptive Capacity



Limited domestic financing of shortfalls and full saving of windfalls is the most common practice to deal with fluctuations in budget support in SSA PRGFs. In practice, for aid *shortfalls*, most SSA PRGFs balance concerns about macroeconomic stability against cuts in priority spending and allow for limited domestic financing. For aid *windfalls*, most SSA PRGFs call for full saving, until the next review—often citing the need to reduce domestic debt.[23] This approach is in line with Fund policy and guidance for staff, which call for full or partial adjustment (to financing shortfalls) depending on various factors including, inter alia, the level of international reserves and the rate of inflation. For windfalls, IMF policy calls for full savings "where desirable."[24]

As the overall stance of policy has eased in good performers in recent years, the adjusters have also eased, allowing for both more spending of windfalls and/or more financing of shortfalls. As discussed more fully in Annex 4, in Burkina Faso, Ghana, Mozambique, and Tanzania, for example, aid windfalls have been allowed to be fully or partially spent; shortfalls have been allowed to be fully financed in Tanzania and partially financed in Mozambique and Rwanda.[25]

But the use of adjusters continues to breed controversy among civil society critics of the IMF, which has failed to get across the short time period to which the adjusters apply. For example, in Mozambique adjusters had been interpreted by critics as a way for the IMF to *block* the use of aid rather than as a way to manage the

[23]See Annex 2.
[24]See IMF (2006g).
[25]See Annex 4.

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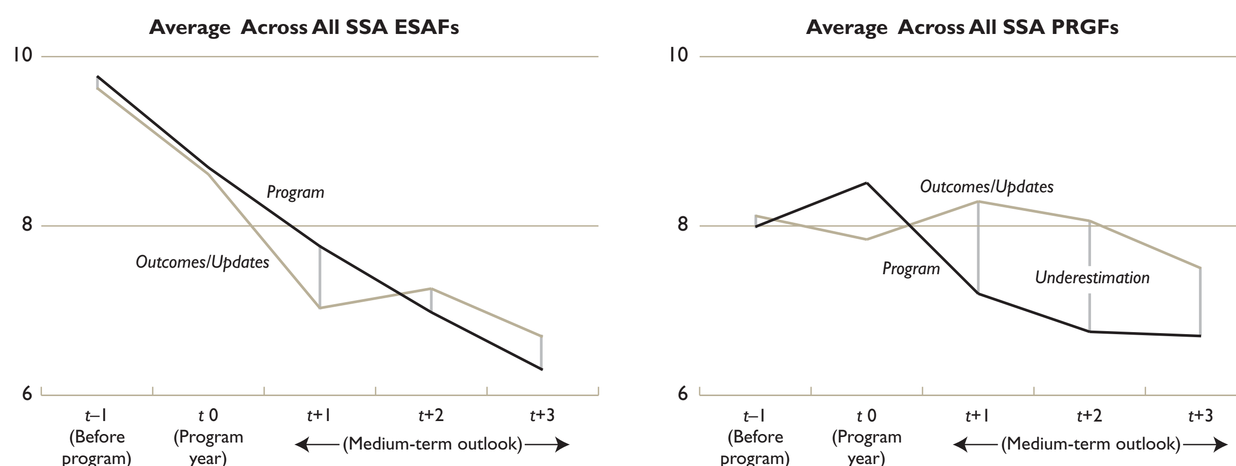
Figure 2.6. Programmed and Actual Aid Flows: PRGFs Underpredicted Medium-Term Inflows[1]
(In percent of GDP)



Source: IEO staff estimates based on IMF, MONA database.
[1]See Annex 2 for definitions, methodology, and a discussion of robustness.

short-term macroeconomic implications of changing aid flows. Subsequently, the formulation of the adjuster was changed to allow for full spending of aid windfalls, linked to priority poverty-reducing expenditures.[26]

Analysis of Aid

As a basis for considering critics' concerns that the IMF has lacked ambition in projecting, analyzing, and identifying opportunities for the use of aid in SSA countries, this section looks at three issues: (1) the basis for the PRGF aid forecast; (2) how possible alternatives were taken into account; and (3) the transparency of the aid forecast.

Forecasting aid inflows

Concerns about PRGF aid forecasts have long been at the core of external criticisms of the IMF, because of their ties to medium-term macroeconomic and expenditure planning and donor aid plans.[27] Empirical analysis carried out for the evaluation suggests that SSA PRGF aid projections were typically slightly optimistic for the program year and significantly pessimistic for the outer years.

Cross-country analysis indicates that PRGF aid forecasts are accurate for the program period one year ahead. If anything, they are on the optimistic side. This finding is not new to the evaluation, but the evaluation's analysis does reaffirm it.[28] What *is* new is the evaluation's finding of a significant underprediction for the outer years of SSA PRGF program periods.

PRGF aid forecasts have typically tapered down over the medium term—reflecting long-standing experience with actual aid flows.[29] But, in recent years, the pattern of actual aid flows to SSA countries has changed. As can be seen on the right-hand side of Figure 2.6 rather than tapering down, aid outcomes have remained fairly constant over the medium term—in line with current trends illustrated in Figure 2.1. This changing aid environment created gaps between the level of aid actually realized in given periods and what country PRGFs had projected several years previously, complicating medium-term expenditure planning.[30]

Additional analysis suggests that PRGF medium-term aid projections have begun to catch up with the changing trends in aid tapering (see Annex 2). This trend seems to be driven by changed expectations regarding the tapering of aid levels. The volatility of aid about its mean level (whether tapered or not) has not come down (see panel B in Figure 2.1).

Evidence from the evaluation's case studies supports this finding (see Annex 4). PRGF programs in five major aid recipients—Burkina Faso, Ghana, Mozam-

[26]See Perone (2006) and Hanlon (2006).
[27]See, for example, Oxfam (2003).

[28]See OECD-DAC (2005).
[29]This is true of experience in SSA and elsewhere, both including and excluding debt relief. See Annex 2.
[30]Medium-term underprediction has a less detrimental effect than underprediction for the initial program year. But it still carries the risk of distorting investment, savings, and employment decisions, which need to be formulated with a medium-term perspective in mind.

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bique, Rwanda, and Tanzania—show a recent shift in 2005–06 with respect to the forecasting of aid. This shift is characterized by less tapering of projected aid over the medium term than in earlier years of the PRGF period.[31] And in three instances (Burkina Faso, Ghana, and Tanzania) aid is assumed to remain constant or even increase over the medium term. These program shifts have occurred in the context of improved country macroeconomic conditions and aid prospects.

Assessing aid requirements

The larger debate over the IMF's analysis of aid flows lies in the appropriate concept to be used for the program's aid "requirements." To provide a common vocabulary for the discussion that follows, Box 2.2 sets out four different concepts, as used by different members of the international financial and development communities.

The evaluation team's review of documents confirms that PRGFs in the evaluation sample incorporated most-likely-scenario aid forecasts. Assessing program external financing requirements against availabilities and financing gaps has long been a feature of Fund-supported programs, with "satisfactory assurances" of any gaps being filled an essential prerequisite for Board consideration of a request for use of IMF resources. In the evaluation sample's PRGFs, there were few cases of inadequate initial financing. In almost all cases, the forecast of available aid, as discussed above, was above the minimum required for the program.

PRGFs in the evaluation sample did not analyze potentially higher levels of aid than the aid forecast underpinning the program. As detailed in Annex 1, during the 2004 and 2005 Board discussions of PRSP implementation, Executive Directors considered how "alternative scenarios" could help to bridge gaps between realism and ambition in national Poverty Reduction Strategies and provide a possible basis for the scaling up of aid at the country level. They "concurred that Fund staff should help those countries that sought assistance in preparing such scenarios." Subsequently, IMF staff undertook several exercises that covered a range of objectives and levels of complexity in the design of alternative scenarios. An MDG-costing scenario was carried out for Ethiopia at the request of the authorities, while several other country exercises have utilized a simpler methodology.[32] But even these exercises have been delinked from the PRGF programs, which remain single-scenario processes, grounded in the most-likely-scenario aid forecast.

[31]Measured by the change in aid projections in $t + 1$ and the forecast for $t0$, the immediate program year.

[32]See IMF (2006f), and also Mattina (2006). In addition to Ethiopia, alternative scenarios have been prepared for the Central African Republic (IMF, 2005n), Ghana (IMF, 2006n), Mali (IMF, 2005p), Rwanda (IMF, 2004f), and Zambia (IMF, 2005q). See Gupta, Powell, and Yang (2005) for a discussion of the macroeconomic challenges of scaling up.

Box 2.2. Different Concepts of Aid Scenarios

Four concepts of aid requirements are used by different members of the development community. These are:

- The *minimum* requirements for a viable macroeconomic program, in light of other sources of funding and taking account of macroeconomic and other relevant policy adjustments;
- The *most-likely-scenario* aid forecast based on donor indications and past experience—basically, the aid forecast before any extraordinary measures to mobilize additional funding;
- The *maximum* amount of aid consistent with country absorptive capacity, beyond which capacity constraints materially undermine the net benefits from further increases in aid; and
- The *normative* financing requirements for achieving or pursuing the MDGs and/or other development goals.

IMF-supported programs deal with the first and second concepts. If actual aid (and other external resources) appear likely to fall short of the minimum deemed necessary for a viable program, there is a "financing gap." That gap would need to be filled before any PRGF arrangement could be considered by the Board.

Many in the development community focus on the third and fourth concepts, which involve financing gaps. Jeffrey Sachs, for example, argues that the IMF should also utilize these concepts as a way of drawing shareholders' and donors' attention to SSAs' vast needs for pursuing the MDGs.[1] (In cases in which the level of aid considered necessary to reach the MDGs exceeds the maximum level currently considered absorbable, policy and institutional reform measures to improve country capacity are the priority.)

[1]See Sachs (2005 and 2006).

Transparency of aid forecast

PRGF documents say little about the derivation of the aid forecast and its underlying assumptions. This is true both for Board documents that are ultimately published and the internal working documents to which the evaluation team had access. PRGF documents allude to the degree of donor support, noting the importance of good country performance in sustaining donor flows and aid predictability, the need for improvements in donor coordination, and—during the early part of the PRGF period—the desirability of reducing aid dependence.

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But in-depth discussion of how the forecast is actually made, along with key assumptions—such as discount factors used in translating donor promises into program assumptions and how the current forecast relates to current donor undertakings and past donor performance—is rare. Some program documents note past forecast errors, but typically do not link such observations to the current forecast.[33]

During the evaluation interviews, staff said that they generally took the forecast of the authorities for the program year, validated through discussions with donors. They said that the finance ministries of most SSA countries receiving large volumes of aid are now tracking these flows well, building on the improvements in donor practices in recent years. Nevertheless, where necessary—for example, in post-conflict cases where government capacity was more constrained—Fund staff played a more active role in working with the authorities to aggregate donor plans in the context of the program's macroeconomic framework. Interviewed staff said that the authorities were in many cases very conservative about future aid flows, and, for medium-term forecasts, staff often triangulated between the authorities' forecast, to which they added a premium, and indications from donors.

The lack of transparency about the aid forecast means that readers cannot understand (or challenge) the basis for key program assumptions. Nor can they use IMF documents to track donor actions against promises—although there are exceptions, where quarterly aid projections and actuals are included in the PRGF documents.[34] In responding to this point, some staff questioned whether it is the job of the Fund to provide such information for outside partners and observers. But the basis for Fund aid forecasts and the specifics on donor commitments and disbursements are matters of increasing public interest, recognized by the Managing Director and others,[35] so greater transparency about their underpinnings could be a useful and cost-effective investment.[36]

Key Features Agenda

The "Key Features of PRGF-Supported Programs" were issued by management as guidance for staff in 2000. They remain central to the staff PRGF Handbook[37] (see Box 2.3). They were discussed by Executive Directors at an informal seminar in 2000 and re-endorsed as a useful summary and guidance document during the 2002 Board review of the PRGF.[38] They were considered in a 2004 IEO evaluation of

Box 2.3. Key Features of PRGF-Supported Programs

A Handbook for the Staff on PRGF Arrangements, updated on May 24, 2006, sets out key features that PRGF-supported programs share.[1] As summarized in the Handbook, these include:

- "Budgets should be pro-poor and pro-growth."
- "Appropriate flexibility in fiscal targets should be ensured by presenting in PRSPs normative macro-projections to signal financing needs and, where warranted, seeking higher aid flow commitments that can be built into the program."
- "The social impact of major macroeconomic adjustments and structural reforms are to be analyzed and taken into account in the formulation of the program."
- "There is strong emphasis on measures to improve public resource management and accountability by opening fiscal policies and objectives to public debate, developing transparent monitoring systems, and considering selective conditionality on fiscal governance measures."
- "Structural conditionality should be selective."

This evaluation considers all of these features except the last, as it is the subject of an ongoing IEO evaluation on structural conditionality that covers PRGFs as well as other IMF instruments.[2]

The Handbook notes that the key features were included in a paper discussed with Executive Directors in 2000, and that progress on them was assessed in another paper discussed in early 2002, when Executive Directors "arrived at a broadly favorable assessment but saw the need for an increased focus on the sources of growth in PRGF-supported programs and structural reforms to develop the private sector, increase foreign direct investment, enhance external competitiveness, and increase labor productivity where these goals are critical to the success of the Fund-supported program."

[1]See IMF (2000a and 2006g).
[2]See IEO (2005a).

[33]See Annex 3.
[34]See, for example, the recent Tanzania program in IMF (2006d).
[35]See, for example, the Managing Director's statement to the Development Committee—IMF (2006l).
[36]Especially as the basic PRGF documents for the 29 countries being evaluated are already available on the Fund's website at www.imf.org.
[37]See IMF (2000a).
[38]See IMF (2002b).

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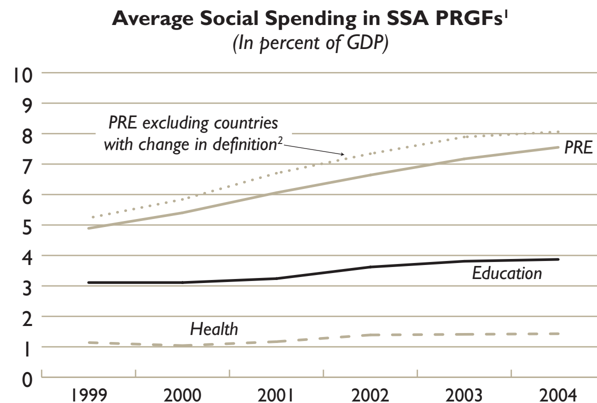
the IMF's role in the PRSP and the PRGF.[39] Building on these efforts, the current evaluation has focused on those aspects of the key features with particular relevance for the Fund's role in aid to SSA.[40]

Pro-poor and pro-growth budgets

The key features agenda has long included pro-poor and pro-growth budgets. At the outset, the expectation was that PRGFs would support "a reorientation of government spending towards the social sectors, basic infrastructure or other activities that demonstrably benefit the poor." Subsequently, with the Board's increasing focus on the sources of growth in PRGF-supported programs—as noted in Box 2.3—the relative importance of infrastructure in the pro-poor and pro-growth budget equation has implicitly risen.

Public expenditures for education and health have generally kept pace with overall public spending relative to GDP—while spending for poverty-reducing expenditure (PRE) programs tracked under the HIPC Initiative have expanded more rapidly[41] (see Figure 2.7). Though clearly a sectoral area of Bank leadership, IMF staff have played a role in promoting these increases, albeit indirectly. They vet the PRE spending numbers as part of their work with the authorities on budget forecasts and outturns, and on which they are widely perceived by SSA authorities as playing an important role. Most PRGF documents include a table on PREs, which is subsequently reflected in the Bank-Fund annual HIPC implementation reports.[42] In addition, a number of SSA PRGFs have included conditionality on such spending, expressed in terms of floors.[43] More recently, program adjusters for the spending of unexpected changes in aid flows have been linked to PREs in a number of the evaluation's desk-review country cases,[44] in contrast to the more common approach to adjusters, which typically calls for the saving of such inflows until the next program review.[45]

Figure 2.7. Public Spending on Education, Health, and Poverty-Reducing Expenditure (PRE)



Sources: IMF, Fiscal Affairs Department, and WETA and World Economic Outlook databases.
[1]Weighted by average GDP for 2001–05.
[2]Excludes the Democratic Republic of the Congo, Guinea, Rwanda, and Zambia.

Many critics see the IMF as undermining the social sectors—especially through PRGF conditionality on the public sector wage bill. Such conditionality is said to adversely affect health- and education-sector salaries and staffing (sometimes donor financed) and in turn the quality of service delivery.[46] After much dialogue and debate between IMF staff and their critics, a consensus is emerging that, with few exceptions,[47] PRGF wage bill ceilings in SSA have typically been designed to be sector-neutral—basically macro-focused—but not pro-poor.[48] They have generally been included in programs because of concerns about macroeconomic stability and administrative capacity constraints on keeping the wage bill within budget (see Annex 3). But they are not first-best solutions and clearly have sometimes had unintended consequences. Possible side-effects range from the limited ability to immediately absorb and spend unanticipated aid inflows for the hiring of teachers and nurses to the proliferation of fringe benefits and other nontransparent forms of remuneration designed to circumvent the ceilings. In either case, the IMF has

[39]See IEO (2004).
[40]As noted in Box 2.3, the current evaluation does not address the selectivity of structural conditionality, since it is the subject of an ongoing IEO evaluation.
[41]PREs are defined in country-specific terms as part of the PRS process; hence, common definitions do not apply across countries. Also, changing definitions of some countries' PRE "baskets" reduce the measure's value as a yardstick. To correct for this distortion, the dotted line in Figure 2.7 shows the relationship excluding those countries with changing definitions.
[42]See, for example, IMF (2006i).
[43]With performance criteria in Chad, Guinea, Rwanda, Uganda, and benchmarks and/or indicative targets in Benin, Ghana, Malawi, Mauritania, and Sierra Leone.
[44]Both for using windfalls (in Burkina Faso, the Central African Republic, the Democratic Republic of the Congo, Ethiopia, and Mozambique) and for financing shortfalls (in the Democratic Republic of the Congo, Mozambique, Senegal, and Uganda).
[45]Of course, increased social spending does not automatically translate into better outcomes. For example, studying PRGFs in four SSA countries, AFRODAD found only mixed effects on services and human welfare. Despite higher social sector spending in Ethiopia and Tanzania, poverty reduction and improvements in social service delivery were modest. AFRODAD also criticized the IMF for tight fiscal controls in Malawi and Zambia that inhibited teacher training and recruitment. See AFRODAD (2005 and 2006a–d).
[46]See Ooms and Schreker (2005) and Physicians for Human Rights (2004).
[47]See, for example, IMF (2005f and 2005p).
[48]See, for example, Fedelino, Schwartz, and Verhoeven (2006); and Wood (2006).

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generally reacted to negative publicity and controversy on wage bill ceilings with program modifications at the next review, as for example in Mozambique in 2006 and Zambia in 2004. More proactively—and in an important innovation—program adjusters in the 2005 Malawi PRGF allowed for both increased PRE spending and exemption from the wage bill ceiling in the event of larger-than-programmed disbursements from the multi-donor AIDS SWAp.[49]

By all accounts, public spending for infrastructure fared less well than education and health during the evaluation period.[50] Despite weak data, the increasingly widespread view is that SSA's public-expenditure "pendulum" has gone too far in the direction of *pro-poor* spending for safety net programs, at the expense of *pro-growth* spending for infrastructure. This is especially so, given the latter's importance for private sector development, productivity growth, external competitiveness, and employment creation—and in turn for durable poverty reduction.[51] As noted earlier, the IMF has done little to take into account spending composition issues—including between the social sectors and infrastructure—in considering country aid absorptive capacity, despite the implications for the supply-side response over the medium term, and the more immediate implications for the optimal absorption and spending response to additional aid.

Government officials in most countries visited by the evaluation team complained about what they characterized as the Fund's overemphasis on pro-poor spending, which they saw as prejudicial to the needed spending on infrastructure, which they saw as pro-growth. Of course, the Bank is the lead agency on infrastructure, just as it is on health and education. Even so, the indications are that IMF staff could have been more proactive in the dialogue (with the authorities and the Bank) in querying the infrastructure constraints to growth, especially given the relevance to aid-related exchange rate and competitiveness issues, which are at the core of the Fund's mandate. Indeed, during the Board's 2005 review of the PRGF, "Executive Directors also encouraged countries in which higher aid-based spending would pose a serious threat to competitiveness to consider using the aid for enhancing productivity and/or removing domestic supply constraints."[52]

Financing needs for pro-poor and pro-growth budgets

Where IMF staff deserve more credit for their work on the Key Features is on the increase in fiscal space that opened the way for the expansion of the spending programs discussed above. On average in the 29 SSA PRGF countries, public expenditures rose by about 2.5 percent of GDP over the period.[53] In the aggregate, the financing came from increases in aid and domestic revenues and a decline in external debt service, partly offset by the retirement of domestic debt and other transactions.[54]

Through the PRGF, Fund staff played an important role in the increased fiscal space, especially with respect to their support for ambitious measures to mobilize domestic resources. As spelled out in Annex 3, most PRGFs called for improving domestic resource mobilization, with their program intent evolving from the avoidance of aid dependency in early PRGF programs to the widening of fiscal space for priority expenditures more recently. In addition, as shown in Annex 2, revenue mobilization targets have both increased in PRGFs relative to ESAFs, and more frequently been met or exceeded.

But Fund staff were less ambitious externally—in signaling the incremental aid needs for financing larger pro-poor and pro-growth spending, as called for in the Key Features and the PRGF Handbook.[55] As discussed earlier in this report—and because of the policy cautions discussed there—Fund staff have generally *not* been proactive in analyzing alternative aid scenarios or normative aid requirements for meeting national growth and development objectives, or in discussing with donors additional aid opportunities where country absorptive capacity exceeded projected aid flows.[56] Similar reservations clearly apply to the consideration of possibly higher aid commitments for pro-poor and pro-growth programs in education, health, and infrastructure. But there are also other complications, namely that (1) the Bank is the lead agency in these sectoral areas and (2) Fund-Bank collaboration is not working particularly well in these areas, because of problems with resources and delivery modalities (see the last paragraph of the section "World Bank staff" on Fund-Bank collaboration).

Poverty and social impact analysis

From the launch of the PRGF, social impact analysis was to inform the consideration of distributional impacts of program design and the identification of countervailing measures to offset adverse impacts.[57] IMF staff were generally not expected to do the PSIA analysis themselves, but rather to integrate the analy-

[49]See IMF (2005e).
[50]See Development Committee (2005) and Estache (2006).
[51]See Bevan (2005) and Foster and Killick (2006).
[52]See IMF (2005k).
[53]Compared with an increase of 1 percentage point over the previous six years (during the ESAF era).
[54]See Annex 2.
[55]Or in the accompanying Staff Report Checklist. See IMF (2006h).
[56]See the section "Aid absorptive capacity" above and Figure 2.5.
[57]See Inchauste (2002), Robb (2003), and Kpodar (2006).

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sis of partners, especially of World Bank staff, into program design.[58] As summarized in Annex 1, Board discussions have repeatedly emphasized the importance of PSIA for PRGF program design and called for systematic treatment of impacts and countervailing measures in PRGF documents.[59] They also have highlighted the fact that the World Bank was the lead agency on PSIA, given its role as the lead agency on poverty reduction.[60]

PSIAs carried out by World Bank staff, DFID, and other agencies have not systematically informed PRGF program design. During interviews, IMF staff said that most PSIAs prepared by other agencies generally lacked the necessary timeliness, relevance, and/or quality to underpin PRGF design. It was for this reason that the Fund's PSIA Group, set up primarily to help staff integrate PSIAs done by others into PRGF-supported programs, had become a producer of PSIAs. World Bank staff working on PSIAs indicated that they generally lacked incentives and resources to meet the specific needs of IMF-supported programs. However, there have been exceptions when the collaboration worked well, such as in the PRGF for Ethiopia, where Fund staff relied on a World Bank PSIA on petroleum pricing.

The findings of PSIAs carried out by IMF staff are now typically reported in PRGF documents, although there is less evidence of material influence on PRGF program design. The results of the nine SSA PSIAs have been presented in program documents—often in freestanding boxes—with the results actually figuring in staff appraisals in fewer cases (Burkina Faso and Djibouti).[61] Program documents indicated no specific countervailing measures linked to the PSIAs, in some cases because the recommendations were not adopted (Malawi and Uganda). The Ghana and Mali programs noted that the fiscal space created by the subsidy reduction would be used by the authorities to increase priority expenditures. Going forward, close management of PSIAs is needed to prevent them from becoming a bureaucratic requirement with little impact on program design and outcomes.

In the meantime, PSIA is clearly an area of continuing debate about what the IMF has actually committed to do and what is feasible both analytically and with available data and resources. Civil society critics are looking for greater attention to social impact analysis of "macroeconomic" issues, such as a reduction in inflation or the fiscal deficit.[62] But Fund staff argue that distributional analysis of such high-order aggregates is not particularly tractable or cost effective; they contend that PSIAs are best done on narrower questions, such as a reduction in energy subsidies or an increase in value-added tax (VAT) rates, for which clear counterfactuals can be constructed.[63] The IMF staff position on the coverage of PSIAs is consistent with the language of the Fund's initial Key Features document submitted to Executive Directors in 2000, and subsequently posted on the IMF website. The undertaking clearly indicated that "to be feasible, this type of analysis would need to be restricted to substantial macroeconomic adjustments (e.g., a big tax increase, subsidy reform, or exchange rate realignment) or major structural reforms (e.g., civil service downsizing or price liberalization)."[64] It also is consistent with the view emerging from PSIA practitioners in DFID and the World Bank, who highlight the importance of clear and narrow questions for successful and cost-effective analysis.[65]

Fiscal governance

Of all the Key Features agenda items, IMF staff have pursued improvements in the accountability and transparency for the management of public resources the most aggressively. This focus is in line with the priority attached to it by the Board, which has repeatedly stressed the importance of such work for growth, poverty reduction, and aid effectiveness—in the context of the HIPC Initiative as well as the PRGF. Executive Directors identified it from the outset as an area where conditionality might be expanded, while recognizing it as an area of shared responsibility with the World Bank. Subsequent feedback—in the context of Board discussions of PRSP and PRGF reviews, HIPC implementation reports, and individual country programs under the PRGF and/or program reviews—has served to further sharpen the focus of staff efforts. Systematic monitoring and reporting by Fund and Bank staff point to progress on fiscal governance but with major challenges remaining.[66]

IMF staff have made a major effort to support the strengthening of public financial management and accountability systems in SSA countries. Their increasing efforts in recent years reflect the confluence of (1) traditional concerns about macroeconomic stability and the underlying processes and systems for ensuring budget execution and reporting; (2) shareholder concerns about governance and the need to ensure the proper disposition of debt service savings from the

[58]See IMF (2000a).

[59]See IMF (2003b and 2004d).

[60]See IMF (2004e).

[61]Of the nine PSIAs carried out by FAD, six focused on the removal or reduction of subsidies (such as those on electricity, petrol, agriculture, and fertilizers) and the others on devaluation, external shocks, and taxation.

[62]See, for example, Griesgraber (2006) and Hayes (2005).

[63]See Gillingham (2005).

[64]See IMF (2000a).

[65]See Bird and others (2005) and Coudouel, Dani, and Paternostro (2006).

[66]See, for example, IMF (2005c).

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HIPC Initiative and the MDRI more recently; (3) donor interest in improving country fiduciary systems as a quid pro quo for their own shift to budget support instruments; and (4) effective Fund-Bank collaboration on the issues, with country teams supported by technical specialists in both institutions.

Fiscal transparency and accountability has been a substantial area of PRGF focus, with extensive discussions of budgetary control and transparency issues in program documents and structural conditionality framed in a variety of ways—from prior actions and performance criteria to indicative targets and benchmarks. Strengthening the capacity of the ministry of finance for the monitoring of line ministries' budget planning and execution has been common,[67] including the monitoring of public sector employment and remunerations.[68] Closely linked to these programs, the IMF has provided extensive technical assistance on budget execution issues—for expenditure monitoring and control—and information systems for the tracking of expenditures.[69] Fiscal transparency and accountability issues are a shared responsibility with the Bank, and program documents frequently explain the scope of institutional collaboration and the division of labor (including on the provision of technical assistance), with the Fund generally focusing on budget execution issues—especially expenditure controls and fiscal reporting.

[67]For example in Cameroon, Mozambique, Rwanda, Senegal, Tanzania, Uganda, and Zambia.

[68]As in Mozambique, Tanzania, and Zambia. See Annex 3.

[69]For example in Burkina Faso, the Democratic Republic of the Congo, Ghana, Mozambique, Rwanda, Senegal, Tanzania, Uganda, and Zambia. The Fund's work on technical assistance for fiscal governance was evaluated as part of the IEO evaluation of IMF technical assistance. See IEO (2005b).

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CHAPTER 3 IMF Relationship Management in Sub-Saharan Africa

This chapter sets out relevant findings about Fund relationships with the authorities, donors, multilateral partners, and local civil society groups. It draws on face-to-face interviews and the evaluation survey.[1] A key contextual issue is the changing operating environment for aid to SSA, with donors increasingly decentralizing resources and decision making to country offices with implications for how the IMF is perceived, given its more limited field presence (see Box 3.1). The evidence presented in the chapter suggests major differences of views between how IMF staff see themselves and how partners and stakeholders see them, especially in the aid arena. It thus raises questions about how the IMF acquires and processes feedback about its own performance—in view of the intrinsic value of such feedback for self-assessment, learning, and accountability and the information that such feedback may carry about changing conditions on the ground, as an input into strategy formulation and action planning.[2]

The Authorities

The evaluation team met with and surveyed representatives of ministries of finance and central banks, and also sectoral colleagues in ministries of health, education, and infrastructure and related agencies. Three emerging issues warrant highlighting: (1) the importance attached to the relationship by the authorities; (2) complaints by the ministries of finance about the Fund's "pro-poor" orientation and the absence of countervailing complaints by the health and education ministries; and (3) the expressed interest by some interviewees in receiving more substantive *content* from the IMF, and in turn raising questions about the analysis underpinning the operational dialogue on the PRGF (see Box 3.2).

Feedback provided to the evaluation team in face-to-face meetings with representatives of finance ministries and central banks points to increasing openness, flexibility, and tolerance for the accommodation of aid

[1]Key inputs include (1) meetings with SSA ministers of finance, central bank governors, and their staff during the 2006 Spring Meetings in Washington; (2) interviews in Accra, Dar es Salaam, Kigali, Lusaka, Maputo, and Ouagadougou; in Addis Ababa and Tunis; and in donor capitals; and (3) responses to the evaluation survey from the authorities, donors, local civil society representatives, and staff of the African Development Bank (AfDB), IMF, United Nations Development Programme (UNDP), and World Bank. See Annex 5 for survey details.

[2]IMF (2004g).

Box 3.1. Location of Work

The management of IMF relationships—whether with the authorities, donors, multilateral partners, or civil society—occurs mostly in the field, under the supervision of a headquarters-based mission chief and in his/her absence, a resident representative with highly constrained resources. Current arrangements are increasingly out of step with the IMF's bilateral and multilateral partners (including the World Bank), which have decentralized significant numbers of staff—and decision-making power—to country offices. Three observations follow, based on the evaluation team's interviews:

- The authorities interviewed by the evaluation team generally did not have problems with current arrangements. They receive priority attention—and some worry that a larger Fund presence might be misconstrued. However, there is interest in greater substantive capacity in resident missions, suggesting a skills-mix issue in some cases.
- Vis-à-vis donors, the imbalance is most pressing in those countries for which general budget support has become an important donor instrument. Especially there—although in some other countries as well—donor interest in macroeconomic issues has risen, in turn increasing "demand" for IMF staff time on the ground, without an appreciable increase in "supply," creating stresses and strains for donor and IMF staff alike, and for relationships between them. These strains color partner perceptions about the IMF's role and effectiveness.
- Vis-à-vis civil society groups, the issue is missed opportunities for exchanging information and for correcting possible miscommunications on both sides.

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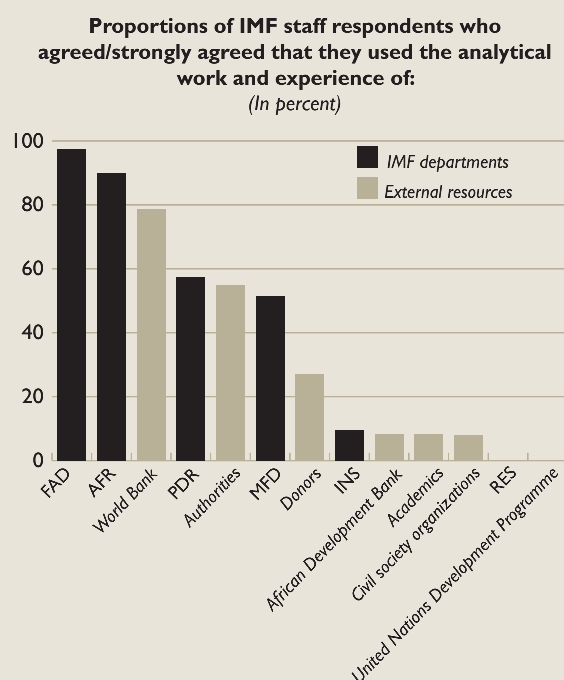
Box 3.2. Informing the PRGF Dialogue with the Authorities

During the evaluation team's interviews, some country authorities called for greater focus on substantive content in the dialogue with the Fund. They were especially interested in lessons learned in other countries (within and outside SSA); analysis of and explanations for proposed wage-bill, tax-rate, and other program targets; and connections between macroeconomic policies and aid, the real economy, growth, and poverty reduction.

This raises the question of what inputs Fund staff use in PRGF preparation and design—and whether those inputs capture the full range of analysis and research available. This question was put to IMF staff in the evaluation survey, with the staff responses summarized in the accompanying figure. As shown, large majorities of operational staff respondents to the evaluation survey said they used the analysis carried out by the IMF's Fiscal Affairs (FAD) and African Departments (AFR) and the World Bank. Majorities said they also used the analysis of the IMF Policy Development and Review Department (PDR), the authorities, and the IMF Monetary and Financial Systems Departments (MFD).[1] Minorities said they used the analysis of other sources, including from donors, the IMF Institute (INS), AfDB, academics, and civil society. No respondents said they used the analysis of the IMF Research Department (RES) or UNDP.

These results in turn raise further questions for follow-up. First, how relevant is the Research Department's analytic work to the macroeconomic challenges that SSA countries face? Second, how open are Fund staff to analysis and ideas that go beyond immediate operational concerns, whether generated within or outside the Fund? Third, how does the Fund ensure that its advice is adequately informed by up-to-date research and analysis?

Proportions of IMF staff respondents who agreed/strongly agreed that they used the analytical work and experience of:
(In percent)



[1]MFD was recently merged with the International Capital Markets Department to form the Monetary and Capital Markets Department.

flows by Fund missions and programs. But there also were complaints. Some interviewees criticized Fund missions for listening too little, demanding too much, and imposing their views despite the institution's rhetoric on "ownership." Some recalled earlier days of heated debates and difficult discussions during their countries' stabilization periods. Others complained about mission members' weak language skills, where relevant, and about staff turnover. One said that changes in mission chiefs were especially disruptive, sometimes triggering wholesale revisions of the program. But several interviewees said that turnover below the level of the mission chief was also a problem; it undermined rather than built capacity, by taking scarce official time to "retrain" new IMF staff all too often.[3] On the positive side, the authorities volunteered praise for the work of the African Regional Technical Assistance Center (AFRITAC), whose one-on-one coaching style they very much appreciated, and for IMF Institute courses on financial programming.

The evaluation team also met with representatives of ministries of education, health, and infrastructure in the six countries it visited. The most immediate and striking response to questions about possible influence of the IMF on their sectoral resource envelopes and access to aid was the emphasis placed on country ownership. Several sectoral interviewees even took exception to the questions, stressing that the budget was their country's and that they and their colleagues made all the decisions. More generally, there was little blaming of the IMF for any resource shortfalls that their sectors may have encountered; interviewees said any blame belonged with their own government. Some interviewees applauded the IMF's positive influence on the development of more realistic plans. Of course, the education and health ministries were major beneficiaries of funding from HIPC savings, which may have favorably inclined them toward the IMF. Rep-

[3]Empirical analysis carried out by the evaluation team suggests that similar mission turnover rates characterize all program countries.

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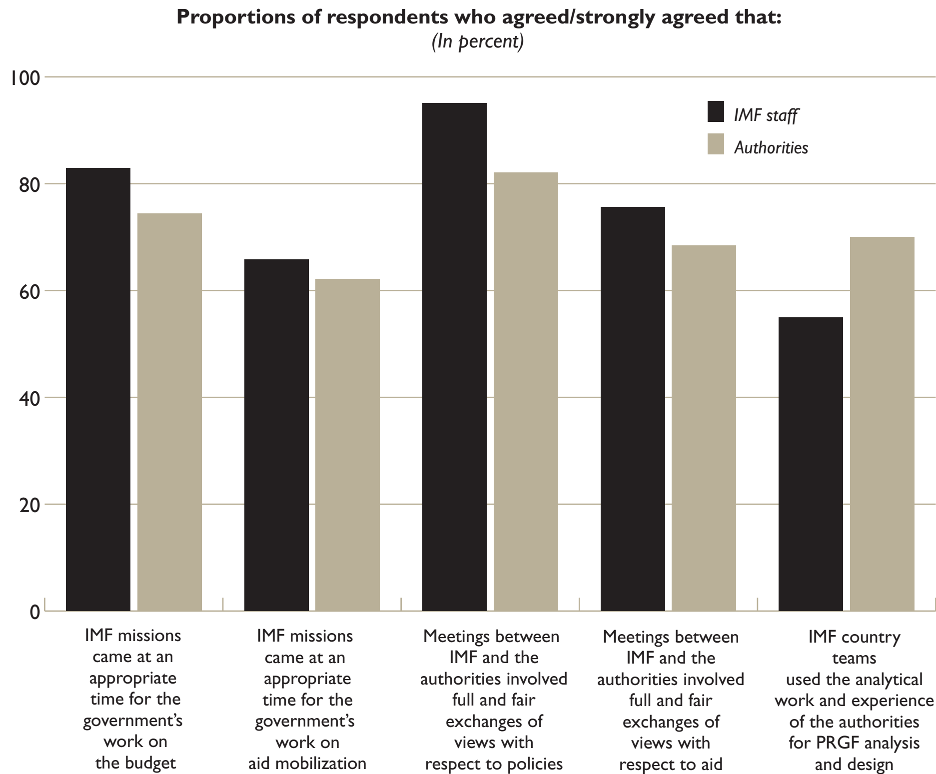
Figure 3.1. Survey Views on IMF Staff and Authority Interface: "Connect"



resentatives from infrastructure ministries generally made two points: (1) the need to broaden the criteria for priority expenditures to include basic infrastructure projects, a plea that was sometimes specifically supported by their colleagues in the health ministries, based on a recognition that investments in water and roads are necessary to meet the health MDGs; and (2) their desire to loosen Fund-imposed constraints on borrowing abroad to finance high-return investments in infrastructure.[4] In Ghana, for example, the constraint on nonconcessional borrowing is a major issue for the authorities, who want to borrow commercially to expand infrastructure investment. Similar issues—albeit on a smaller scale and with a more distant time horizon—have arisen in Rwanda and Zambia. In all three cases, PRGF limits on commercial borrowing for infrastructure was a recurring complaint of the authorities during the evaluation team's face-to-face country interviews.

The authorities' responses to the evaluation survey were more positive on most questions than other surveyed groups, except for Fund staff. This is a striking and significant result, although to some extent it may reflect selection bias among survey respondents and/or reluctance to criticize Fund staff for fear of adverse consequences, despite reassurances of confidentiality. As pictured in Figure 3.1, the authorities and Fund staff generally see eye to eye on the Fund's performance on bread-and-butter activities such as the timing of missions, the openness of the dialogue, and the use of the authorities' analysis and experience—statistically, their responses are not significantly different from each other. However, there were two exceptions in highly relevant areas—first, on the accommodation of aid, where the authorities were significantly less positive than Fund staff on all questions, especially on infrastructure;[5] second, and even more important, the difference in views on the use of additional aid scenarios in PRGF design, for which only 47 percent of the authorities agreed that these were used, compared with 88 percent of IMF staff respondents. Otherwise, the authorities and Fund staff tended to respond in broadly similar ways—and quite differently from the other groups—on other substantive questions, as noted elsewhere in this report. Almost 90 percent of the respondents from the authorities' group were from ministries of finance and central banks, representing 25 of the 29 SSA countries under study. The remaining 10 percent were from sec-

[4]See Development Committee (2006a) and IMFC (2006a).

[5]See Figure 3.3 below.

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toral ministries, whose survey response rates tended to be much lower.[6]

Donors

Three findings about the relationship between the IMF and SSA donors emerge from the evidence considered by the evaluation team. The first is the continuing high marks the donors give to the Fund's macroeconomic assessment.[7] This is true for donors with traditional project-based aid programs and donors with larger portfolios of general and sectoral budget support operations. The second finding, elaborated below, is the low marks that donors give to Fund staff proactivity in engaging with donors both one-on-one and in formal and informal meetings—largely because they see it happening less than they would like. Third—and closely related—is the stress surrounding donor-Fund relationships on the ground in the era of donor budget support—aggravated by the location-of-work issues set out in Box 3.1.

Many of the evaluation team's face-to-face discussions with donor representatives focused on the growing importance of general budget support by donors—and reliance on the Fund's macroeconomic analysis—and its implications for the donor-IMF relationship. Two pressure points were identified with respect to demands on resident representatives' and mission chiefs' time. First, the increase in budget support and budget support donors in a number of countries has raised donor interest in an ongoing dialogue with the IMF on macroeconomic issues in the context of working groups and task forces on medium-term expenditure frameworks, inter alia. Second, there are critical moments in the budget and/or donor calendar when information about the IMF macroeconomic assessment is essential. These two pressure points have occasionally erupted into major irritants for both sides; donors have become annoyed with Fund staff's inability or unwillingness to engage with them and to harmonize with their schedules and Fund staff have become annoyed about increased donor demands on their time and schedule. Several budget support donors complained about the IMF's inability to commit to decisions on the same time frame as them, in turn complicating the aid and budget planning cycle.

Not all donors sought greater engagement by or with the IMF. In meetings at donor headquarters, several interviewees stressed that—other than the macroeconomic assessment and sign-off—the Fund was neither expected to play a role nor taken into account in the determination of the overall aid envelope in individual country cases. That observation is reflected in donor answers to the survey question about the desirability of the Fund's increasing its attention to additional aid scenarios going forward. All respondent groups answered positively in the 85–100 percent range, except for donors, who were in the 60 percent range.[8]

Surveyed donors painted a mixed picture of the IMF's aid-related work in SSA. Their responses were less positive across the board than the authorities', but more positive than civil society's. In answering questions on the Fund's proactivity on aid—where donors are clearly principals—they were less positive than in other areas (such as on the design of the PRGF) and very much less positive than Fund staff, as illustrated in Figure 3.2. Donors were negative on the question of IMF mission timing—with only about 10 percent of respondents agreeing that missions came at an appropriate time for their processes and decisions on aid, and 30 percent disagreeing.[9] They were equally negative on the question of whether the IMF has increased the importance attached to additional policy and aid scenarios.

Donors were somewhat more positive in their survey answers on the quality of their dialogue with the IMF. A large minority (some 40 percent) of respondents characterized the discussions as full and fair exchanges of views on both sides. In addition, majorities of donor respondents acknowledged changes in the Fund over the past five years toward greater focus on poverty reduction and public expenditure management—both areas they would like enhanced attention to in the next five years. Also in other areas—such as growth, private sector development, and infrastructure—where fewer respondents saw increased attention in the past five years, majorities wanted more IMF attention over the next five years.

Multilateral Partners

The evaluation team also canvassed the views of World Bank, AfDB, and UNDP staff—both through face-to-face interviews in the context of the country visits and through the evaluation survey.

World Bank staff

The complexity of the Fund-Bank staff relationship in SSA is reflected in the evaluation survey results. In some contexts, the IMF-Bank relationship is one of

[6]Given the small number of returns from this group, it is not possible to differentiate their responses from those of the central bank and ministry of finance representatives in a statistically significant way. This said, their responses tended to be broadly in line with those of their finance ministry and central bank colleagues—albeit somewhat more positive on IMF work on the MDGs and less positive on IMF work on aid.

[7]See also the survey in IMF (2005m).

[8]See Annex 5, Table A5.2, line 13.

[9]The remaining responses were either "neutral" or "don't know."

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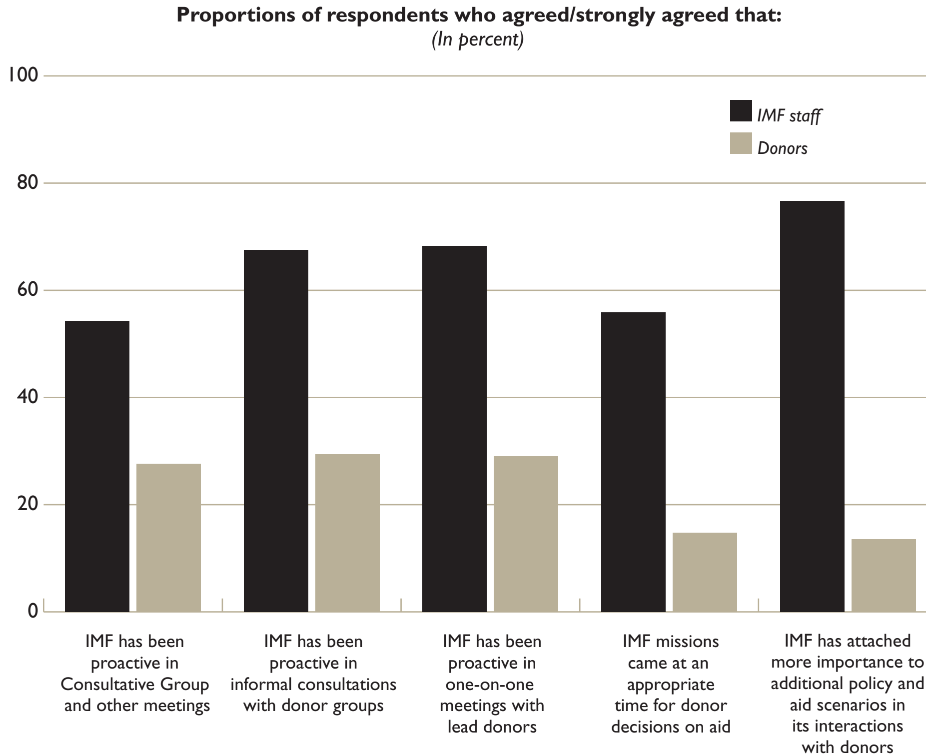
Figure 3.2. Survey Views on IMF Staff and Donor Interface: "Disconnect"



partners, for example, in Fund and Bank staff's work in supporting country efforts to design and implement Poverty Reduction Strategies. While in other interactions, the Bank works more closely with donors than with the IMF. For example, in the context of the Bank's participation in donor budget support groups through its Poverty Reduction Support Credits, the Bank behaves more like a donor, sharing donor concerns about IMF mission timing and the effect of macroeconomic policies on the absorption and spending of aid. As a result, for some survey questions, Bank staff responses are closer to those of Fund staff, while for others they are closer to donors.

One example in which Bank staff are closer to donors in their views than to Fund staff is with respect to PRGFs' accommodation of aid earmarked for sectors such as education, health, and infrastructure. Figure 3.3 illustrates the results, which show a large disconnect between Fund staff thinking and that of Bank staff and donors—and the authorities, especially on infrastructure. The disconnect probably reflects different meanings attached to the word "accommodate" by Fund staff and by other survey respondents—with Fund staff meaning in line with Fund policy on the accommodation of aid, which as seen in Figure 2.3 can mean a very low spending rate out of incremental aid for countries with inflation rates above the critical 5–7 percent threshold. Whereas, to donors and Bank staff "accommodate" may mean that additional aid is simply allowed to be spent. Nevertheless, the size of the gap is worrying, especially the gap between Fund and Bank staff views given that it relates to views on the interface between core operational products of the

Figure 3.3. Survey Views on Accommodation of Earmarked Aid

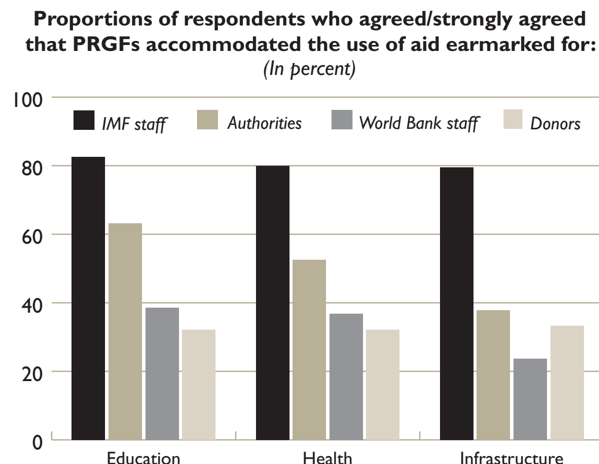


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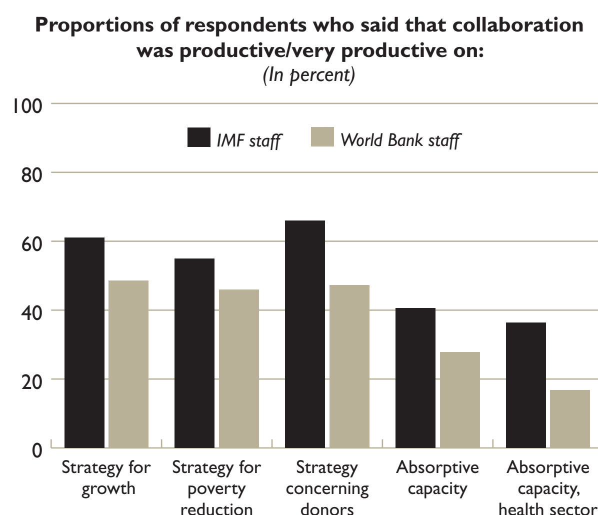
Figure 3.4. Survey Views on IMF Staff and World Bank Staff Interface: "Disappoint"



two institutions—the PRGF in the Fund and financial support for key sectors (education, health, and infrastructure) in the Bank.

On the critical partnership issue, the quality of the collaboration between the two institutions received disappointing responses from surveyed Fund and Bank staff. Figure 3.4 suggests that about half of surveyed staff are positive on the collaboration on strategy issues for growth and poverty reduction. The good news is that IMF and Bank staff have similar views on these questions, and the apparent differences between their responses are not statistically significant. The bad news is that the (shared) view of the collaboration is not more positive. Ideally, effective collaboration on SSA would be a top priority for both institutions, and fully reflected in staff views about how it is actually working on the ground.

The survey scores are even lower for Fund and Bank staff responses on the analysis of absorptive capacity for current and additional levels of aid—both overall and in health, as an example of a specific sector. In follow-on questions asking for the reasons for identified problems, most Bank staff responded that IMF staff had not asked for their inputs and most Fund staff responded that country-specific work programs lacked deliverables, time frames, and resources supporting the agreed division of labor. Either way, the bottom line is the same—the need to move beyond *general understandings about lead agencies* to *specific agreements on deliverables* with time-bound and fully-costed work programs based on specific country program needs. This conclusion is consistent with the earlier discussion of Fund-Bank collaboration on the PSIA—in the section "Poverty and social impact analysis"—where it was noted that the collaboration does not work well in areas where one institution (typically the Bank) is meant to supply the other institution (typically the IMF) with specific inputs and expertise, as it is perceived to be an unfunded mandate. Clearly, a different business model is at work in areas of more successful Fund-Bank collaboration, such as fiscal governance, where both institutions operate as principals and the challenge is to coordinate better—avoiding duplication and contradiction and achieving synergies.

African Development Bank staff

Face-to-face interviews with AfDB staff in Tunis and SSA capitals painted a picture of increasing openness by Fund missions and resident representatives in SSA countries. AfDB staff reported that they saw more (and more genuine) interaction between the Fund staff and the authorities and donors, including the AfDB. At the same time, they expressed concerns about what they saw as the Fund's limited engagement with civil society. They said they looked forward to increased collaboration on governance and sectoral policies and strategies as the AfDB increased its investment in economic and sector work. In their survey responses, AfDB staff was positive about IMF proactivity at formal and informal aid meetings. Looking forward, almost all AfDB respondents stressed the importance of greater investment by the Fund in additional policy and aid scenarios and involvement in policy monitoring efforts conducted jointly by donors at the local level.

United Nations Development Programme staff

United Nations Development Programme (UNDP) resident representatives interviewed by the evaluation team also commented favorably on what they saw as recent changes in the IMF approach. They said that IMF staff now consult more broadly with stakeholders and are more willing to adapt the macroeconomic policy stance to accommodate needed social expenditures. Going forward, they highlighted the importance of a more collaborative IMF strategy to help SSA countries achieve the MDGs.[10] Despite the relatively favorable survey responses from its staff, UNDP case studies and research criticize IMF activities and impact. Its Ghana case study argued that the Fund's fixation on fighting inflation crowded out attention to economic growth, employment creation, and poverty reduction.[11] Its Zambia case study focused on what it saw as excessive involvement by the Fund and other international financial institutions, including on the use of aid, which it said stifled domes-

[10]In their survey responses, UNDP staff were closely aligned with those of civil society, although the low number of responses to most questions means that they are not statistically significant.

[11]See Weeks and McKinley (2006).

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Figure 3.5. Survey Views on IMF Staff and Local Civil Society Interface: "Major Disconnect"

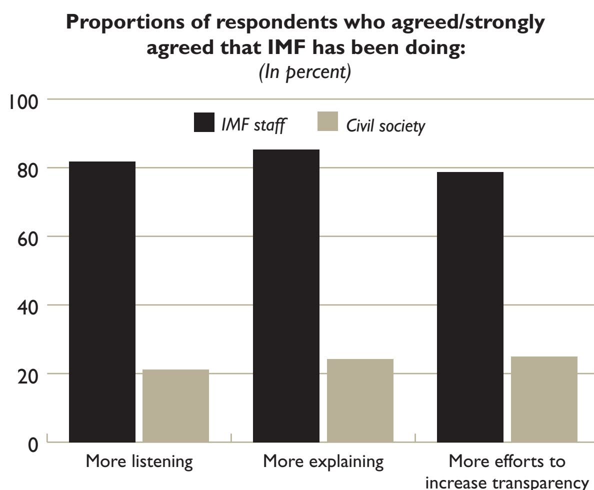
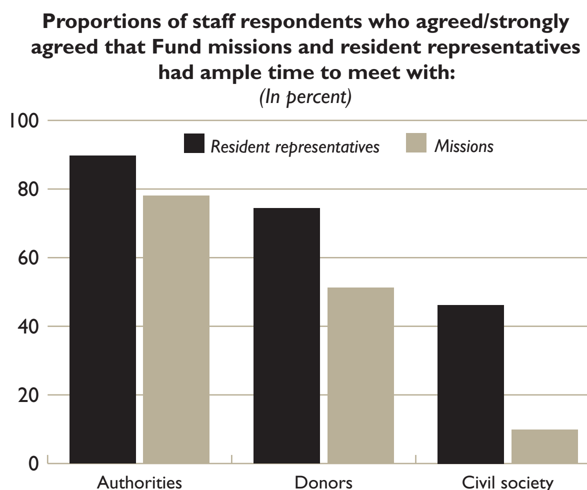


Figure 3.6. With Whom Do Staff Spend Their Time?



tic initiative and constrained social service provision and in turn poverty reduction and growth.[12]

Civil Society

Evaluation survey responses and interviews during country visits point to limited and ineffective IMF engagement with country-based members of civil society. This translates into missed opportunities for dialogue on key issues, including "on the links between the macroeconomic framework and growth and poverty reduction outcomes in the context of work on PRGF-supported programs," as the Board agreed staff needed to more actively explain to a broad audience, including civil society.[13]

The very clear message from civil society survey responses—and from the evaluations team's face-to-face meetings with civil society groups during the country visits—was that Fund staff are generally unknown and unavailable to civil society in SSA. This contrasts with Fund staff opinion. As Figure 3.5 illustrates, about 80 percent of IMF staff respondents report progress in their engagement with civil society over the past five years, whereas only 20 percent of civil society respondents see such progress. Going forward, majorities of all respondent groups—including the authorities and IMF staff—agreed that greater outreach efforts were important.

The evaluation team's face-to-face interviews with civil society representatives reinforced the finding of limited interaction with IMF staff. They pointed to even more limited agreement on assumptions about how IMF-supported policies affect the use of aid and poverty reduction and the MDGs. In Mozambique, for example, local civil society organizations complained about the design of PRGF program adjusters, which they said blocked Mozambique's use of aid, and wage bill ceilings, and complained of limited dialogue with Fund staff. As it turned out, those program elements had been recently modified, but the civil society representatives had not learned about the changes, despite efforts on their part to find out. Interviews with resident mission staff suggest that while Fund policies encourage outreach and communications with civil society, they have received little actual support for such work. Yet this is the area where the dialogue is most difficult—where differences of views between civil society and government policies make the dialogue especially sensitive. There are also time and other resource constraints to be considered, as suggested by Figure 3.6, which shows mission chiefs' and resident representatives' views on the time they have available to meet with the authorities, donors, and civil society. Moreover, the evaluation interviews revealed that in some instances it is the authorities who prefer that the IMF have a low profile in discussions with civil society.

[12]See Epstein and Heintz (2006).
[13]See IMF (2002b).

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CHAPTER

4 Institutional Drivers of IMF Behavior

This chapter looks at the institutional drivers of the trends discussed above. It focuses on Board-approved policies, management communications and guidance, and the implications for priorities for action by operational staff.

Executive Directors

Board positions on the three issues—accommodation of aid, analysis and mobilization of aid, and poverty reduction and growth effects—are briefly summarized below. The discussion builds on Annex 1, which sets out relevant content of Chairman's Concluding Remarks and Summings Up.

IMF policy on the accommodation of aid in PRGF-supported programs is clear. When the PRGF was introduced in 1999, Executive Directors agreed that increased aid should be allowed to affect the fiscal and external stance within a stable macroeconomic environment and in a noninflationary manner.[1] In 2003, the Board endorsed the accommodation of additional aid within PRGF-supported programs, as long as the flows were sufficiently concessional and did not endanger macroeconomic stability.[2] During the discussion, Executive Directors highlighted potentially adverse effects of aid on external competitiveness and fiscal and debt sustainability, which needed to be taken into account in programming decisions including for the accommodation of aid. In 2005, Executive Directors clarified how program design should be tailored to changing aid levels, according to country conditions and policies.[3] The Acting Chair's Summing Up said: "Directors were of the view that, given a large increase in aid inflows, if absorption capacity is adequate and adverse effects on the tradables sector are contained, a *spend and absorb* strategy would be appropriate. . . . Directors considered, however, that a more restrained spending policy could be in order if the effectiveness of higher spending is constrained by absorptive capacity, if there is a tension between aid volatility and spending rigidities, or if there is an unacceptable erosion of competitiveness. . . . Directors considered that [the] inflows could help underpin macroeconomic stability, by financing fiscal deficits and crowding in private sector investment through lower interest rates."

[1]See IMF (1999e).
[2]See IMF (2003b).
[3]See IMF (2005k).

Box 4.1. IMF Engagement with Donors: Different Possible Roles

- ✓ ***Catalyst***—with the IMF's macroeconomic sign-off (in the PRGF and/or other instruments) taken by donors as the green light to proceed with their disbursements (assuming donors' other conditions are met).
- ✓ ***Partner***—with the IMF participating in local donor events—especially related to budget support—and harmonizing staff mission timing to the extent possible.
- ✓ ***Advisor***—with the IMF providing information to the authorities and donors, based on its analysis of alternative policy and aid scenarios.
- ✗ ***Mobilizer***—with the IMF advocating higher aid levels for individual countries.
- ✗ ***Convener or Coordinator***—with the IMF playing a lead role in convening donors.

IMF policy on the mobilization of aid in the context of the PRGF is not clear. Fund policy requires that programs considered by the Board have no unfilled financing gaps. In this context, alternative scenarios, as discussed earlier in this report, are not relevant to PRGF operational programs, but only to more upstream stages of program development when the authorities are thinking through possible options, including for approaching donors. But Fund policy on the role of the Fund—and Fund staff—in such an approach to donors is not clear. Box 4.1 sets out five possible roles for the IMF—from catalyst to convener or coordinator, with intermediate roles in between. Starting at the top, Executive Directors agree on the IMF's *catalytic* role, which is grounded in a long tradition of Fund work, and most would probably agree on the *partner* role, although this is not a policy matter on which the Board would need to take a

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position. The IMF's *advisory* role is also long-standing. Where there are disagreements is on Fund activities on *mobilizing* and *coordinating* aid, as emerged in the 2004 discussion of the Role of the Fund in Low-Income Member Countries. At the conclusion of that meeting, the Acting Chair said: "By helping members develop appropriate macroeconomic frameworks, and by providing financial support through the PRGF, the Fund could play an important catalytic role in mobilizing development assistance. Directors agreed, however, that the Fund's role in mobilizing aid on behalf of low-income countries for MDG financing needs to be clarified. Many Directors held the view that the Fund should not play a role in mobilizing aid . . . but rather its contribution in this area lies in providing policy advice based on sound assessments of financing gaps and macroeconomic implications of aid flows, in terms of both levels and variability. Some Directors preferred a broader role of the Fund, including in promoting and coordinating aid inflows for MDG purposes."[4]

Fund policy on the treatment of pro-poor expenditures and social impact in the context of PRGFs is clear; but because of proximity to the PRSP and shared responsibilities with the World Bank, the precise outlines of IMF policy are not always clearly perceived either within or outside the IMF. It is indeed difficult to distinguish what exactly is the *Fund's* role in low-income countries (as defined in the discussions of the PRGF) from the role of the authorities and the Bank (as defined in Board discussions of the PRSP and HIPC, based on papers prepared jointly by Fund and Bank staff). Quite naturally, these Board discussions have addressed a number of issues related to country activities, Bank activities, and IMF activities. But one result of these many discussions of closely related topics is a blurring of perceptions of the boundaries between the two institutions' responsibilities and accountabilities. Notwithstanding precise wording of Summings Up and Concluding Remarks, it takes a very close read to keep straight the specific responsibilities accorded to the IMF under the PRGF, as opposed to the Bank and/or the authorities under the PRSP.

Management

Management, which chairs the Executive Board, has a particular responsibility to seek to forge a clear consensus on the Board and to translate that consensus into communications of Fund positions and operational guidance for staff. In light of the Board discussions, the following paragraphs look at the IMF's evolving institutional posture and communications on aid and poverty reduction in SSA and how that evolving posture informed the guidance and feedback provided to operational staff working on PRGFs.

Communications

Introduced in 1999 toward the end of the term of then Managing Director Michel Camdessus, the PRGF was distinguished from its predecessor the ESAF by its explicit poverty-reduction orientation. The documentation introducing the PRGF acknowledged that growth was essential for poverty reduction—but it also emphasized that poverty could be an impediment to growth. It specifically argued that: "To be effective and sustained, growth-oriented policies should be implemented in a framework in which the pressing need to reduce poverty is also a central objective. From this . . . has come a commitment to making Fund-supported programs for low-income countries better integrated with policies to fight poverty, better-owned, and better-financed."[5]

The approach was highlighted in management's Key Features document, cited earlier, which was re-endorsed by the Board in 2002 as guidance for staff.[6] It was still operative in 2003, when a senior FAD official characterized the "new Fund view" as: "Growth is seen as necessary for poverty reduction, but poverty reduction is recognized as a factor contributing to the achievement of high quality growth."[7] But this view—emphasizing the two-way linkages between poverty reduction and growth that management had emphasized in 1999[8]—had by then already lost much ground within the IMF.

Today—in the context of the MTS—management's message is very different. In the past few years, there has been a refocusing of management's message onto growth as a necessary ingredient for poverty reduction, with the acknowledgment that critical programs in health and education are important and warrant protection and support in government budgets and grant funding from donors.[9]

Institutional communications continue to suggest a more expansive view of the IMF's role in aid mobilization, advocacy for aid, and alternative MDG scenarios than the Board has agreed.[10] For example, the IMF website indicates that: "The IMF contributes to this effort [to achieve the MDGs] through its advice, technical assistance, and lending to countries as well as its role in *mobilizing* donor support."[11] It later states that the IMF helps poor countries achieve the growth levels needed to reduce poverty through, inter alia, "*advocating* for increased aid" from developed countries and that

[4]See IMF (2004d).

[5]See IMF (1999d).
[6]See IMF (2000a).
[7]See Heller (2003).
[8]See IMF (1999d).
[9]See de Rato (2006).
[10]The italics in this paragraph are not in the original; they have been added for emphasis.
[11]See www.imf.org/external/np/exr/facts/mdg.htm.

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Figure 4.1. Survey Views on the Relevance of PRSP for PRGF and Vice Versa

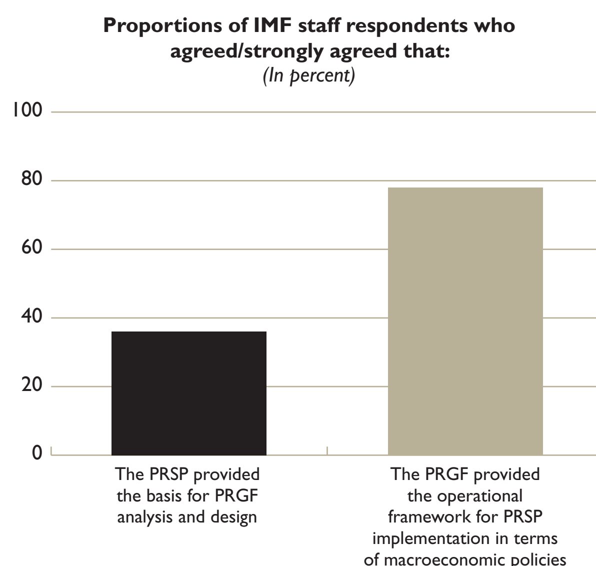
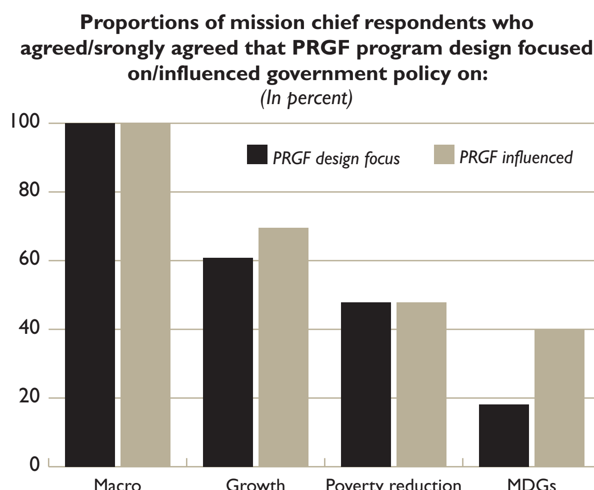


Figure 4.2. Survey Views on the Relevance of PRGFs for Macroeconomic, Growth, Poverty Reduction, and Other Millennium Development Goals (MDGs)



it encourages countries to develop and analyze alternative frameworks for achieving the MDGs—which is at variance with the evaluation's findings with respect to work on PRGFs. In a similar vein, a recent issue of *IMF in Focus* states that the IMF encourages countries to develop and analyze *alternative frameworks* for achieving the MDGs and to use these to underpin their poverty reduction strategies." In responding to Jeffrey Sachs, Thomas C. Dawson, then Director of EXR, stated: "that same sense of urgency [that characterized IMF follow-up to the G-8 call for IFI debt relief] is present when IMF teams work with countries and development partners . . . to consider their *strategies for meeting the MDGs*."[12] The evaluation did not find strong support for these statements either in Fund policy or in PRGF operations.

Guidance to staff

As with Board policies, operational guidance to staff is clear on IMF policy governing the macroeconomic foundations of the accommodation of aid; unclear on the analysis and mobilization of aid; and clear on the treatment of social impact and poverty reduction issues but less clear on what constitutes a pro-growth budget.

The Fund's internal review process focuses on a short list of issues centered on the preconditions for macroeconomic stability, customized to the particulars of country situations. In the documentary evidence, attention to the monitoring of priority expenditures, the analysis of distributional issues, and/or proactivity in the seeking of additional donor funding was rare, although there were isolated instances in which PDR and/or FAD reviewers raised them. Nor is this agenda reflected in the 20 ex post assessments that have been carried out for SSA PRGF countries, which are focused on bread-and-butter macroeconomic issues, albeit expanded in recent months to include aid-related issues.[13]

Mirroring the lack of agreement on the Board, the institution's operational guidance is not clear on what IMF staff are to do on aid. As noted earlier in Box 2.3, the Key Features (also included in the PRGF Handbook) call for "normative macro-projections to signal financing needs and, where warranted, seeking higher aid flow commitments that can be built into the program."[14] But it is not clear how this differs from the development of alternative scenarios and the mobilization of aid nor how staff should proceed in light of the Board's more cautious stance.

The PRGF Staff Report Checklist magnifies the confusion.[15] It states: "Especially for strong performers, PRGF staff reports demonstrate that staff have sought higher commitments of donor resources and consider presenting normative projections of grants and concessional loans based on poverty and growth goals. Staff reports should identify the incremental poverty-related spending that could be funded by additional external or fiscal resources should they become available."

[12]See Dawson (2006).

[13]See, for example, the Uganda ex post assessment, IMF (2005d).

[14]See IMF (2006g).

[15]See IMF (2006h).

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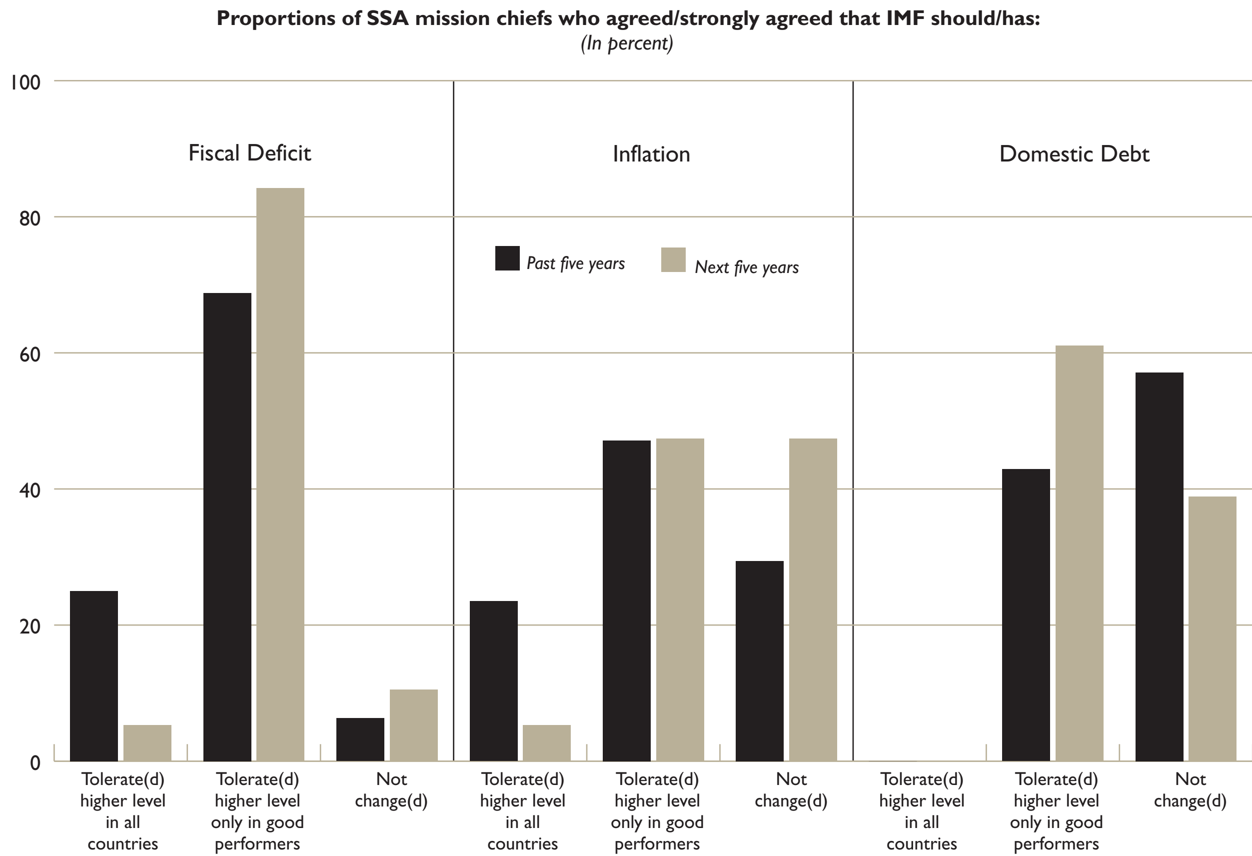
Figure 4.3. Survey Views of Mission Chiefs on Fiscal Deficits, Inflation, and Domestic Debt

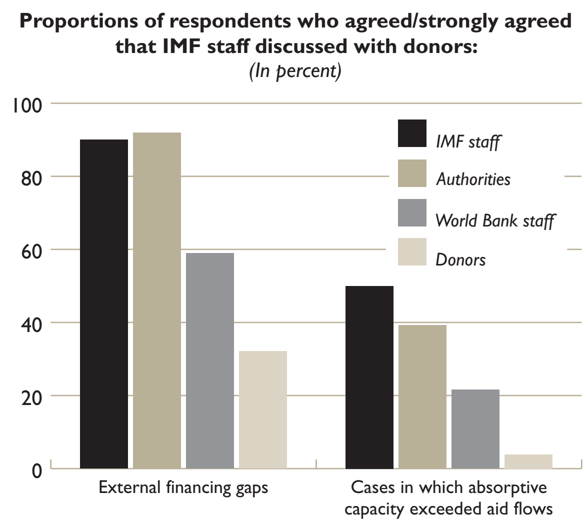


On social impact issues, as noted in Chapter 2, the PRGF Handbook and Checklist provide the basis for staff inputs. That guidance is clear and consistent with Board discussions that budgets supported by PRGFs should be pro-poor and pro-growth, although the guidance is not particularly clear on what constitutes a pro-growth budget. On PSIA, the guidance is clear—that PSIA, where available, should inform the design of countervailing measures as needed.

Operational Staff

During interviews with the evaluation team, SSA mission chiefs said that their focus in the PRGF was on macroeconomic stability. They said they considered other issues in the context of the PRGF, including the composition of public expenditures—and their possibly pro-poor and/or pro-poor orientation—and the use of poverty and social impact analysis, but this could *only* be substantively done when timely and relevant analysis

Figure 4.4. Survey Views on IMF Proactivity in Discussing Aid Gaps with Donors



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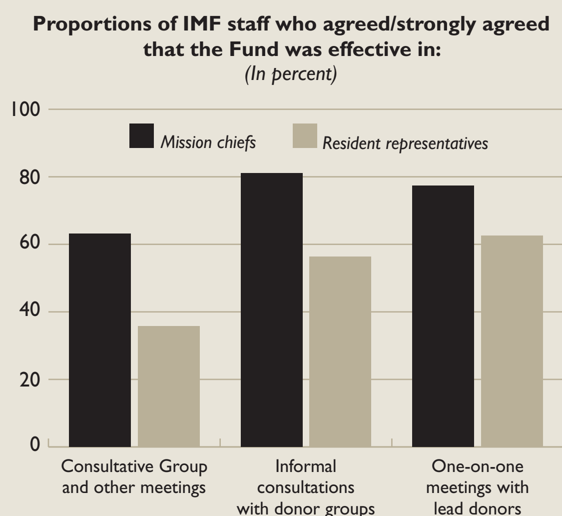
Box 4.2. Resident Representatives' Perspective on Donor Coordination

The SSA resident representatives are the IMF's eyes and ears—and voice—on the ground. As such, their responses to some survey questions were of special interest—particularly when they differed from those of the mission chiefs. This occurred on a number of aid- and donor-related questions, where resident representatives have many more opportunities to interact with the local donor community than mission chiefs, who are more removed from the local aid scene. Figure A, for example, suggests that the resident representatives have a less sanguine view than mission chiefs of the IMF's effectiveness at formal and informal aid meetings.[1]

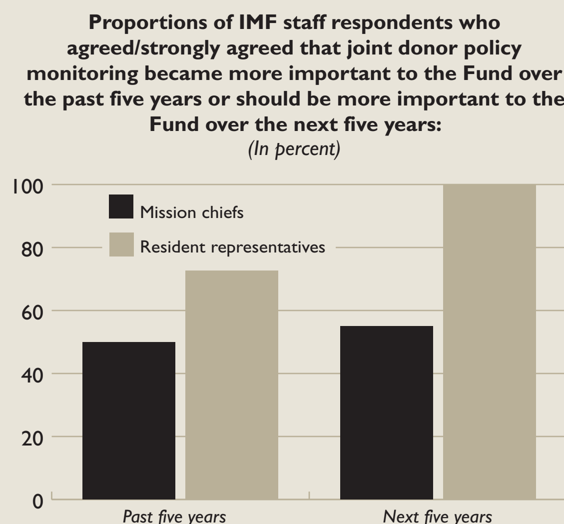
Resident representatives also show more awareness of donors' joint policy monitoring efforts than mission chiefs, and greater appreciation of the importance of IMF involvement in these efforts going forward. As shown in Figure B some 75 percent of resident representative respondents reported that such efforts have become more important to the Fund over the past five years and 100 percent see the need for greater attention over the next five years. The shares for mission chiefs are significantly lower—and unchanging—50 percent looking back over the past five years and 50 percent looking ahead to the next five years.

[1]The figure also shows a less positive view of the IMF's effectiveness in one-on-one meetings with lead donors. However, that difference between the residents representatives' and mission chiefs' responses is not statistically significant.

A. Surveyed Staff Views on Effectiveness of Their Efforts in Interacting with Donors



B. Surveyed Staff Views on the Importance to IMF of Joint Donor Policy Monitoring



was provided by other sources, especially the World Bank. Meanwhile, less than 40 percent of surveyed staff agreed that the PRSP provided the basis for the PRGF, with twice as many agreeing that the PRGF provided the macroeconomic basis for the implementation of the PRSP (see Figure 4.1 above).

All mission chief respondents to the evaluation survey agreed that PRGFs have focused on macroeconomic issues and influenced government macroeconomic policies. A majority agreed that PRGFs have focused on and influenced government policies on growth (see Figure 4.2 above). A minority (45 percent) agreed PRGFs have focused on poverty reduction and actually influenced relevant government policies. Less than 20 percent agreed that PRGFs have focused on other MDGs, although twice that many agreed that PRGFs have actually influenced relevant policies.

Figure 4.3 above shows how mission chiefs see the institution's changing posture toward the fiscal deficit, inflation, and domestic debt. Over 80 percent support greater easing of the fiscal deficit in good-performing countries, with much smaller proportions supporting the relaxation of inflation and domestic debt targets even in good performers.[16] There is no appetite among mission chiefs for a relaxation of fis-

[16]Mission chiefs' responses for the current account deficit and "spend and absorb" were very similar to those for the fiscal deficit; their responses for foreign debt were very similar to those for domestic debt.

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cal policy, inflation goals, or domestic debt targets in weak-performing countries. This position is consistent with Board-approved policy on the accommodation of aid, as discussed above, which conditions the accommodation of increased aid through increased spending and absorption on the strength of country policies, inter alia.

IMF staff have been much more diffident in discussing with donors "aid opportunities"—where absorptive capacity exceeds projected inflows—than traditional macroeconomic financing gaps. As shown in Figure 4.4 above, over 80 percent of surveyed Fund staff and authorities agree that staff have discussed traditional financing gaps with donors, while only half as many have highlighted cases where aid absorptive capacity exceeded aid availability. Meanwhile, far fewer donor respondents got the staff's message, with 35 percent reporting discussions of gaps, and only 5 percent discussions of cases where absorptive capacity exceeds availabilities. Since, as pointed out in the section "Assessing aid requirements," staff have not done the requisite analysis that might underpin such a dialogue on "aid opportunities," the outcome depicted in Figure 4.4 is not surprising—especially taking into account the cautionary signals sent from the Board against staff efforts directed at the mobilization of aid, and advocacy, as discussed above.

Box 4.2 above provides a comparative perspective on Fund efforts to engage with donors from the vantage point of resident representatives as well as mission chiefs. It suggests that resident representatives have a less sanguine view than mission chiefs of the IMF's effectiveness at formal and informal aid meetings. It also points to a greater appreciation by resident representatives of donors' joint policy monitoring efforts. These results raise the question of how effectively resident representatives' observations are being utilized by headquarters, especially for the identification and analysis of cross-country developments in the aid environment—as might have helped the IMF respond earlier to the changes discussed in Chapter 2 and for as yet unidentified future challenges.

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CHAPTER

5 Findings and Recommendations

Chapters 2–4 have set out many facts on Fund policies and practices in SSA, and on perceptions about Fund policies and practices. This chapter presents the evaluation team's assessment of what those facts add up to and its recommendations for addressing the identified challenges going forward.

An overarching lesson of the evaluation is the critical importance of operationalizing institutional change strategies with credible mechanisms and incentives—and sustained leadership. For macroeconomic (and closely related) undertakings, the IMF's strong institutional culture and staff skills require little day-to-day management beyond the agreement on targets for key variables. But those same strengths that make the institution's core job relatively easy to manage make departures from it *difficult* to manage—especially when they involve complicated relationships with partners such as the World Bank with very different operational structures and staff incentives. They require strong follow-through—with close monitoring and high-level management attention—to ensure implementation and accountability. Such attention was clearly needed for the aid and poverty reduction components of the PRGF's key-features agenda, which faltered after senior management changed, institutional energy for the initiative dissipated, except for communications by senior FAD officials and EXR, and—with some important exceptions—the IMF gravitated back to business as usual.

The good news is that country performance has improved in a number of SSA countries over the period—thanks in part to the advice and actions of the IMF, including through the HIPC Initiative and the MDRI, and in larger part to the actions of the country authorities—and that donor performance has improved as well. In such cases, PRGF-supported macroeconomic program design has eased and become more accommodative of aid. The combination of improved country and donor performance and the associated adaptation of PRGF program design have materially improved SSA's prospects for growth and poverty reduction.

Findings

The evaluation's specific findings follow:

- *PRGF-supported macroeconomic policies have generally accommodated the use of incremental aid in countries whose recent policies have led to high stocks of reserves and low inflation; in other countries additional aid was programmed to be saved to increase reserves or to retire domestic debt.* Reserves in the two–three months-of-imports range were found to be the threshold for determining whether the increased aid should be used to expand the current account deficit or to increase reserves. The estimated inflation threshold for determining whether the country got to spend or save additional aid lies within the 5–7 percent range. These findings are consistent with Board-approved policy on the accommodation of aid, management guidance and feedback to staff, and staff views. However, they also help to explain why outside observers perceive the IMF as "blocking" the use of aid: PRGFs in countries with inflation above the threshold are likely to program the saving of at least part of additional aid.
- *PRGFs have neither set ambitious aid targets nor identified additional aid opportunities—where absorptive capacity exceeds projected aid inflows.* They have indirectly catalyzed aid—through their macroeconomic assessment and support for country efforts to improve the underlying macroeconomic environment and fiscal governance. Their medium-term aid forecasts have shown signs of adapting to the increased persistence of aid to SSA—after having been overly conservative at the start. But IMF staff have done little to analyze additional policy and aid scenarios and to share the findings with the authorities and donors. They have not been proactive in mobilizing aid resources, a topic where the Board remains divided and IMF policy—and operational guidance to staff—are unclear.
- *Of the key features distinguishing the PRGF from the ESAF, fiscal governance has been far more systematically treated than other elements, such as the use of social impact analysis or the pro-poor and pro-growth budget provisions.* The strong PRGF efforts on *fiscal governance* reflect clear, consistent, and continuing support from the Board; the issue's centrality to the IMF's core macro objectives through its links to budget execution; and effective Fund-Bank collaboration, grounded in professional capacity in both

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institutions. Executive Directors' support for poverty and social impact analysis (PSIA), though strong, has been more measured; social analysis is less central to the IMF's core mandate; and the tailoring of PSIA to PRGF needs was initially stymied by unrealistic expectations of how Fund-Bank collaboration might work on the issue, with more recent efforts focused on in-house analysis. Weak Fund-Bank collaboration has also been a factor in the IMF's failure to pay more attention to infrastructure-related growth and competitiveness linkages and their possible macroeconomic implications for the programmed spending and absorption of additional aid.

- *IMF communications on aid and poverty reduction have contributed to the external impression that the IMF committed to do more on aid mobilization and poverty-reduction analysis*. The resulting disconnect has reinforced cynicism about, and distrust of, Fund activities in SSA and other low-income countries. It was especially large in the early years of the evaluation period, when management communications stressed the two-way linkages between growth and poverty reduction. But it remains a concern even today, in the context of external communications on IMF support for alternative scenarios, MDG strategies, and the mobilization of aid that overstate what the IMF is doing in the context of PRGFs.
- *The IMF has missed opportunities for communicating with a broader audience in SSA.* The IMF has a network of resident representatives in SSA. Demands on their time have increased in recent years with the changing aid environment, and donors' increased decentralization and use of budget support instruments. But staff resources and skills have constrained their ability to fully engage with local partners in this changing environment. Meanwhile, they remain a largely untapped source of information on what is happening on the ground among donors and civil society; their observations do not systematically inform institutional positions.

Recommendations

Going forward, the evaluation points to three recommendations for improving the coherence—actual and perceived—of the institution's policies and actions relating to aid to SSA. They may also be relevant to several undertakings included in the Medium-Term Strategy (MTS).

- *The Executive Board should reaffirm and/or clarify IMF policies on the underlying performance thresholds for the spending and absorption of additional aid, the mobilization of aid, alternative scenarios, PSIA, and pro-poor and pro-growth budget frameworks.* Based on these reaffirmations and/or clarifications, management should provide clear guidance to staff on what is required, encouraged, permitted, and/or prohibited—including in working with the World Bank and other partners—and ensure effective implementation and results. The External Relations Department should ensure the consistency of institutional communications with Board-approved operational policies and IMF-supported operations.
- *Management should establish transparent mechanisms for monitoring and evaluating the implementation of the clarified policy guidance.* The IMF's ex post assessments should explicitly cover staff actions and contributions to the implementation of existing and clarified policies. But in view of widespread external concerns about IMF staff accountability in SSA, a more periodic and transparent stocktaking across country programs is needed, possibly in the context of Board reviews of the PRGF—or in future reviews of the MTS.
- *Management should clarify expectations—and resource availabilities—for resident representatives' and missions chiefs' interactions with local donor groups and civil society.* It should monitor trends in the institution's country-level operating environment, including for aid, periodically assessing the cross-country implications for IMF policies and strategies.

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ANNEX

Executive Board Perspective on Relevant Issues

This annex provides background on Executive Board discussions of topics covered in the main text. For the most part, it quotes from relevant Chairman's Summings Up and Concluding Remarks. It follows the order of Chapter 2 of the main text—starting first with aid issues, before turning to issues related to the stance of macroeconomic policy, and finally to issues included in the Key Features agenda.[1] Table A1.1 provides a timeline of key events and Board discussions.

Aid and Macroeconomic Stance

The importance of aid to the macroeconomic framework was emphasized early on by the IMF Board. At the inception of the PRSP and PRGF in 1999, "[Directors] agreed that external financing would need to play a crucial role in meeting poverty objectives within a stable macroeconomic environment."[2] And also that aid would have an impact on the fiscal and external stance, but need not compromise stability: "Directors agreed that the policies to meet poverty reduction objectives would have an impact on the design of the macroeconomic framework, and they could have an impact on the level of the fiscal and external deficits. Directors emphasized, however, that government spending would need to be financed in a non-inflationary manner."

The Board recognized in 2003 the importance of accommodating aid, taking into account its terms and impact: "Directors generally agreed that additional aid inflows should be accommodated within PRGF-supported programs if these flows are sufficiently concessional and their use does not endanger overall macroeconomic stability. In particular, such an assessment should be based on an evaluation not only of the macroeconomic impact of increased aid inflows, but also of their effect on competitiveness and on fiscal and external debt sustainability, including the recurrent cost implications of additional aid-financed spending."[3]

In 2005, the Board endorsed management's recommendation on the macroeconomic accommodation of aid: "Directors noted the useful distinction between aid-related 'spending' . . . and 'absorption'. . . . Directors were of the view that, given a large increase in aid inflows, if absorption capacity is adequate and adverse effects on the tradable sector are contained, a spend-and-absorb strategy would be appropriate. Directors considered that, within this scenario, programs should have adjusters to allow higher-than-anticipated aid inflows to be spent, when countries have finance constrained plans for productive spending. Directors also considered that program design could provide greater leeway to draw down reserves when shortfalls in aid materialize, through adjusters on domestic financing, unless reserve levels are inadequate. Directors considered, however, that a more restrained spending policy could be in order if the effectiveness of higher spending is constrained by absorptive capacity, if there is a tension between aid volatility and spending rigidities, or if there is an unacceptable erosion of competitiveness. . . . Directors also encouraged countries in which higher aid-based spending would pose a serious threat to competitiveness to consider using the aid for enhancing productivity and/or removing domestic supply constraints." In this context, Directors highlighted the impact of aid and monetary and fiscal policy coordination on the private sector: "Directors considered that these inflows could help underpin macroeconomic stability, by financing fiscal deficits and crowding in private sector investment through lower interest rates."[4]

Aid: Fund Role in Mobilization and Alternative Scenarios

Aid mobilization

The Board has discussed the IMF's role in the mobilization of aid on several occasions, usually in the context of PRSP and PRGF reviews. Following the Board

[1] See IMF (2000a).
[2] See IMF (1999e).
[3] See IMF (2003a and 2003b).

[4] See IMF (2005k).

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Table A1.1. Timeline of Key Events and Executive Board Discussions

Date	Event	Related Documents
August 1999	Enhanced HIPC endorsed by IMF and Bank.	Chairman's Summing Up (IMF, 1999a).
September 1999	Report to Interim Committee on Reform of ESAF.	Report of the Managing Director to the Interim Committee on Reform of ESAF (IMF, 1999b).
December 1999	PRSP approach.	PRSP operational issues (IMF, 1999c).
December 1999	PRGF launched.	PRGF operational issues (IMF, 1999d).
December 1999	Board endorsement of PRSP and PRGF.	Chairman's Concluding Remarks (IMF, 1999e).
August 2000	Key Features of PRGF.	Key Features of PRGF (IMF, 2000a).
March 2002	PRGF Review.	Acting Chair's Summing Up (IMF, 2002a and 2002b).
March 2002	Managing Director's speech at Monterrey.	The Monterrey Consensus and Beyond: Moving from Vision to Action (Köhler, 2002).
April 2003	Board Review of PRGF and PRSP alignment.	Acting Chair's Concluding Remarks (IMF, 2003a and 2003b).
September 2003	Board Review of Role of the Fund in Low-Income Countries.	Chair's Concluding Remarks (IMF, 2003e).
July 2004	IEO Evaluation of PRSP and PRGF.	Report of Independent Evaluation Office (IEO, 2004).
September 2004	Board Review of Role of the Fund in Low-Income Countries.	Acting Chair's Summing Up (IMF, 2004c and 2004d).
September 2004	Board Review of PRSP.	Acting Chair's Summing Up (IMF, 2004b and 2004e).
March 2005	Paris Declaration.	Paris Declaration on Aid Effectiveness (OECD, 2005).
August 2005	Review of PRGF program design.	Review of PRGF program design (IMF, 2005g).
September 2005	Review of PRSP.	Acting Chair's Summing Up (IMF, 2005j and 2005l).
October 2005	PSI launched.	Chair's Summing Up (IMF, 2005m).
December 2005	MDRI.	Acting Chair's Summing Up (IMF, 2005r).
December 2005	Exogenous Shocks Facility launched.	Acting Chair's Summing Up (IMF, 2005r).

discussion of the 1999 paper on PRGF operational issues, the Chairman concluded: "Directors hoped that the PRSP would identify priority program elements for poverty reduction, to guide adjustments in spending should funding differ from what was assumed. Most Directors considered that Bank and Fund staff should take an active role in identifying financing needs and in mobilizing additional donor resources on appropriate terms for the countries that most need and can effectively use such support."[5]

Arguments over the appropriate role for the IMF in helping mobilize aid flows to meet the MDGs were summarized in an August 2004 paper on "The Role of the Fund in Low Income Countries."[6] That paper stated: "The role of the Fund in mobilizing the aid flows needed to meet the MDGs should be elaborated more clearly. . . . Some believe the Fund should help its members present their case for how much aid is necessary to meet the MDGs. While the World Bank and other . . . donors are better equipped to craft estimates, the Fund could provide a coherent macroeconomic and financial framework. . . . Some would have the Fund play an advocacy role in the international community by assessing how much aid has already been pledged, how much more is needed, how much debt a country can afford to service, and how the aid could be timed to minimize the potential for macroeconomic disruption. Others see a more limited role for the Fund, in which it concentrates on its macroeconomic advisory role. . . . The IEO has raised similar issues. With the focus on MDG financing increasing in the international discussions of aid, further clarity will be important." In a parallel paper reviewing progress in PRSP implementation, staff commented on the Fund's wider potential role in the process of donor coordination, alignment and harmonization, noting that "the Bretton Woods Institutions will be expected to play a central role in this effort."[7]

[5]See IMF (1999c, 1999d, and 1999e).
[6]See IMF (2004c and 2004d).
[7]See IMF (2004b).

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These arguments were left largely unresolved at the subsequent Board discussion on August 30, 2004. The Acting Chair's Summing Up records that "Directors underscored that it is not the Fund's role to provide long term development assistance but rather to assist members in responding to balance of payments problems. By helping members develop appropriate macroeconomic frameworks, and by providing financial support through the PRGF, the Fund could play an important catalytic role in mobilizing development assistance. Directors agreed, however, that the Fund's role in mobilizing aid on behalf of low-income countries for MDG financing needs to be clarified. Many Directors held the view that the Fund should not play a role in mobilizing aid . . . but rather its contribution in this area lies in providing policy advice based on sound assessments of financing gaps and macroeconomic implications of aid flows, in terms of both levels and variability. Some Directors preferred a broader role of the Fund, including in promoting and coordinating aid inflows for MDG purposes."[8]

Subsequently, in the 2005 review of the PRS approach, the Board agreed on the IMF's critical role in the analysis of the macroeconomic impact of additional aid. The Acting Chair's Summing Up stated: "Directors considered that the Fund would play a critical role in helping countries to analyze this impact and adapt the macroeconomic framework appropriately to accommodate higher aid inflows."[9]

Alternative scenarios

Executive Directors have also discussed alternative scenarios in low-income countries on several occasions, mostly in the context of their periodic reviews of PRSP implementation. What emerges from those discussions is Board encouragement of *countries* to undertake contingency planning and alternative scenario analysis as part of their budget and PRSP preparations, with the IMF extending assistance *where asked* and in close collaboration with the Bank.

For example, at the end of the 2002 Board discussion of the PRSP review, which had focused on country vulnerability to shocks, the Chairman concluded: "Countries should work to incorporate contingency-based alternative macroeconomic scenarios in their PRSPs, with Fund support."[10]

At a 2003 Board seminar on aligning the PRGF and PRSP approach, Executive Directors focused on the disconnect between PRSPs' optimistic projections and PRGFs' realistic projections. The Chairman concluded: "Directors considered that the potential risks and uncertainties, including those resulting from exogenous shocks, should be explicitly identified and taken into account through sensitivity analyses and alternative scenarios. They called for this work to be undertaken in close collaboration with the World Bank, drawing on its particular expertise in this area. . . . More generally, all Directors believed that the PRSP should start from the existing capacity and financial constraints in the current budget, and then set out credible plans on policies that can alleviate these constraints and lead to more ambitious outcomes. This analysis would also need to be reflected in the design of PRGF-supported programs . . . and would require a greater degree of involvement by Fund staff early in the PRSP process."[11]

Directors returned to this topic in the 2004 PRSP review, with the Chairman concluding: "Greater use of contingency planning and alternative scenarios could help make the macroeconomic frameworks more effective, particularly in response to shocks. Some Directors noted that alternative scenarios could also be used to demonstrate how a country would scale up its efforts and use additional external resources to speed up progress toward the MDGs, while maintaining the operational realism of the PRSP framework."[12]

In the 2005 PRSP review, the Chairman concluded: "Directors considered that the use of alternative scenarios in PRSs could bridge the gap between realism and ambition, and provide a credible framework for scaling up assistance at the country level. They concurred that Fund staff should help those countries that sought assistance in preparing such scenarios."[13]

Poverty Reduction and Growth Effects

Poverty and social impact analysis

Social impact analysis was included as one of the key features of PRGF-supported programs.[14] In discussing poverty and social impact analysis (PSIA) in the context of their consideration of the PRGF, the Acting Chair concluded that Directors generally welcomed the progress, "but indicated that there was scope for a more systematic treatment of this issue in PRGF documents. They requested that documents for PRGF-supported programs routinely provide a description of the PSIA being carried out in the country, including a qualitative description of the likely impact of major macroeconomic and structural measures on the poor and a summary of countervailing measures being implemented to offset any adverse effects."[15]

[8]See IMF (2004c and 2004d).
[9]See IMF (2005l).
[10]See IMF (2002e and 2002f).
[11]See IMF (2003a and 2003b).
[12]See IMF (2004b and 2004e).
[13]See IMF (2005j and 2005l).
[14]See IMF (2000a).
[15]See IMF (2002a and 2002b).

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Subsequently in the Board's August 2002 discussion of PRSP implementation, the Chairman concluded that "Directors also urged further efforts by the Bank and other donors to help countries undertake PSIA on a more generalized and systematic basis. They reaffirmed that PRGF program design and documentation should continue to incorporate available PSIA."[16]

In the April 2003 Board seminar on aligning the PRSP and PRGF approach, the Chairman concluded that: "Directors agreed on the importance of PSIA for the PRSP process and for the design and evaluation of Fund-supported programs. Several EDs stressed that PSIA of critical reforms should be carried out early in the PRSP and PRGF process, and they urged Fund staff to work closely with the Bank and other donors to assist national authorities in accelerating the pace of this work." In discussing the links between the PRSP and the PRGF, and particularly the options that were considered in PRGF formulation, the Chairman said: "Directors also called for setting out the role of PSIA in informing program design and policy choices. They also welcomed the intention to specify the links between program conditionality and PRSP priorities, and strengthen the reporting on PSIA activities."[17]

More recently, in the September 2004 review of PRSP implementation, the Chairman summed up the discussion of PSIA as follows: "Directors welcomed the rising use of PSIA to inform policy choices and underpin PRS design. They agreed on the need for realistic expectations as to what could be covered by PSIA. . . . They called on Fund staff to step up efforts to integrate PSIA into PRGF program design, focusing Fund efforts on the impact of macroeconomic policy on poverty, and to report regularly on the results of this work in staff reports."[18]

[16]See IMF (2002e and 2002f).
[17]See IMF (2003a and 2003b).
[18]See IMF (2004b and 2004e).

Pro-poor and pro-growth budgets

In the December 1999 discussion of the PRSP and PRGF, the Chairman concluded that: "[Directors] supported the integration into the macroeconomic frameworks of key specific, costed measures to increase growth and reduce poverty, noting that this will enhance existing efforts to increase social and other priority spending where appropriate and to identify targeted social safety nets." But at the same time, the IMF should not venture into areas outside its core responsibilities: "Directors broadly supported the proposed division of labor between the Bank and the IMF in supporting the preparation of PRSPs. They emphasized that Fund staff should not be expected to—and should not—offer assistance in areas that are primarily the responsibility of the Bank."[19]

In 2002, in the context of discussions of the Status of Implementation of the HIPC Initiative, the Board noted in general terms the expected contribution of debt relief to higher poverty-reducing expenditures: "[Directors noted] . . . HIPC debt relief to these countries represents a reduction in their outstanding debt stock by two-thirds. This will reduce debt-service payments for most HIPCs to less than 10 percent of exports, helping these countries to increase substantially their poverty-reducing expenditures."[20]

In 2005, the Board also clarified its views on the role of pro-poor expenditures vis-à-vis the MDGs: "Directors saw a need for increased spending in many low-income countries, in particular for public investments, health care and education, if these countries are to meet the MDGs. However, they emphasized that progress towards the MDGs is not contingent on higher public expenditures alone, noting the potential tensions between higher government spending and both debt sustainability and private sector activity, which could be crowded out."[21]

[19]See IMF (1999e).
[20]See IMF (2002d and 2002g).
[21]See IMF (2005l).

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ANNEX

2 Quantitative Analysis

This annex extends and deepens the empirical analysis presented in Chapter 2, the sections on "Accommodation of Aid" and "Analysis of Aid" of the main report. It discusses some developments over time and provides additional evidence on differences between strong and weak performers; between PRGF- and ESAF-supported programs in SSA (SSA PRGF and SSA ESAF); and between programs in SSA and other regions (non-SSA PRGF and non-SSA ESAF). The first section presents the findings. The second section discusses the underlying data and methodology.

Findings

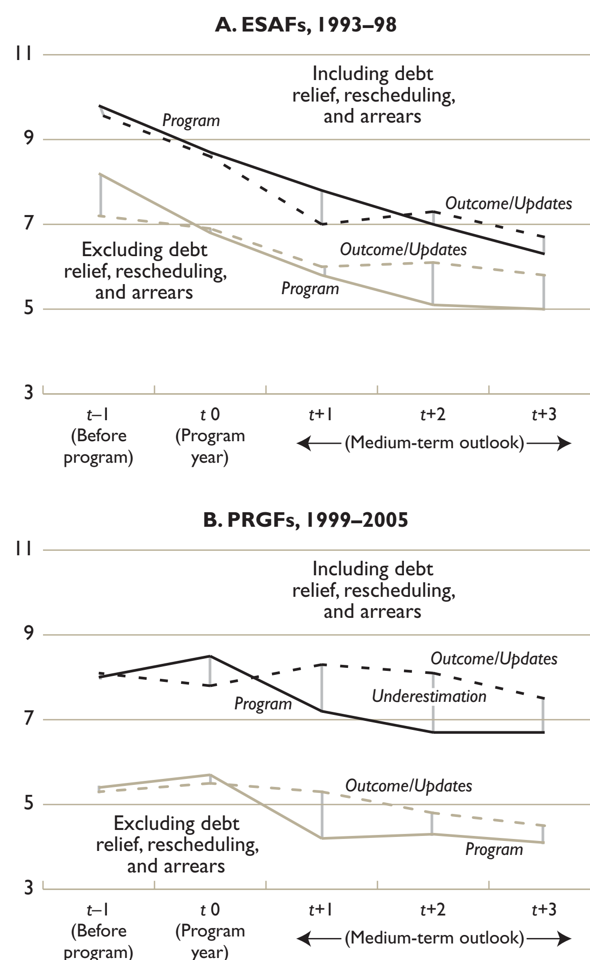
This section is structured as follows. It first discusses trends in program aid forecasts. Next, it examines trends in program design with regard to current account and fiscal deficits. The section concludes with an analysis of the relationship between programmed aid and the programmed current account and fiscal deficit.

PRGF aid forecasts

Aid projections in SSA PRGFs for the initial program year were slightly optimistic (see the section "Forecasting Aid Inflows" of the main text). In SSA actual aid levels including debt relief have fallen short of aid predictions for the initial program year ($t0$) (see panel B of Figure A2.1).[1] A driver of this could be overoptimism regarding the timing of debt relief, since aid in $t0$ net of debt relief and related actions does not seem to be systematically overestimated. Aid in the initial program year to non-SSA countries is also not overestimated.

However, the IMF underpredicted medium-term aid inflows in SSA PRGFs (see the section "Forecasting Aid Inflows" of the main text). This holds true for aid with or without debt relief (see panel B of Figure A2.1).

Figure A2.1. Programmed and Actual Aid Levels in Sub-Saharan Africa Programs
(In percent of GDP)



Source: IEO staff estimates based on IMF, MONA database.
Note: Observations: PRGF 26 and ESAF 23; filters: initial error <1, maximum error 20 percent of GDP.

[1]The differences between actuals (or updates) and projections for the program year ($t0$) in SSA PRGFs are significantly smaller than zero at the 5 percent confidence level, even after correcting for optimistic growth forecast errors.

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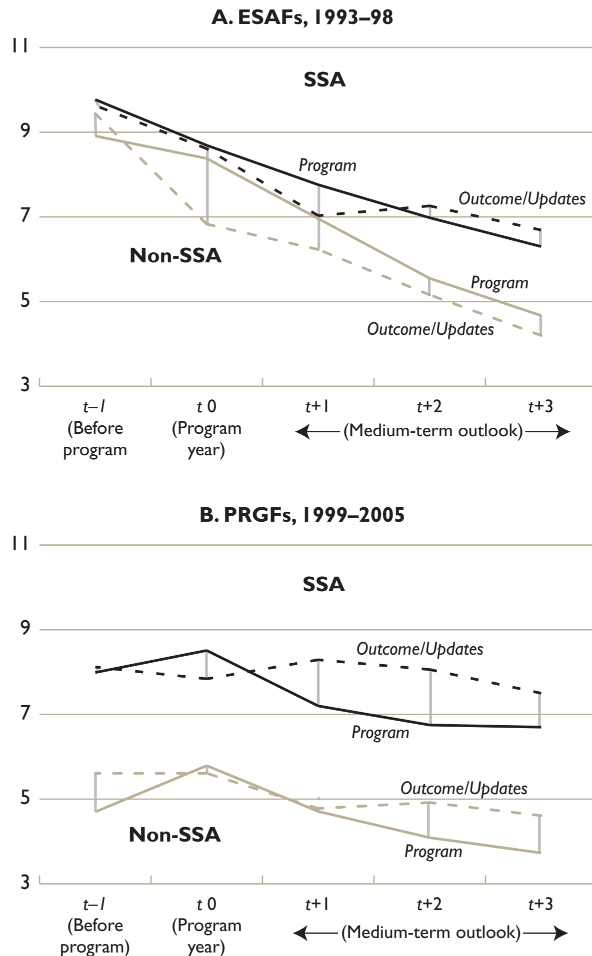
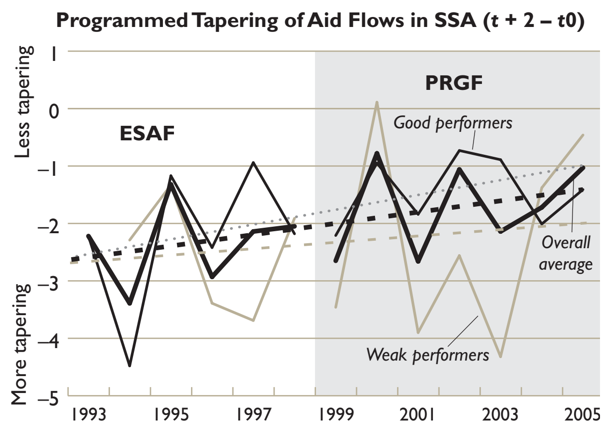
Figure A2.2. Programmed and Actual Aid Levels in Sub-Saharan Africa and Other Regions[1]
(In percent of GDP)



Source: IEO staff estimates based on IMF, MONA database.
Note: Observations: SSA PRGF 26, non-SSA PRGF 9, SSA ESAF 23, and non-SSA ESAF 15; filters: initial error <1, maximum error 20 percent of GDP.
[1]Aid includes debt relief, rescheduling, and arrears.

ESAFs and PRGFs consistently anticipated medium-term tapering of aid flows (panels A and B of Figure A2.1). However, during the PRGF period, average actual aid flows (or updated projections) to SSA program countries in the three years following the program year turned out to be considerably higher than projected.[2] This was not the case for aid including debt relief during ESAFs.

Figure A2.3. Trends in Programming the Persistence of Aid Flows to Sub-Saharan Africa
(In percentage point of GDP difference)



Source: IEO staff estimates based on IMF, MONA database.
Note: 186 observations spread out over the entire period; filter: aid >0 percent.

Medium-term underprediction of aid was not observed outside of SSA. Figure A2.2 shows that in other regions, average outcomes followed PRGF projections for the outer years more closely.[3]

IMF program design appears to have caught up with the increased persistence of aid flows to SSA by reducing programmed tapering in recent years. Figure A2.3 displays annual average differences between aid levels that were projected for the program year and for two years later. It shows the development over time for the overall average and for two groups of countries distinguished by macroeconomic performance.[4] As illustrated, programmed aid tapering in the medium term has decreased over time, especially in programs of countries with good macroeconomic performance.

Program design

This section discusses programmed current account and fiscal deficits. The discussion of the latter is further disaggregated into programmed public spending and domestic revenue generation. For each of these dimensions, developments over time are discussed as well as how outcomes relate to program design.

[2]All the differences between actuals (or updates) and projections for the three years following the program year ($t + 1$, $t + 2$, $t + 3$) are significantly greater than zero at the 5 percent confidence level even after correcting for optimistic growth forecast errors.

[3]Forecast errors are not significantly different from zero in non-SSA PRGFs. For $t + 1$ and $t + 2$, there is a significant positive difference in forecast errors between SSA and non-SSA PRGFs at the 5 percent confidence level even after correcting for optimistic growth forecast errors.

[4]"Good performance" defined as initial conditions of inflation below 10 percent, positive growth, and domestic financing below 1 percent of GDP.

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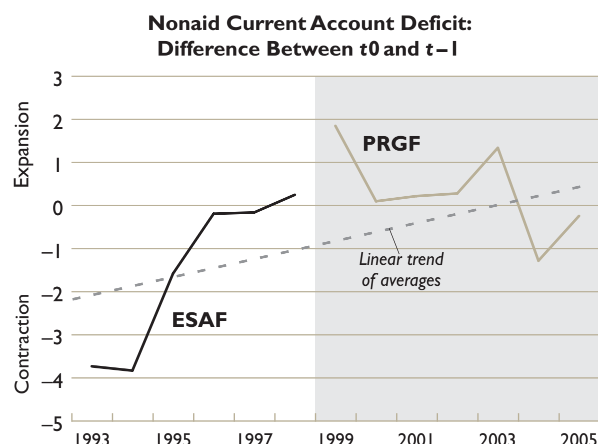
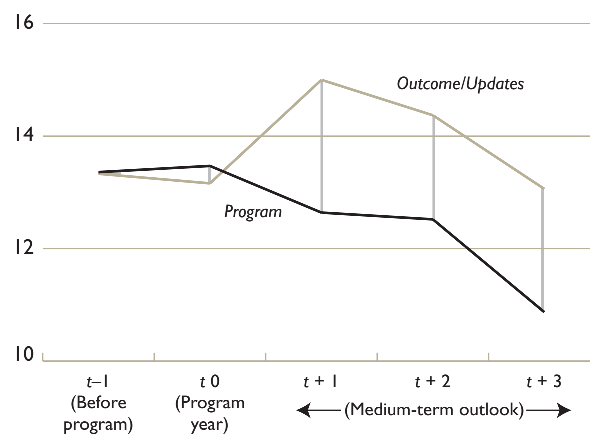
Figure A2.4. Programmed Current Account Adjustments in Sub-Saharan Africa
(In percentage point of GDP difference)



Source: IEO staff estimates based on IMF, MONA database.
Note: 305 observations spread out over the entire period; filter: abs(ΔCA[t0–t–1]) <20 percent.

Figure A2.5. Average Current Account Deficits in Sub-Saharan Africa PRGF Programs[1]
(In percent of GDP)



Source: IEO staff estimates based on IMF, MONA database.
Note: 34 observations; filters: initial error <2 percent, maximum error <20 percent.
[1]Before grants and interest payments.

Current account

The IMF became more accommodative regarding current account adjustments. Figure A2.4 shows the average programmed change in the nonaid current account during the program year in SSA. While under early ESAFs, sharp adjustments of the current account deficit in the program year were common, average adjustments in PRGFs have hovered around zero.

The typical SSA PRGF envisaged a medium-term consolidation of the nonaid current account deficit. However, Figure A2.5 shows that, in the medium term, realized current account deficits were greater on average than programmed—financed by the higher-than-expected aid inflows discussed above.

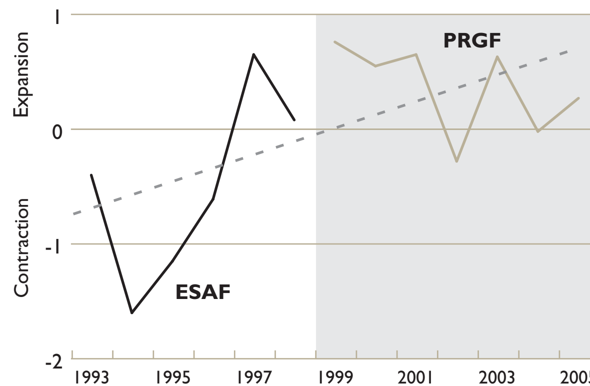
Fiscal balance

SSA PRGFs—in contrast to ESAFs—allowed for increases in expenditures during the program year. Figure A2.6 shows that the programmed difference in expenditures[5] between the program year and the year before has shifted upward from tightening in the earlier ESAF years to accommodation of increased expenditures during PRGF.

But like ESAFs, SSA PRGFs envisaged medium-term consolidation of expenditures (see Figure A2.7). However, outcomes show that this consolidation did not materialize, as expenditures increased instead. This difference between programmed and actual medium-term expenditures was again financed by higher-than-expected aid levels.

Programmed domestic revenue mobilization in SSA PRGFs was both more ambitious and more successful than in ESAFs (see panel B in figure A2.7). The average PRGF-supported program in SSA envisaged a 2 percent increase of revenues as a share of GDP over the course of four years. ESAFs, by contrast, programmed domestic revenues to move largely in line with GDP.

Figure A2.6. Programmed Expenditure Adjustments in Sub-Saharan Africa
(In percentage point of GDP difference)



Source: IEO staff estimates based on IMF, MONA database.
Note: 306 observations spread out over the entire period.

[5]Expenditures exclude interest payments.

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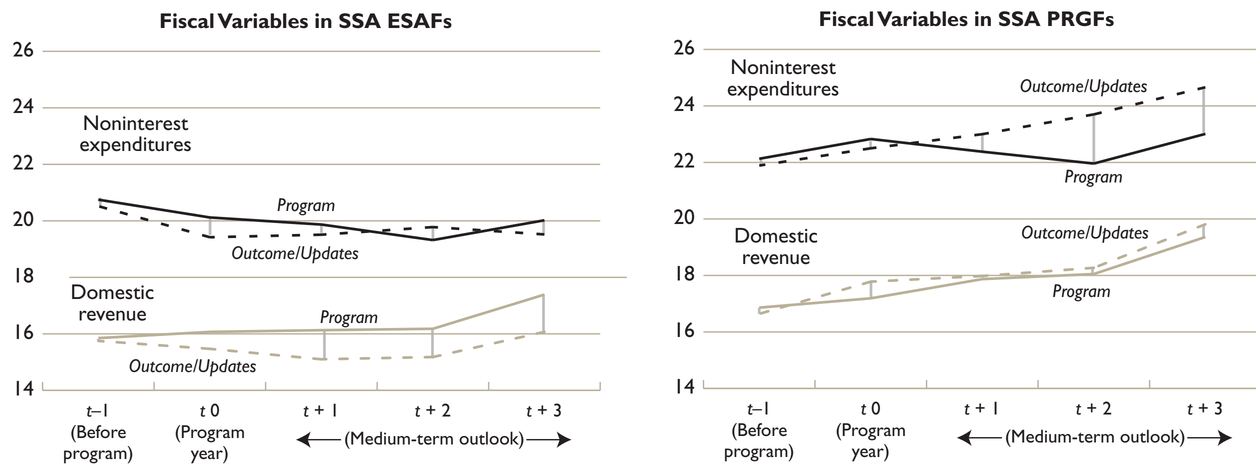
Figure A2.7. Programmed and Actual Expenditures and Revenues in Sub-Saharan Africa ESAFs and PRGFs
(In percent of GDP)



Source: IEO staff estimates based on IMF, MONA database.
Note: 27 observations for ESAFs and 28 observations for PRGFs; filter: initial error < 1 percent of GDP.

In terms of outcomes, PRGF programs generated more revenue than ESAFs.

On average, SSA PRGFs envisaged slight increases during the program year in the primary fiscal deficit before grants. As shown in Figure A2.8, some fiscal expansion during the program year was allowed in PRGFs but such expansion was uncommon during the ESAF period.

Programmed use of aid increases

This section looks at the correlation between projected aid increases and the changes in the nonaid current account deficit and the nonaid fiscal deficit. It first introduces the underlying conceptual framework and then discusses the findings.

Conceptual framework: Estimation of "spend" and "absorb" ratios

This section is based on the analytical framework of "spending and absorption of aid increases" suggested by Berg and others[6] and discussed in Box 2.1 of the main report. The analysis starts from the premise that from a *balance of payments perspective* assuming zero nonaid net capital flows, aid increases can either be used to (1) widen the current account deficit before grants and interests (in IMF parlance, this is labeled "*absorption*" of aid); or (2) increase real reserves. From a *fiscal perspective* assuming zero nonaid external financing, the additional resources that come in the form of increased aid can either be used to (1) widen the primary fiscal deficit before grants (in IMF parlance, this is labeled "*spending*" of aid); or (2) substitute for net domestic financing.

The difference between aid spent and aid absorbed determined the envisaged private sector response to aid increases. If the fiscal deficit moves in line with the current account deficit, the increased fiscal demand is balanced by increased net imports. If the widening of the fiscal deficit exceeds that of the current account deficit and the aggregate supply is fixed, this leads to crowding out of the private sector. Correspondingly, a fiscal deficit that widens less than the current account deficit enables crowding-in or, if there is excess domestic demand, allows for disinflation by closing the gap between aggregate demand and aggregate supply.

A series of regressions produced estimates of programmed average spending and absorption of aid increases in SSA PRGFs. To illustrate the methodology, Figure A2.9 plots programmed current account and fiscal adjustments[7] against anticipated aid increases. The observations are drawn from PRGF program requests and reviews between 1999 and 2005 for all SSA countries. Regressions on this data with suppressed constants produced slope estimates of the *current account* and *fiscal* responses to increases in aid (see the table

[6]See IMF (2005h).

[7]Programmed changes between one year before the program and the program year.

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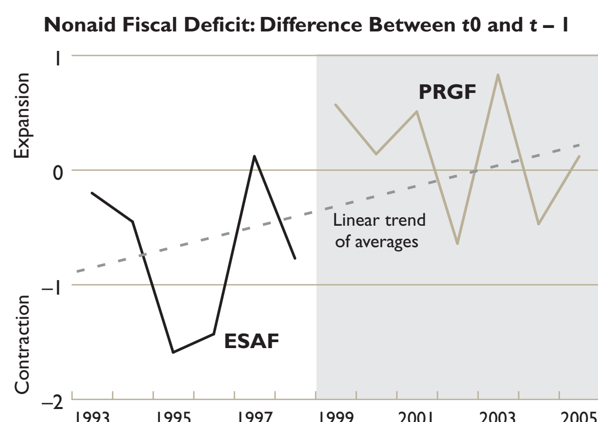
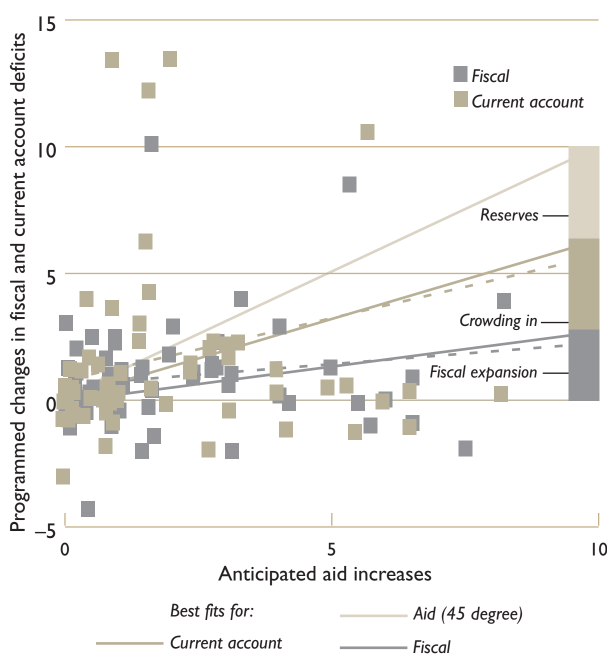
Figure A2.8. Programmed Fiscal Adjustments in Sub-Saharan Africa

(In percentage point of GDP difference)



Source: IEO staff estimates based on IMF, MONA database.
Note: 296 observations spread out over entire period; filter: abs(ΔFD[$t0 - t - 1$]) < 20 percent.

Figure A2.9. Derivation of Estimates for Spending and Absorption of Unanticipated Aid in Sub-Saharan Africa PRGFs



Average Programmed Use of Aid Increases in All SSA PRGFs

(In percent of anticipated aid increase)

Increased net imports (absorption) | Reserve accumulation

63 | 37

27 | 37 | 37

Net fiscal expansion (spending) | Domestic debt reduction/crowding in | Reserve accumulation

Regressions. Base Model: SSA PRGFs

	Unconstrained		Suppressed Constant	
	Current account deficit	Fiscal deficit	Current account deficit	Fiscal deficit
Delta aid	**0.503** **(0.086)***	0.137 (0.237)	**0.635** **(0.004)*****	**0.266** **(0.003)*****
Constant	0.601 (0.504)	0.586 (0.104)		
Observations	65	65	65	65

Note: *p* values in parentheses; *, **, and *** significant at 10 percent, 5 percent, and 1 percent levels, respectively; filter: 0 < Δ(Aid[$t0 - t - 1$] < 10 percent.

Source: IEO staff estimates based on IMF, MONA database.

in Figure A2.9).[8] These are the basis for *absorption* and *spending* estimates for incremental aid, respectively, used throughout this report.[9] Estimates of the proportion of incremental aid used to *reduce domestic debt* are derived from the difference between spending and absorption, and estimated *reserve accumulation* from the difference between absorption and the aid increase.

Findings

As reported in the section on "Current account adjustment" of the main text, initial levels of reserves were a key driver of differences in programmed absorption of aid increases in SSA PRGFs. Figure A2.10 shows that countries with reserve levels below 2.5 months

[8]Obviously, both deficits are influenced by many more factors than the deliberately few variables used in this regression, which serve the purpose of shedding some light on correlations with expected changes in aid rather than testing whether the underlying model is complete. The dashed lines in the graph show the linear estimates for the unconstrained model, while solid lines show these estimates for the constrained model, which by suppressing the constant, forces all changes in the two deficits to be linked to aid increases. The results of the regressions reported in the tables show that the constant was positive but not significantly different from zero. Hence, its suppression had only a limited upward bias on the reported estimates. At the same time, the suppression of the constant helps avoid an underestimation of spending ratios that would arise from measurement errors in the unconstrained model.

[9]All figures presented show only differences found to be significant at least at the 10 percent level in the constrained and/or unconstrained regressions. Significance in one of the two tests sufficed for depiction.

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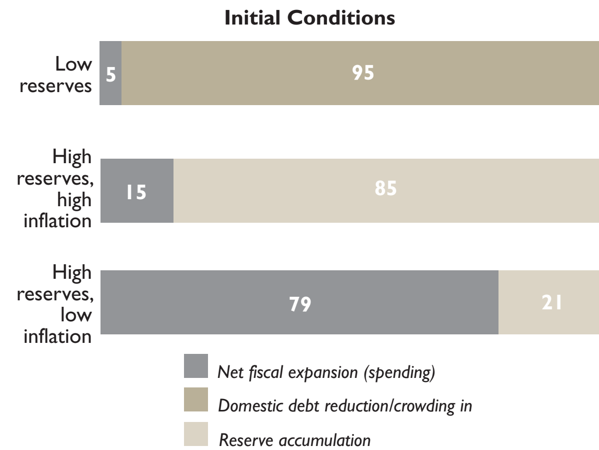
of imports were programmed to use almost all of the anticipated aid increases (95 percent on average[10]) to raise reserve levels. Programs for countries with higher initial reserve stocks, on the other hand, allowed for the full use of the additional resources to increase net imports. The coefficients of the first regression reported in the table in Figure A2.10 show that this difference stems from differences in both adjustments that were independent of changes in aid and from a steeper response to aid increases for countries with high reserves. This adds up to a significant difference between the two groups of countries depending on reserves level in the constrained model.

As reported in Chapter 2, section on "Fiscal adjustment," initial inflation levels were key determinants of SSA PRGF program approaches to the spending of incremental aid. Figure A2.10 illustrates that observed inflation before the start of a program influenced the average programmed spending for countries with high reserves. Countries with inflation levels below 5 percent[11] were allowed to spend almost all the anticipated aid increases (79 percent on average[12]), while countries with higher inflation were programmed to use nearly all incremental aid (85 percent on average[13]) to reduce domestic financing, instead.

The criteria typically used to identify "mature stabilizers" had a significant impact on programmed spending of aid increases but not on their absorption. Programs in countries with initial conditions of single digit inflation, positive growth, and domestic financing below 1 percent of GDP envisage spending increases of about half of anticipated aid increases, on average. This compares with almost no spending of incremental aid increases (17 percent on average[14]) in countries that do not meet these conditions (see Figure A2.11).

There were little differences between average programmed spending and absorption of aid increases in ESAFs and PRGFs in SSA. The negative constant and the positive coefficient of the PRGF dummy in the table in Figure A2.12 suggests that there has been a shift from sharp fiscal adjustments independent from anticipated aid inflows in ESAFs toward less such adjustment in PRGFs. However, differences in the programmed response to aid increases mitigate this difference leading to only slight differences between ESAFs and PRGFs in the average programmed spending (Figure A2.12).[15] Meanwhile, there is no significant difference in aid absorption between ESAFs and PRGFs.

Figure A2.10. Spending and Absorption in Sub-Saharan Africa PRGFs: Importance of Initial Conditions



Regressions. PRGFs in SSA: Importance of Initial Conditions

	All Reserve Levels		High Reserves	
	Current account deficit	Current account deficit	Fiscal deficit	Fiscal deficit
Delta aid	0.323 (0.501)	0.054 (0.868)	0.096 (0.631)	0.147 (0.240)
High reserves interaction term	0.416 (0.484)	**0.945 (0.027)****		
Low inflation interaction term			0.488 (0.279)	**0.645 (0.023)****
High reserves dummy	2.442 (0.221)			
Low inflation dummy			0.09 (0.938)	
Constant	–1.314 (0.442)		0.323 (0.739)	
Observations	65	65	46	46

Note: Thresholds are reserves of 2.5 months of imports and inflation of 5 percent; *p* values in parentheses; *, **, and *** significant at 10 percent, 5 percent, and 1 percent levels, respectively; filter: $0 < \Delta Aid[t0 - t - 1] < 10$ percent.

Source: IEO staff estimates based on IMF, MONA database.

[10]Not significantly different from 100 percent.

[11]Five percent was identified by the data as the threshold, which generates the most significant difference between programs with low and high initial inflation. Without controlling for other initial conditions like domestic financing or growth, the highest inflation threshold with significant differences was found to be 7 percent. Once we control for those other conditions, even higher thresholds like 10 percent generate significant differences. However, even then only for programs with initial inflation below 7 percent, the estimated average spending ratio is not significantly different from 100 percent.

[12]Not significantly different from 100 percent.

[13]The coefficient on the fiscal deficit of 15 percent is not significantly different from zero percent.

[14]Significantly different from zero.

[15]Only the difference in the aid-independent adjustment of the fiscal deficit remains significant when controlling for the inflation threshold of 5 percent.

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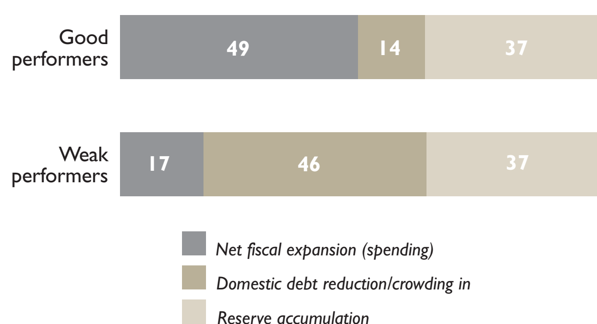
Figure A2.11. Spending and Absorption in Sub-Saharan Africa: The "Mature Stabilizer" Performance Criteria[1]



Regressions. SSA PRGFs: Influence of Performance

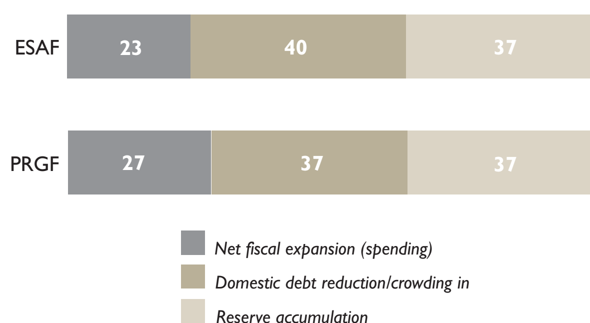
	Fiscal Deficit	Fiscal Deficit
Delta aid	0.228 (0.119)	**0.173** **(0.086)***
Performance interaction	–0.028 (0.907)	**0.319** **(0.087)***
Performance dummy	**1.355** **(0.059)***	
Constant	–0.273 (0.612)	
Observations	65	65

Note: *p* values in parentheses; *, **, and *** significant at 10 percent, 5 percent, and 1 percent levels, respectively; filter: 0 < ΔAid[*t*0 – *t* – 1] < 10 percent.

Source: IEO staff estimates based on IMF, MONA database.

[1]Following the Fund's definition of "mature stabilizers," good performance was defined as inflation below 10 percent, positive growth, and domestic financing below 1 percent before the program.

Figure A2.12. Spending and Absorption in Sub-Saharan Africa: ESAF Versus PRGF



Regressions. SSA: ESAF Versus PRGF

	Differences Between ESAFs and PRGFs in Spending	
	Fiscal deficit	Fiscal deficit
Delta aid	**0.711** **(0.005)*****	0.234 (0.132)
PRGF interaction	**–0.574** **(0.036)****	0.032 (0.858)
PRGF dummy	**1.97** **(0.004)*****	
Constant	**–1.384** **(0.016)****	
Observations	102	102

Note: *p* values in parentheses; *, **, and *** significant at 10 percent, 5 percent, and 1 percent levels, respectively; filter: 0 < ΔAid[*t*0 – *t* – 1] < 10 percent.

Source: IEO staff estimates based on IMF, MONA database.

The average non-SSA program used a smaller proportion of aid increases to reduce domestic debt and/or for disinflation than its SSA counterpart. Tighter average aid-independent adjustments in the current account and fiscal deficits in non-SSA PRGFs are outweighed by greater responsiveness to aid increases.[16] As illustrated in Figure A2.13, these differences lead to slightly more average spending and less average absorption in non-SSA countries than in SSA.

Programmed responses to anticipated aid reductions depended on initial reserve levels and were asymmetric. Countries with very high initial levels of reserves are, on average, allowed to finance the aid reductions to avoid fiscal adjustments, mainly through the depletion of reserves (Table A2.1). Those with very low initial levels of reserves, by contrast, have to fully bear anticipated reductions in aid, in the form of full fiscal and current account adjustments. The programmed fiscal response to aid reductions does not depend on inflation levels.

Almost 80 percent of SSA PRGFs limited the possibility of authorities to fully spend unanticipated windfalls in aid or fully finance unanticipated shortfalls. As seen in Figure A2.14, this stance is similar to the Fund's position toward unanticipated changes in aid in other regions.

Methodology and Data

This section discusses data definitions and methodology used to derive the results presented in the evaluation report. MONA, the principal data source used in the analysis, had a break in series in 2001. All programs starting before the break in 2001 plus the 2002

[16]Most regional differences can be explained by differences in compliance with the reserve and inflation thresholds identified above. Only the difference in the aid-independent adjustment of the *fiscal* deficit remains significant when controlling for these dummies.

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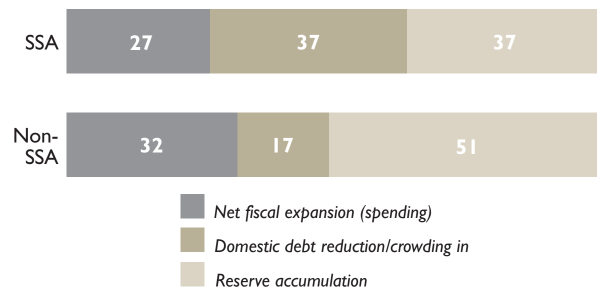
Figure A2.13. Spending and Absorption in PRGFs: Sub-Saharan Africa Versus Non-Sub-Saharan Africa



Regressions. PRGFs: SSA Versus Non-SSA

	Current Account Deficit		Fiscal Deficit	
Delta aid	**1.062** **(0.024)****	0.488 (0.164)	**0.539** **(0.002)*****	0.315 (0.019)
SSA interaction	–0.56 (0.303)	0.147 (0.718)	**–0.402** **(0.049)****	–0.049 (0.752)
SSA dummy	**3.03** **(0.056)***		**1.534** **(0.010)****	
Constant	**–2.43** **(0.065)***		**–0.947** **(0.054)***	
Observations	93	93	93	93

Note: *p* values in parentheses; *, **, and *** significant at 10 percent, 5 percent, and 1 percent levels, respectively; filter: 0 < ΔAid[*t*0 – *t* – 1] < 10 percent.

Source: IEO staff estimates based on IMF, MONA database.

PRGF for the Democratic Republic of the Congo are captured in MONA I. MONA II, which has a different set of macroeconomic variables, captures all other programs.

Table A2.1. Regressions. PRGFs: Sub-Saharan Africa Versus Non-Sub-Saharan Africa

	Aid Increases		Aid Reductions	
	Current account deficit	Fiscal deficit	Current account deficit	Fiscal deficit
Delta aid	0.382 (0.549)	**0.531** **(0.038)****	**0.928** **(0.003)*****	**1.045** **(0.000)*****
Interaction with[1]				
Reserve levels	0.15 (0.201)	0.005 (0.921)	**–0.073** **(0.099)***	**–0.125** **(0.000)*****
Initial inflation	–0.018 (0.354)	**–0.017** **(0.024)****	–0.008 (0.572)	–0.011 (0.276)
Observations	93	93	93	93

Source: IEO staff estimates based on IMF, MONA database.

Note: *p* values in parentheses; *, **, and *** significant at 10 percent, 5 percent, and 1 percent levels, respectively; filter: 0 < ΔAid[*t*0 – *t* – 1] < 10 percent.

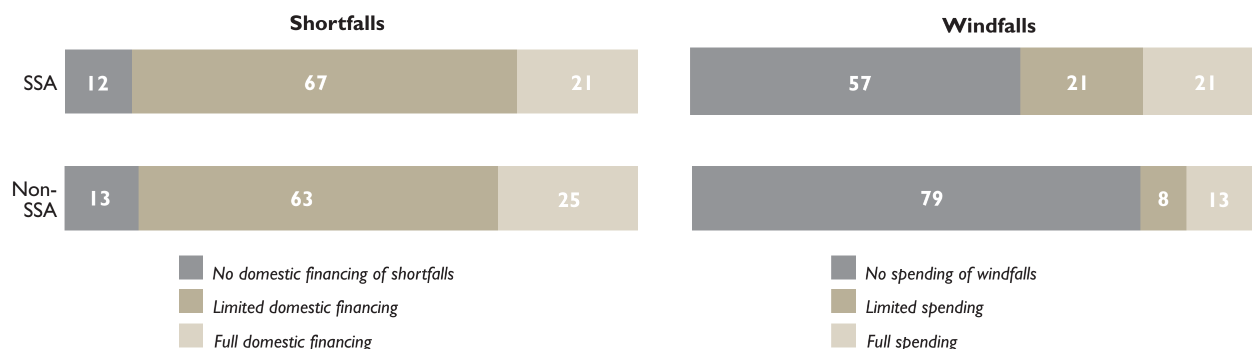
[1]In contrast to other tables, these interaction terms are based in levels and not on dummies indicating compliance with thresholds.

The proxy variable for net aid inflows was derived from balance of payments data by adding changes in liabilities to official creditors (disbursements – amortization) to official current transfers and capital transfers, deducting external interest payments and—where applicable—adding the programmed financing gap and external arrears (Table A2.2).[17] The variables "projected new rescheduling" and "other balance of payments support" were often not available in the database. In these cases, the value was assumed to be either

[17]To check whether there is a systematic bias of the estimated spending ratios given that the proxy for aid inflows was derived from balance of payments data and the fiscal deficit was derived from fiscal data, fiscal aid data compiled from the case studies was compared with the balance of payments derived proxy from MONA. Both were highly correlated and without a significant bias.

Figure A2.14. Treatment of Unanticipated Aid Inflows in Sub-Saharan Africa PRGFs

(In percent of programs)



Sources: IMF staff reports; and IEO staff estimates based on IMF, MONA database.
Note: Figure depicts percentages of different adjusters as observed in the initial request.

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Table A2.2. Proxies for "Net Aid" Per GDP

MONA I	MONA II
(Official transfers, net + other balance of payments support – scheduled net interest payments + official borrowing from multilateral and bilateral lenders (excluding Fund) – scheduled principal payments (excluding Fund) + rescheduling contracted before program + projected new rescheduling + increases in external payments arrears + programmed financing gap) / GDP	(Official current transfers, net – interest payments + capital account balance + [changes in] liabilities to official creditors – [of which:] credit and loans from IMF (excludes reserve position in the Fund) + arrears, net change (in the financial account) (+ increase) + programmed financing gap) / GDP

Table A2.3. Proxies for "Nonaid Fiscal Deficit" Per GDP

MONA I	MONA II
– Fiscal balance including grants (percent of GDP) + grants (percent of GDP) – interest payments (percent of GDP)	(Total expenditures and net lending – total revenues and grants + grants – interest payments) / GDP

Table A2.4. Proxies for "Nonaid Current Account Deficit" Per GDP

MONA I	MONA II
(– Current account, excluding official transfers – net interest payments) / GDP	(– Balance on current account + official current transfers (net) – interest payments) / GDP

zero or captured by some other variables. Hence, they were omitted in the calculations.

The nonaid fiscal deficit was derived from the difference between expenditures excluding interest payments and domestic revenue (Table A2.3). One challenge in constructing the variable was the very poor data on grants in MONA II. When no data on grants were reported, the balance of payments entry for official current transfers and capital transfers (as captured by the reported capital account balance) was used as a proxy for grants.

The nonaid current account deficit was derived by netting official current transfers and interest payments from the current account balance (Table A2.4). Of all variables, this had the best data availability in MONA.

The dummy variable "good macroeconomic performance" was defined to be 1 if in the year prior to the program (t – 1) inflation was below 10 percent, real growth was greater than zero, and domestic financing was 1 percent of GDP or less. All three variables were derived from the MONA database in order to capture estimates about the past year's performance at the time of program design. While the first two variables were readily available, domestic financing was estimated by deducting the external financing proxy (net aid) from the nonaid fiscal deficit.

The program year ($t0$) was defined as that calendar year with the greatest overlap with the actual program year from the program request or subsequent reviews. For example, if the actual program year with conditionality that was agreed upon in a review lasted from November 2003 to October 2004, 2004 was defined as the program year for that review.

MONA is not subjected to the same level of scrutiny as published databases of the Fund. It has a number of errors and inconsistencies. The most obvious errors—such as mixed-up currency denomination—were corrected manually. Others, such as discrepancies between reported actuals and obviously erroneous zeros, led to omission of the observation. To the extent possible, some omitted variables were reconstructed from other observations. Remaining errors were assumed to be unsystematic and, thus, without significant influence on the findings except for a reduction of their robustness.

To ensure consistency, programs and outcomes were compared within the MONA database. Since variable definitions in MONA I were very different from those in the World Economic Outlook or other databases, programmed values from MONA were not compared with estimates derived from other databases. Instead, data from the program request were compared to data from the latest available review for the respective years. This approach minimized errors stemming from differences in data definitions.

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ANNEX

3 Country Desk Reviews: Methodology and Summary Findings

This annex presents evidence gathered during desk review work on 14 SSA countries with PRGF-supported programs. It also outlines the methodology used by the evaluation team to collect and analyze the information. The desk review work was designed to complement the results emerging from the quantitative analyses and surveys, which covered a broader sample of 29 SSA countries with PRGF-supported programs. It focused on reviews of PRGF program documents, supplemented at a later stage by staff interviews and six country visits (Table A3.1). The evidence emerging from the desk reviews was important in establishing working hypotheses for the evaluation and in testing emerging conclusions.

Methodological Background and Sources of Information

The criteria for selecting the 14 countries (out of the broader sample of 29 SSA countries with PRGF-supported programs) for in-depth desk review included economic and institutional performance, representativity, donor presence, and modalities for aid delivery (Table A3.1). Ten of the 14 countries had had long program engagement with the IMF, without serious interruption (Burkina Faso, the Democratic Republic of the Congo, Ethiopia, Ghana, Mozambique, Rwanda, Senegal, Tanzania, Uganda, and Zambia); the other 4 had experienced serious recent program interruptions (Cameroon, the Central African Republic, Guinea-Bissau, and Malawi).

To ensure consistency of treatment across country cases, a common set of templates was used to gather evidence from PRGF program documents. Individual templates covered the following subjects, with focus on identifying program objectives, use of program instruments, and the evolution of program implementation over time: (1) aid forecasting; (2) fiscal expenditure; (3) current account absorption; (4) stability considerations (inflation, domestic financing); (5) wage bill ceilings; (6) priority expenditures; and (7) domestic resource mobilization.

The evaluation team reviewed documents that are also available, in most cases, to the broader public on the IMF's external website[1]—such as PRGF-supported program documents, Article IV surveillance reports, and Selected Issues papers. The evaluation team also had access to internal Fund documents—such as mission briefing papers and comments made during the internal review process. Reviewers focused on PRGF-supported programs, including of recent vintage, in order to examine the extent to which staff assessments, objectives, and program design itself have changed during program implementation. Sample program periods varied by country, while some reviews included two fully-fledged PRGF-supported programs.

Summary of Findings

The findings are organized along the lines of the main report: aid context, stance of macroeconomic policies, and social impact. These findings complement Chapter 2 of the main report.

Aid issues

Program documents revealed similarities in aid discussions with countries. The early PRGF-supported programs cautioned against indefinite aid dependence (Burkina Faso, Malawi, Mozambique, and Tanzania) linking it often to the need to improve domestic resource mobilization. Prudence in program aid was based on discussions with donors (Malawi, Mozambique, and Rwanda). There were general references to the need for higher aid flows to enable countries to achieve poverty and development goals (the Democratic Republic of the Congo, Ethiopia, Mozambique, and Senegal). Aid issues are discussed in Chapter 2, section on "Analysis of Aid."

Aid predictability and its potential implications were frequent program themes (the Democratic Republic of the Congo, Ghana, Guinea-Bissau, Malawi, Mozambique, Senegal, Tanzania, and Uganda). However, links to aid forecasting were rare (Ghana, Malawi, and

[1]See www.imf.org/external/country/index.htm.

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Table A3.1. Desk Review Country Sample

SSA PRGF Countries	Desk Review	Country Visit	Program Relations[1]	Country Policy and Institutional Assessment Quintile, 2004	Population, 2005 (In millions)	Real GDP Per Capita, 2002–05 (Constant 2000 U.S. dollars)
Benin			U	2	8.4	324.4
Burkina Faso	X	X	U	1	13.2	246.5
Cameroon	X		I	3	16.3	727.9
Cape Verde			U	1	0.5	1277.8
Central African Republic	X		I	5	4.0	231.1
Chad			U	4	9.8	230.8
Congo, Democratic Republic of	X		U	5	57.6	86.8
Côte d'Ivoire			I	5	18.2	575.8
Djibouti			U	4	0.8	786.0
Ethiopia	X		U	3	71.3	129.5
Gambia, The			I	4	1.5	322.7
Ghana	X	X	U	2	22.1	274.3
Guinea			I	4	9.4	381.8
Guinea-Bissau	X		I	5	1.6	135.5
Kenya			I	2	34.3	422.1
Lesotho			U	2	1.8	532.3
Madagascar			U	2	18.6	223.8
Malawi	X		I	3	12.9	148.8
Mali			U	1	13.5	236.5
Mauritania			I	4	3.1	428.6
Mozambique	X	X	U	3	19.8	269.2
Niger			U	3	14.0	157.1
Rwanda	X	X	U	3	9.0	249.1
São Tomé and Príncipe			I	4	0.2	350.7
Senegal	X		U	1	11.7	453.0
Sierra Leone			U	4	5.5	206.5
Tanzania	X	X	U	1	38.3	307.5
Uganda	X		U	1	28.8	260.5
Zambia	X	X	U	3	11.7	332.9

Sources: World Bank, World Development Indicators database; and World Bank (2004).

[1] "I" indicates major PRGF program interruption, measured by nondisbursement; "U" indicates nonprogram interruption.

Mozambique), the tendency of discussions focusing on aid predictability or volatility for the current year of the program.

There was little transparency in how programs forecasted aid. There was generally very little information on the methodology, key assumptions, and discount factors used to forecast aid. Explicit references to past aid forecasting errors figured in only half of the cases reviewed (Burkina Faso, the Democratic Republic of the Congo, Ghana, Malawi, Mozambique, Tanzania, and Zambia). Discussions of how these translated into current forecasts were not explicit or remained at a general level.

Current account issues

Current account absorption issues were addressed in connection with international reserves positions and Dutch disease. These issues are discussed in Chapter 2, section on "Accommodation of Aid."

Discussions of the treatment of international reserves were prevalent in PRGF-supported programs (except for CFA franc zone countries). Document reviews showed that for many countries in the sample, programs had, at some point in time, targeted higher net international reserves (NIRs) in order to reduce vulnerabilities to external shocks—including terms of trade and aid volatility—but with differences in emphasis. For cases with low NIR positions (Cameroon, the Democratic Republic of the Congo, Ethiopia, Ghana, Malawi, and Zambia) programs underlined the need to raise international reserves. For countries where NIRs were at an appropriate level, the focus was on maintaining reserves at such levels (Tanzania and Uganda). In a few cases, reserve accumulation was considered to have been excessive (as in Rwanda) and programs dwelt on the issues of excessive reserves accumulation and insufficient aid absorption.

Dutch disease was not a major concern—although the exchange rate and issues of competitiveness were common themes in program discussions. Table A3.2 shows that there was some early program concern regarding exchange rate appreciation and possible Dutch disease, which gave way to concerns about aid underutilization in Tanzania; while in Rwanda Duch disease concerns persisted, albeit with reduced implications for the

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Table A3.2. Spending and Absorption Issues[1]

Case	Spending		Dutch Disease
	Microeconomic issues	Macroeconomic issues	
Burkina Faso (2003)	General absorptive capacity concerns.	Rather liberal stance throughout program.	Not an issue.
Cameroon (2000)	Weak spending capacity limited HIPC-related spending. FAD also expressed concerns over capacity to absorb large spending increase in investment at program request.	Program aimed at consolidating fiscal adjustment achieved in previous program.	No overvaluation of real effective exchange rate. Acknowledged that Cameroon maintained large competitiveness gains that resulted from the 1994 devaluation of the CFA franc.
Central African Republic (1998)	Only micro issues are mentioned.	Weak administrative capacity of government is named as risk to program but is not explicitly related to spending limits.	
Democratic Republic of the Congo (2002)	No specific discussion of limitations to spending aid.	Focus on stabilization.	
Ethiopia (2001)		Program aims at limiting inflation to low single digits while rebuilding international reserves.	Although authorities argued for weaker exchange rate, in face of increasing aid flows, staff noted that case was not compelling.
Ghana (1999, 2003)	Absorption issues not a significant concern.	Fiscal consolidation and containing domestic debt.	No reference.
Guinea-Bissau (2000)	Weak administrative capacity of government mentioned but not explicitly linked to spending limits.		
Malawi (2000)	Program allowed higher expenditure if foreign financing is available (PDR showed concerns over capacity to implement an expenditure increase in PRSP priority areas).	Program aimed at fiscal consolidation throughout entire program period.	No explicit concerns over appreciation pressures.
Mozambique (1999, 2004)	Absorptive capacity limitations called for saving exceptional or peak aid flows (1999) and posed challenges for achieving Millennium Development Goals (2004).	Overall program context in 1999 and 2004 one of maintaining macroeconomic stability and fiscal consolidation. By fourth review of 2004, broad program context highlighted better-than-programmed fiscal situation.	No overvaluation of exchange rate (according to various measures and export volumes).
Rwanda (2002)	Continuous concerns about expenditure transparency and allocation of resources toward military spending led to program that was inflexible regarding spending of unanticipated resources without prior discussion with IMF.		Dutch disease concerns discussed in 2002 program; also in fourth review (2005), along with underabsorption concerns.
Senegal (1998, 2003)	Capacity constraints in finance and spending ministries, in spite of ambitious spending plans.	Fiscal consolidation program objectives.	Not a concern at prevailing aid level, analysis needed of potential Dutch disease effects of higher aid (2003 program).
Tanzania (2000, 2003)	Budget system inefficient—i.e., unable to absorb all aid resources available. Need to enhance fiscal transparency.		Initial Dutch disease concerns expressed in 2000 program, but no longer a concern by 2003 program.
Uganda (1997, 2002)	Limited expenditure efficiency—capacity and governance issues in social spending, notably universal primary education.	Program objectives maintain low inflation (5 percent) and comfortable level of international reserves.	During first two years of program, aid inflows (and high level of remittances) led to currency appreciation (1997). Liquidity injected into economy by donor-funded poverty reduction spending posed threat to price stability (2002).
Zambia (2004)	Need to strengthen budgetary processes and public expenditure management.	Centerpiece of policy framework is strong, front-loaded fiscal adjustment to halt unsustainable rise of domestic debt and interest payments, and increase poverty-reducing spending.	Appreciation pressures not yet a concern.

[1]The base for the evidence presented in the table is PRGF documentation, except for additional information as indicated, including comments from the internal review process. The year indicated in parentheses identifies the program (and subsequent reviews) analyzed. Specific review information is given when appropriate.

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programmed absorption of aid. Program discussions on exchange rate issues relied on indicators of competitiveness and real exchange rates (Ghana, Mozambique, and Zambia), with competitiveness sometimes framed in terms of enhancing productivity, efficiency, and growth through structural reforms and infrastructure investment (Ethiopia and Zambia).

Fiscal issues

The document review focused on issues of domestic financing of the fiscal deficit, domestic resource mobilization, the public sector wage bill, and fiscal governance. These issues are discussed in Chapter 2, sections on "Accommodation of Aid" and "Key Features Agenda."

Domestic financing was a key program parameter, linked to macroeconomic stability and private sector crowding in or crowding out. Most PRGFs limited domestic financing of the fiscal deficit. The size of the fiscal deficit or domestic financing was typically used as a performance criterion (Ethiopia, Ghana, Guinea-Bissau, Malawi, Mozambique, Rwanda, Senegal, Tanzania, Uganda, and Zambia). PRGF documents often justified this on (1) limited capacity to borrow domestically without significant negative impact on macro stability and growth—crowding out private sector investment and other spending (Cameroon, the Central African Republic, the Democratic Republic of the Congo, Ethiopia, Ghana, Guinea-Bissau, Malawi, Mozambique, Rwanda, Tanzania, Uganda, and Zambia); (2) domestic demand pressures (Ethiopia, Guinea-Bissau, and Mozambique); and (3) need to reduce domestic debt and large debt-service burdens (Ghana, Malawi, Rwanda, and Senegal).

Revenue mobilization was a frequent program theme in PRGFs. Many programs had tax revenue targets, mostly in the form of indicative targets or benchmarks (Burkina Faso, Cameroon, the Central African Republic, Ghana, Guinea-Bissau, Mozambique, Senegal, Tanzania, and Uganda). However, discussions of the rationale for greater tax revenue mobilization have evolved over the years from the early "aid dependency" reduction motive (Burkina Faso, Malawi, and Mozambique) to creating fiscal space for priority expenditures (the Central African Republic, Ghana, Mozambique, and Uganda) and building adequate capacity for government operations (Tanzania and Uganda) in recent years.

Wage bill targets were common in PRGFs, stemming from fiscal concerns as well as macroeconomic stability considerations. Wage bill conditionality has featured widely—5 of the 14 cases reviewed had performance criteria (PCs) at some point in time, 8 had indicative targets or benchmarks, and Malawi had both in various program reviews (Table A3.4). In some cases, repeated slippages led to strengthened conditionality (from indicative targets to PCs in Malawi), while in others with good performance, targets were downgraded (from PC to benchmark in the Central African Republic). In two cases, the wage bill target was eliminated altogether (Mozambique in 2006 in the context of better-than-expected fiscal performance, and Tanzania in 2003 with the focus having shifted to civil service pay reform). In terms of rationale, documents revealed that program targets on the wage bill stemmed from macroeconomic stability concerns, in most cases with reference to large wage bill increases in the immediate past (Ethiopia, Guinea-Bissau, Ghana, Malawi, Mozambique, and Zambia). Additional motivation included the need to free up fiscal space for other expenditures, including poverty-reducing expenditure (PRE) (the Central African Republic and Mozambique). Wage bill ceilings were also linked frequently to discussions of civil service reforms (the Democratic Republic of the Congo, Ghana, Mozambique, Senegal, Tanzania, and Uganda). The latter was especially important in Mozambique and Tanzania, in connection with the aforementioned elimination of the wage bill targets.

Fiscal governance and transparency were important pillars of PRGFs. Discussions of public expenditure management and financial accountability (PEFA) issues centered around fiscal governance and transparency issues, including budgetary frameworks, budget execution, monitoring and reporting, and financial management and information systems. The use of structural conditionality in PEFA was extensive (as in Cameroon, the Central African Republic, the Democratic Republic of the Congo, Ghana, Malawi, Mozambique, Rwanda, Tanzania, Uganda, and Zambia), covering expenditure execution, monitoring and control (including on commitments), coverage and timing of budget reporting, information systems (including on public sector payrolls), and in some instances more specific areas—public procurement, auditing, code of ethics in civil service. The program focus on PEFA has been complemented by extensive technical assistance from the Fund, notably in public expenditure management and financial accountability (Burkina Faso, the Democratic Republic of the Congo, Ghana, Mozambique, Rwanda, Senegal, Tanzania, Uganda, and Zambia), including budget preparation and execution, expenditure monitoring and control, and information systems (including for tracking PRE).[2]

[2]Recent evaluations of the effectiveness of Fund technical assistance in the PEFA area indicate a mixed picture, mirroring the performance of IMF-supported programs (IMF, 2004a and 2005i). Countries further ahead in the reform process (e.g., Cameroon, Uganda, Tanzania, and Rwanda) showed greater progress in the PEFA area than those where the reform pace had been slower (e.g., Côte d'Ivoire, the Central African Republic, Malawi, and Zambia). On the effectiveness of technical assistance delivery in PEFA, a recent IEO evaluation (IEO, 2005b) noted that longer-term, resident technical assistance was more effective than shorter-term interventions, because of greater access to expertise and training possibilities.

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Table A3.3. Evidence on Adjusters[1]

Case	Aid Shortfall Financing	Rationale	Aid Windfall Spending or Absorption	Rationale
Burkina Faso (1999, 2003)	Limited financing.	No explicit rationale.	Full spending was replaced by full saving in 2001. Full saving was replaced by limited spending on social sectors in 2005.	No explicit rationale.
Cameroon (2000)	Domestic financing for 50 percent of shortfall.	No explicit rationale.	Reduce domestic financing for full amount of excess.	For crowding-in.
Central African Republic (1998)	Limited financing.	No explicit rationale.	Equivalent amount deducted from government borrowing. Adjusters in 2004 and 2006 Emergency Post-Conflict Assistance allowed use for priority spending or reduction of debt—no proportions specified.	No explicit rationale.
Democratic Republic of the Congo (2002)	No financing until third review, which stated that 50 percent of any foreign financing shortfall could be financed. By fifth review, full financing was allowed.	No explicit rationale.	Excess foreign financing to be used to finance poverty reduction expenditure. Subsequent reviews added need to use excess external assistance to reduce net banking system credit to the government.	Government's ambition to reach HIPC completion point was a factor in targeting pro-poor spending. Subsequent focus on reducing banking system credit to government was to ensure success of stabilization effort.
Ethiopia (2001)	50 percent financing up to $20 million.	Restrain demand pressures.	Full saving for any amounts exceeding those programmed. By fourth review limited use for poverty reduction expenditures.	Build reserves—which staff noted were precarious, given needs and shocks.
Ghana (1999, 2003)	Full financing (1999), from third review, limited financing. Limited financing continued in 2003 program but from third review, no financing allowed.	No explicit rationale.	Equivalent amount deducted from limit on government borrowing. From third review of 2003 PRGF, full use.	No explicit rationale.
Guinea-Bissau (2000)	Financing of 50 percent.	No explicit rationale.	50 percent can be used for priority spending on social and infrastructure areas.	Pressing nature of social needs.
Malawi (2000)	Initially a maximum of $50 million financing but reduced to zero at the time of Emergency Assistance (2002) and first review (2003).	Need to reduce domestic debt to lower interest rates. Strengthened over time in response to repeated slippages.	Initially a maximum of $50 million could be used but raised to unlimited.	Need to reduce domestic debt.
Mozambique (2004)	Initially no domestic financing. By fourth review, partial financing.	Maintain pace of fiscal consolidation and create room for private sector. Context of change in adjusters (fourth review) was one of better than expected fiscal performance, with aid decline no longer perceived a risk to the program.	Initially partial use (on capital expenditures) and absorption. By fourth review, full use (on priority spending) and absorption.	Justified initially on high yearly volatility of aid.
Rwanda (2002)	Initially no domestic financing, then changed to limited financing in 2003.	No explicit rationale.	Full saving.	Concern that resources would be diverted to military spending.
Senegal (1998, 2003)	Limited financing to CFAF 20 billion.	Level of adjustment had to be consistent with regional protocol on monetary policy and fixed exchange rate.	No use of excess funds allowed.	Level of adjustment had to be consistent with regional protocol on monetary policy and fixed exchange rate.

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Table A3.3 ***(concluded)***

Case	Aid Shortfall Financing	Rationale	Aid Windfall Spending or Absorption	Rationale
Tanzania (2000, 2003)	Initially limited (to $60 million). By third review (2000), full financing allowed and retained in following program.	Initially to safeguard international reserves—relaxed as reserves increased to give government more flexibility in making financing and spending decisions.	Initially no use of excess foreign financing allowed. By fourth review (2000), full use allowed which continued in 2003 program.	Initially to build international reserves, but use of excess resources later left to government discretion.
Uganda (1997, 2002)	Full financing allowed (with the exception of the second review in the first PRGF).	Enable government to meet commitments, notably those of Poverty Action Fund (PAF). Net credit to government ceiling would be lowered for any unspent PAF commitments.	Full saving for any excess, throughout programs.	Enable country to meet debt payments, especially arrears.
Zambia (2004)	Partial financing (initially $14 million increased to $20 million)		Full saving of windfalls, except to reduce domestic debt.	

[1]The base for the evidence presented in the table is PRGF documentation, except for additional information as indicated, including comments from the internal review process. The year indicated in parentheses identifies the program (and subsequent reviews) analyzed. Specific review information is given when appropriate.

Social impact

With respect to priority PRE, the focus of PRGF-supported programs was generally on tracking activities, and less so on program adjusters or conditionality. Documents reviewed showed that direct program targets on priority expenditures (PCs in Rwanda and Uganda, indicative targets in Ghana and Malawi) were infrequent (Table A3.5). But programs did track priority expenditures, with tables dedicated to this in staff reports. In some instances, documents described in general terms recent developments with priority expenditures and government plans going forward (e.g., Mozambique and Zambia). As discussed in Chapter 2, the section on "Key Features Agenda," program adjusters for incremental aid were linked to priority expenditures in 8 of the 14 cases reviewed. But, except in a few instances (the Democratic Republic of the Congo, Guinea-Bissau, and Uganda) where the pressing nature of social needs and protecting government commitments were noted, there was little explicit rationale for linking adjusters to priority expenditures.

Wage bill ceilings were often set without consideration of the impact on expenditures in priority areas. In only a few cases (the Central African Republic, Guinea-Bissau, and Mozambique) did documents acknowledge explicitly that program design took priority sectors into account while setting wage bill ceilings (and not throughout the evaluation period but only more recently, as in the case of Mozambique). Only in the case of Malawi were adjusters included to allow additional aid to be used to increase wages in priority areas. In Zambia, the PRGF was adjusted in the context of the program review to accommodate additional employment in priority sectors, when the wage bill ceiling proved binding.

PSIA results were frequently reported but rarely informed PRGF programs. Since the creation of the PSIA group in FAD in 2004, the Fund has conducted nine assessments (Table A3.6); six were focused on subsidies (electricity, petroleum, agriculture, and fertilizers) and the rest on other macroeconomic areas (taxation, devaluation, and external shocks). The results from PSIAs were generally presented in program documents (except in Mali and Malawi), but were rarely part of appraisals (except for Burkina Faso and Djibouti). Program documents indicated no specific countervailing measures linked to the PSIAs, in some cases because the recommendations were not adopted (Malawi and Uganda). In two instances, programs noted that the resulting fiscal space would be used by the authorities to increase priority expenditures (Ghana and Mali).

Other issues

Bank-Fund collaboration was most frequently noted on PEFA and financial sector work. Program documents reported frequently, but not always, on the division of labor between the Bank and the Fund, specifying the lead institution as well as areas requiring joint work (Burkina Faso, Ghana, Mozambique, Rwanda, Senegal, Tanzania, and Zambia). In general, PRGF programs put macroeconomic issues within the IMF's core areas of responsibility and sectoral and social issues within those of the World Bank. As noted above, the IMF and the World Bank shared responsibilities for PEFA and financial sector work. More specific delineations of inputs into the collaborative effort were sometimes indicated. For example, in some programs the IMF would

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Table A3.4. Wage Bill Ceilings[1]

Country	Instrument[2]	Rationale	Consideration of Impact on Priority Sectors in Design	Adjustment in Context of Program Review
Burkina Faso (2003)	Indicative target.	Contain medium-term pressures on expenditures.		
Cameroon (2000)	No formal conditionality. But program underlined importance of containing wage escalation.	Ensure targeted noninterest expenditure and aimed at containing large wage increase at beginning of the program.		Stronger program wording reflecting repeated fiscal slippages.
Central African Republic (1998)	PC. In addition, civil service positions (including military and security forces) were not to grow (PA).	Ceiling is part of an effort to ensure that adequate resources are available for social spending and critical infrastructure investment.	Ceiling allowed for recruitment of 880 new personnel in priority sectors of education and health.	PC was turned into a benchmark for the second annual program, with actual wage and salaries in 1998 sectors programmed.
Democratic Republic of the Congo (2002)	Ceiling on wage arrears for civil service (kept at zero).	Raise morale in civil service.	Not explicit—but implication on efficiency in public sector and service delivery.	
Ethiopia (2001)	Indicative targets.	Limit size of wage bill.		Program concerns with wage bill eased as issues of macroeconomic management took hold.
Ghana (1999, 2003)	In 1999, no target. In 2003, a PA was used in second review, and a PC was used from third review onward. In addition, two structural PCs were introduced relating to civil service reform.	Past increases in wage bill that contributed to noncompletion of fifth review of 1999 program.		
Guinea-Bissau (2000)	Performance indicator.	Ceiling is part of fiscal consolidation, reflecting demobilization of troops.	Ceiling allowed for an increase in number of civil servants.	
Malawi (2000)	Benchmark (first review).	Need tight stance in order to restore fiscal discipline. Also aimed at containing large wage increase at beginning of program.	In 2005, wage bill for priority sector protected by ceiling adjuster (linked to additional aid for health SWAp).	Stronger form of conditionality toward end of program in response to repeated fiscal slippages.
Mozambique (1999, 2004)	In 1999 no target, in 2004 indicative target. Target abandoned in fourth review.	In 2004, in the context of fiscal consolidation and past large wage increases and need of public sector reform (ghost workers). Target abandoned in fourth review (2006) in the context of better than expected fiscal position.	Target set with explicit reference to greater employment in health and education.	
Rwanda (2002)	None.			
Senegal (2003)	PC.	Contain impact on expenditure.	Not explicit. But program anticipated that improvements in wage reform would have positive impact on social service delivery.	No change. Monitoring included monthly reporting to Fund on changes in wage bill.
Tanzania (2000, 2003)	Indicative targets.	Contain expenditure on wages, rationalize wage bill.	Compensation and wage incentives identified as key for public service delivery.	
Uganda (2002)	No wage ceilings.			
Zambia (2004)	Benchmark.	Limit wage increases of recent past.		Program modified in the course of first review—in coordination with additional donor assistance—to allow for additional hiring in priority sectors.

[1]The base for the evidence presented in the table is PRGF documentation, except for additional information as indicated, including comments from the internal review process. The year indicated in parentheses identifies the program (and subsequent reviews) analyzed. Specific review information is given when appropriate.
[2]Prior action (PA); performance criterion (PC).

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Table A3.5. Priority Poverty-Reducing Expenditures[1]

Country	Instrument	Aid Shortfall Adjuster: Link to Priority Expenditure	Aid Windfalls Adjuster: Link to Priority Expenditure
Burkina Faso (2003)	No conditionality.	No link to priority expenditure	Adjuster allowing limited spending of windfalls only on poverty reduction and special programs as defined by HIPC/PRSP process.
Cameroon (2000)	No conditionality.		
Central African Republic (1998)	No conditionality.	No link to priority expenditure.	No link to priority expenditure in 1998 program. The adjusters on windfalls in 2004 and 2006 Emergency Post-Conflict Assistance allow for priority public spending or reduction of domestic arrears or reduction of domestic and/or external debt—but no proportions specified.
Democratic Republic of the Congo (2002)		Ceiling on net credit to government raised to meet programmed financing of poverty reduction.	Excess to be used for poverty reduction spending.
Ethiopia (2001)		No link to priority expenditures	Up to $50 million of excess foreign financing (including HIPC relief) would be targeted at poverty reduction, and a similar amount on “special programs” (fourth review).
Ghana (1999, 2003)	Indicative target.		
Guinea-Bissau (2000)	No conditionality.	No link to priority expenditure.	Given pressing nature of social needs, adjusters were to partially allow for increased directed spending with 50 percent of resources to be spent on social and infrastructure projects identified in collaboration with World Bank.
Malawi (2000, 2005)	Indicative target on pro-poor expenditure, first review, 2003.	No adjusters on indicative targets on pro-poor expenditure.	No adjusters on indicative targets on pro-poor expenditure.
Mozambique (2004)	No program targets on PRSP expenditures, but tracking of developments and government plans.	In fourth review, partial financing of shortfalls. No link to priority expenditure.	Limited accommodation for additional capital outlays financed by budgetary grants. By fourth review, full accommodation to be used in priority expenditures identified in budget.
Rwanda (2002)	Performance criteria on broadly defined “priority spending” (mainly social and infrastructure) and “exceptional expenditures” (mainly post-genocide-related expenditures).		
Senegal (2003)	Indicative targets on programmed spending of HIPC debt relief—but sectors of focus not specified.	Ceiling on net cumulative change on credit to government to be raised for aid shortfalls on HIPC-related (i.e., priority) expenditure from programmed levels.	Ceiling to be lowered from higher HIPC-related (i.e., priority) expenditure than programmed levels.
Tanzania (2003)	No conditionality.	No link to priority expenditure.	No adjuster on excess financing—use left to government’s direction.
Uganda (2002)	A performance criterion on minimum expenditures under Poverty Action Fund (including universal primary education). An adjuster indicated that any amounts falling below those programmed would lead to lowering of the ceiling on net government credit.	No link to priority expenditure.	Ceiling on net credit to the government was to be lowered (raised) by shortfall (excess) expenditure on areas in Poverty Action Fund—universal education, primary healthcare, access to clean water, and so on.
Zambia (2004)	No program target.		

[1]The base for the evidence presented in the table is PRGF documentation, except for additional information as indicated, including comments from the internal review process. The year indicated in parentheses identifies the program (and subsequent reviews) analyzed. Specific review information is given when appropriate.

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Table A3.6. Poverty and Social Impact Analysis Conducted by Fiscal Affairs Department[1]

Country (PSIA Completion Date)	Sector or Topic	Discussion in PRGF Documents	Countervailing Measures
Burkina Faso[2] (2006)	Electricity tariff reform.	PSIA recommendation on electricity tariffs reflected in sixth review of PRGF in 2006 (recommendation was to raise tariffs because of marginal impact on the poor).	No explicit countervailing measures in PRGF for increase in electricity tariffs. PSIA report had argued that few poor households were connected to electricity grid.
Djibouti[3] (2005)	Devaluation.	PSIA finding that devaluation would be disruptive because of import dependence, featured prominently in the Staff Report for the 2005 Article IV consultation and staff monitored program. Board discussions also alluded to PSIA findings.	No devaluation suggested by the staff-monitored program. Concerned over competitiveness, the staff-monitored program suggested lowering government wages—taking into account poorest households.
Ghana[4] (2005)	Petroleum pricing.	PSIA was done before a number of petroleum pricing reforms were undertaken in February 2005, notably implementation of a new automatic price adjustment mechanism (see Staff Report for the 2005 Article IV consultation).	The "fiscal space" created, inter alia, by removal of petroleum price subsidies was to be spent on health and education and infrastructure in rural areas (Memorandum of Economic and Financial Policies in Staff Report for 2005 Article IV consultation).
Madagascar[5] (2006)	Rice subsidies.	. . .	
Malawi[6] (2006)	Fertilizer subsidies.	PSIA pricing reforms not explicitly reflected in August 2006 PRGF review. Reforms put off by drought and food crisis.	PSIA report had no policy impact on fertilizer subsidy, and so no mitigation in PRGF required.
Mali[7] (2006)	Petroleum pricing.	The fourth review of PRGF (June 2006) mentions that "external" studies were crucial in determining petroleum pricing mechanism.	No special measures for mitigation considered in PRGF—but authorities indicated that the resulting fiscal space was to be used to develop infrastructure and transport networks to address poverty.
Mali[8] (2005)	Impact of external shocks and macro responses on poverty.	No explicit reference to PSIA exercise in subsequent staff reports, but general reference to strategies for poverty reduction (see fourth review, June 2006).	
Senegal[9] (2005)	Reform of groundnut marketing.	Groundnut sector reform was an ongoing process before PSIA. But groundnut parastatal was privatized after PSIA (had failed before), although there was little change in edible oil pricing policies (private company still a protected monopoly). This was discussed in third and fourth reviews (December 2005).	No countervailing measures in PRGF (PSIA measures not implemented).
Uganda[10] (2005)	Value-added tax (VAT).	PSIA analysis used in staff report of May 2005 to suggest two alternative means of raising revenue with minimum negative impact on poor: change VAT rate (from 17 percent to 18 percent) and increased excise taxes (on petroleum).	No countervailing measures in PRGF as tax changes were not adopted by government.

[1]The base for the evidence presented in the table is PRGF documentation, except for additional information as indicated, including comments from the internal review process. The year indicated in parentheses identifies the program (and subsequent reviews) analyzed. Specific review information is given when appropriate.
[2]See Newhouse (2006).
[3]See Newhouse and Simone (2005).
[4]See Coady and Newhouse (2005).
[5]See Coady (2006).
[6]See Gillingham and Mishra (2006).
[7]See Kpodar (2006).
[8]See Simone (2004).
[9]See Gillingham and Newhouse (2005).
[10]See El-Said and Gillingham (2005).

focus on financial management information systems or medium-term expenditure frameworks and the Bank on other areas of PEFA (Mozambique and Zambia). With respect to alternative scenarios, and with the exception of Ethiopia, program documents were not clear on the role collaboration with the Bank played.

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Table A3.7. Public Expenditure Management and Financial Accountability[1]

Case	Structural Conditionality[2]	Technical Assistance
Burkina Faso (1999, 2003)	Computerized monitoring of investment expenditure execution (IT). Specific codes for identifying social expenditure and expenditure financed under the HIPC Initiative (IT).	Strengthening budget preparation and expenditure control. Strengthening system to track poverty-reducing public expenditures.
Cameroon (2000)	Render operational the interim system for public procurement (PC). Issue quarterly reports on budgetary execution (B).	Review of public expenditure management.
Central African Republic (1998)	Complete validation process for domestic debt (B).	No technical assistance (TA) related to public expenditure management and financial accountability (PEFA).
Democratic Republic of the Congo (2002)	Introduce code of ethics for civil service (PC)	Expenditure management.
Ethiopia (2001)	No PEM-related conditionality.	No PEFA-related TA.
Ghana (2003)	Publish past month's fiscal report (PA). Payroll information system (PC). Monthly fiscal report (B).	Five instances of TA on public expenditure management.
Guinea-Bissau (2000)	No structural conditionality specified.	Strengthening fiscal controls; assessing budget management and tax system.
Malawi (2000)	Effective implementation of expenditure monitoring and control (PA). Monthly reports on commitment levels (PC). Launch of Ministry of Finance unit to monitor parastatal spending (PC). Commitment controls; reports on proverty-reducing expenditure (PRE); anti-corruption; parastatal borrowing (B).	Budget management, expenditure control, and expenditure management.
Mozambique (2004)	Quarterly budget reporting (PA). Implement integrated financial management system (B).	Seven instances of TA on public expenditure management.
Rwanda (2002)	Incorporate any extrabudgetary and off-budget projects and transactions into the budget to the extent appropriate (PC).	Budget execution; expenditure management; tax policy; assessment of tracking of poverty-reducing expenditure.
Senegal (2003)	Adopt WAEMU expenditure management directives (PA). Undertake pilot on monthly treasury accounts (PC). Auditing of treasury accounts (B).	Capacity to track PPE.
Tanzania (2003)	Identify budget codes for PRE (PC). Quarterly reports from spending agencies (B).	Public expenditure management and fiscal decentralization.
Uganda (2002)	Submit plan for implementation of report on public administration budgeting to cabinet (PC).	Local government budgeting; budgeting and commitment control; public expenditure management.
Zambia (2004)	Approval of PEFA program (PA). Publication of quarterly budget execution plans; introduction of financial information system (PC).	Six instances of TA on public expenditure management.

[1]The base for the evidence presented in the table is PRGF documentation, except for additional information as indicated, including comments from the internal review process. The year indicated in parentheses identifies the program (and subsequent reviews) analyzed. Specific review information is given when appropriate.
[2]Benchmarks (B), indicative targets (IT), performance criterion (PC), and prior action (PA).

Private sector development and its contribution to economic development and growth were frequent themes in PRGF-supported programs. It was discussed in relation to removing obstacles to private sector growth by improving the business climate, including the regulatory and judicial environment, and basic infrastructure. But programs left specific work to the World Bank. PRGFs rarely included structural condi-

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tionality in these areas and the IMF did not provide technical assistance. The main channel through which the Fund addressed private sector development issues in program design was in the context of crowding-out considerations when setting fiscal targets (as discussed above), and in a few instances through structural conditionality in the financial sector (Mozambique, Tanzania, and Zambia). The latter especially related to the regulatory and supervisory infrastructure—including for microfinance. The IMF has also provided significant technical assistance for financial sector issues, including through Financial Sector Assessment Programs (as in Ghana, Rwanda, Tanzania, Uganda, and Zambia).

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ANNEX

4 Country Case Studies: Program Change in Major Aid Recipients

This annex describes the context and evolution of program design in five major aid recipients: Burkina Faso, Ghana, Mozambique, Rwanda, and Tanzania.[1] It complements the desk review analysis set out in Annex 3. It begins with a description of a framework for analyzing the evolution of program design in PRGFs and concludes with specific examples of program change from each of the five case study countries.

Framework

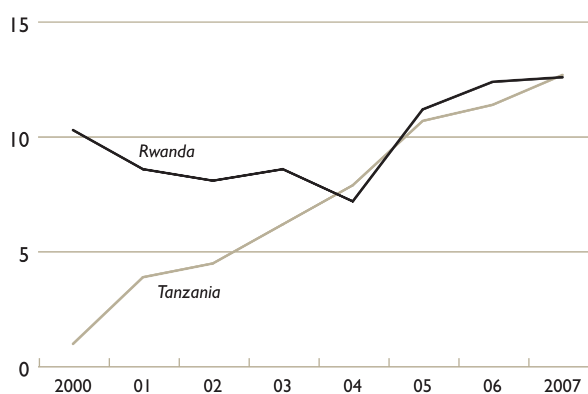
This section highlights three sources of change in program design. The changes all took place against the backdrop of improving macroeconomic policies and outcomes.

The first is a relaxation of fiscal policy in Tanzania and Rwanda to allow greater use of available aid. In both countries, the relaxation occurred at the same time as improving macroeconomic conditions and in the context of discussions with donors and the authorities. The programmed fiscal deficit increased both as a share of GDP (Figure A4.1) and as a share of total expected aid (Figure A4.2).

The second is a change in the medium-term forecasting of aid and the fiscal deficit.[2] As discussed in the main text, throughout the early PRGF period the IMF generally forecast the tapering of aid beyond the program year, in line with experience with actual aid flows. But this has begun to change, with recent medium-term aid forecasts catching up with ongoing changes in the aid environment. Figure A4.3 shows the difference between the medium-term forecast of aid ($t + 1$) and the aid projection for the program year ($t0$). As seen, programs forecast a decline in aid flows over the medium term before 2005, but started to project less or no tapering by 2006. At the same time programs have also begun to project less tapering of the fiscal deficit. Figure A4.4 shows the trend for the medium-term forecast of the fiscal deficit. Before 2005, programs generally forecast a medium-term tightening of the fiscal deficit compared to the program year, but by 2006 they assume less tapering beyond the program year.[3]

The third is a change in program adjusters to give countries more flexibility in responding to unanticipated changes in aid flows. Figure A4.5 shows the programmed reaction, through program target adjusters, to shortfalls in aid before and after changes in program design.[4] Before the changes, three out of the

Figure A4.1. Programmed Fiscal Deficit
(In percent of GDP)



Source: IEO staff estimates based on IMF staff reports.
Note: Fiscal deficit defined as the difference between expenditures (excluding interest payments) and revenues (excluding grants). Dates indicate year for which program targets apply.

[1]Each of the five case studies included a country visit by the evaluation team.

[2]This aspect of change in program design was not observed in other desk review cases, including those with more pressing macroeconomic performance issues (e.g., Cameroon, the Central African Republic, and Zambia) and in mature cases where programs had already been forecasting more stable aid and spending (e.g., Senegal and Uganda).

[3]This change in both figures is reflected by a forecast difference between t+1 and t0 that begins negative and moves toward zero.

[4]The change in program design did not occur at the same time in all five countries. The year of program change for each country is listed at the bottom of Figure A4.5.

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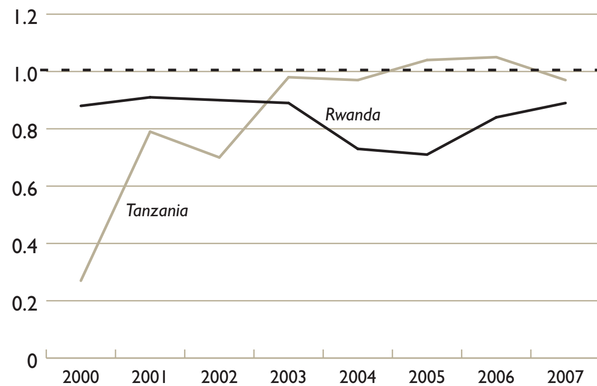
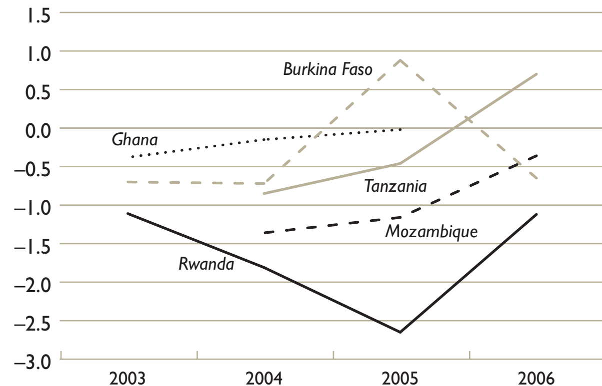
Figure A4.2. Programmed Ratio of Fiscal Deficit to Aid
(Fiscal deficit/aid)



Source: IEO staff estimates based on IMF staff reports.
Note: Fiscal deficit defined as the difference between expenditures (excluding interest payments) and revenues (excluding grants). Aid defined as the sum of grants, net foreign financing, financing gap, and the net change in external arrears, minus external interest payments. Dates indicate year for which program targets apply.

Figure A4.3. Change in Medium-Term Aid Forecasting over Program Year
(Aid/GDP in (t +1) – (t0))



Source: IEO staff estimates based on IMF staff reports.
Note: Difference between aid forecasts (as percent of GDP) in *t* + 1 and *t*0 (the program year).

five programs did not permit domestic financing of aid shortfalls. After the changes, all programs but Ghana's provided flexibility to finance shortfalls, at least partially. Figure A4.5 also presents adjusters for aid windfalls, and again shows greater flexibility in more recent programs. Before the programs changed, none of the five countries could fully spend aid windfalls before the next review. But after the changes, three of the five countries could fully spend aid windfalls—with Rwanda the only country that could not spend any.

Country Evidence

This section gives specific examples of how program design has changed in each of the five case study countries. (For each case, the year of program design change is in parentheses.)

Tanzania (2000 and 2005)

Prior to the 2000 PRGF, Tanzania's programmed fiscal policy stance assumed a substantial reduction of net domestic debt of the government, which meant that a significant share of available aid could not be spent. Programs justified this fiscal stance as necessary to correct the fiscal slippages incurred at the end of the previous ESAF program and to build up reserves, and out of concerns about macroeconomic stability and Dutch disease. The continued compression of public expenditures, even after a degree of macro stability had been achieved in 2000–01, triggered a debate between the Fund and the authorities, donors, and civil society.[5] As discussed in a previous IEO evaluation of the PRSP and PRGF process, these discussions took place in the context of the public expenditure reviews (PERs) initiated by the World Bank and were informed by donor-financed studies done by an outside academic.[6]

In the context of more predictable aid and sustained macroeconomic stability, PRGF programs began to relax the fiscal policy stance in 2001, allowing for greater programmed expenditure of projected aid.[7] This is illustrated in Figure A4.2. By the end of 2001, IMF internal reviews were calling for more ambitious government expenditure, and programs started subsequently to project less tapering of expenditures beyond the first program year as well. Although the discussions with donors and the authorities that preceded the changes in Fund stance did not feature prominently in mission briefs or the internal review process, internal correspondence between IMF and World Bank staff shows that the debate on fiscal policy was very active.

Program adjusters were also changed in 2001 to allow for the full use of aid windfalls and the full

[5]See IEO (2004).
[6]Bevan (2000 and 2001).
[7]The 2006 EPA for Tanzania was silent on the discussions about fiscal stance in the early programs and subsequent program design changes (see IMF, 2006c). It noted that the design of programs had been broadly appropriate: programs were appropriately anchored on strengthening fiscal performance, sufficiently flexible to accommodate large aid inflows, and adapted to facilitate greater absorption.

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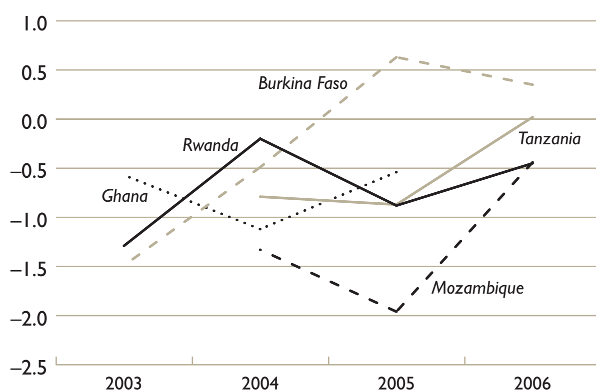
Figure A4.4. Change in Medium-Term Fiscal Deficit over Program Year
(Fiscal deficit in (t +1) – (t0))



Source: IEO staff estimates based on IMF staff reports.
Note: Difference between forecasts for fiscal deficit (as percent of GDP) in $t + 1$ and $t0$ (the program year).

financing of aid shortfalls (see Figure A4.5). Prior to this change, Tanzania had been unable to finance any aid shortfalls and allowed to partially spend windfalls.

PRGF programs started to forecast less tapering of aid over the medium term in the third PRGF review of 2005 (see Figure A4.3 above). This change was underpinned by Tanzania's strong performance in core structural areas in 2003 and 2004, the finalization of the second generation PRSP in 2005, and the continued stability of aid inflows between 2003 and 2004. Program concerns about Dutch disease, which had been present in previous years, were no longer considered an issue, despite the sustained aid.

Rwanda (2005)

The 2002 PRGF request and subsequent reviews were guided by concerns over external debt sustainability, which led to a decrease in programmed spending of aid in 2003 and 2004 (see Figure A4.2). As in Tanzania, this fiscal stance generated significant debate between the IMF and the authorities, donors, and other multilateral organizations. A donor-financed PSIA was conducted in 2003 that focused on the sustainability of substantially higher fiscal deficits financed by additional external borrowing.[8] According to that assessment, Rwanda could expand fiscal spending and the deficit, if financed on concessional terms. The influence of the PSIA in the discussions about fiscal stance is itself a matter of controversy. IMF staff contend that it played no role in the assessment of underlying conditions (as they considered the quality of the analysis to be subpar),[9] while many donors considered the PSIA a relevant and influential analysis.[10]

Rwanda's PRGF began programming greater absorption and expenditure of aid in the fourth review of 2005, amid reduced concerns over debt sustainability.[11] The program change coincided with discussions to top up debt relief under HIPC in 2004 in advance of the country's reaching the completion point in early 2005. At the same time, programs started to forecast less tapering of aid, the fiscal deficit, and absorption beyond the first program year.[12] (These changes were preceded by a change in adjusters in the first review in 2003 to allow partial domestic financing of aid shortfalls.)[13]

With debt sustainability less of a concern, PRGF program assessments in 2005 focused on the underutilization of aid. In the 2005 program, IMF staff's concerns of previous years gave way to concerns about the underutilization of aid. But, *in practice*, aid absorption was limited by the Central Bank, because of its concerns about exchange rate appreciation. In the program documentation, IMF staff argued for limiting reserve accumulation to allow for greater aid absorption (but stopped short of using conditionality). This new policy stance was supported by the IMF internal review process.

Burkina Faso (2005)

Driven by a long record of macroeconomic stability, PRGFs had long allowed the use of anticipated aid in Burkina Faso. This was noted by the 2006 EPA,

[8]Mackinnon and others (2003).

[9]Staff did inform management of the results of the PSIA and their disagreement with donors, and internal review comments supported the prudent policy stance taken by staff, highlighting the debt sustainability concerns.

[10]A recent ODI review of DFID's PSIA notes that "The immediate outcome was not sufficiently robust for the IMF to change their policy on the limit for the fiscal deficit of Rwanda. . . . However, subsequently it appears that PSIA has had an impact on IMF thinking, at least in terms of their rhetoric." See Bird and others (2005).

[11]IMF (2005b).

[12]Rwanda's 2006 EPA did not cover the debate about tight fiscal policy and the subsequent program design changes (see IMF, 2006b). Noting that the design was largely appropriate to achieve macroeconomic stability, with appropriate flexibility to aid in conditionality through adjusters and target definitions, it found that implementation (reviews) accommodated a fiscal stance that was "probably looser than necessary to increase priority spending." Moreover, programs did not adequately address the continuous deterioration in debt sustainability.

[13]The use of aid windfalls—unlike in Tanzania—continued to be disallowed.

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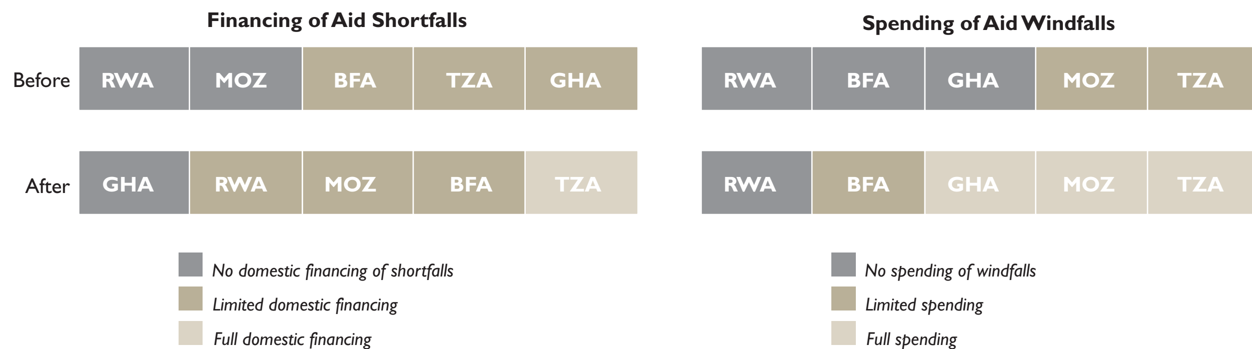
Figure A4.5. Program Adjusters for Spending of Unanticipated Shortfalls or Windfalls of Aid



Note: Year of change: Tanzania (TZA): 2001/02; Rwanda (RWA): 2003; Burkina Faso (BFA): 2005; Ghana (GHA): 2005; and Mozambique (MOZ): 2006.

which highlighted the strong economic performance and record of program implementation.[14]

By the combined second and third review of the PRGF in 2005, program design changed to forecasting less tapering of aid and the fiscal deficit over the medium term. The program also started to correct for past overestimation of aid at the first program year.[15] With the change in medium-term forecasts of aid, projected spending also became more stable with less programmed tapering off.

Adjusters also changed in 2005 to allow greater program flexibility in the spending of aid windfalls. The switch to more accurate aid projections for the initial program year was accompanied by a change in program adjusters. In contrast to previous programs where all aid windfalls had to be saved until the next review, adjusters now allowed for limited use of such windfalls for priority spending. As before, adjusters continued to allow for limited financing of aid shortfalls.

Ghana (2005)

The 2003 PRGF program request was concerned with macroeconomic stability, through containing both domestic debt and the rapid expansion of public expenditures. The program stance was influenced by the serious fiscal and quasifiscal slippages in 2002 that precluded the completion of the fifth and final review of the 1999–2002 PRGF arrangement. The budget slippages related to, inter alia, large public sector wage bill overruns, nonimplementation of revenue measures, delays with the divestiture program of public enterprises, and shortfalls in donor financing related to country performance.[16]

The third PRGF review in 2005 started to forecast less tapering of aid and the fiscal deficit over the medium term. This program change stemmed from improved macroeconomic performance during 2003/04, including contained domestic government borrowing.

Program adjusters were also changed in 2005 to allow for the full use of aid windfalls. But, as before, financing of aid shortfalls was not allowed, reflecting lingering concerns over domestic debt.

The restriction on nonconcessional borrowing has been the subject of an ongoing debate in Ghana between the authorities and the Fund and donors. The program has maintained throughout this period limits on nonconcessional borrowing, which the authorities describe as overly restrictive of their infrastructure investment plans. The discussions between the authorities and donors and the Fund on nonconcessional borrowing have taken place for example in the context of the Consultative Group meetings. A waiver on the related performance criteria was granted during the third review in 2005 when conditionality was breached for unintended reasons. The authorities were expecting concessional financing that did not materialize, and to avoid a sizable penalty under previous investment

[14]However the EPA was silent about the program design changes that ensued, highlighting strong program implementation and "exemplary" observance of conditionality. Program design was found to be broadly adequate, including pointing out limited absorptive capacity (but with greater attention needed on tax collection). See IMF (2006j).

[15]Due to limited documentation, it is not possible to identify why actual aid flows have constantly fallen behind aid projections until this change beyond the observed basic pattern of programs usually projecting aid increases for the initial program year while actuals remain flat.

[16]A background paper to the 2005 PRGF review examined the macroeconomics of managing increased aid inflows, focusing on the *actual* use of *incremental aid* for the period 2001–03. It found for Ghana that in practice there was neither spending nor absorption of additional aid for that period as a whole. Moreover, program design allowed absorption but only partial spending of expected incremental aid. See IMF (2005h).

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commitments by the government, alternative financing arrangements were made.[17]

Mozambique (2006)

In line with earlier programs, the 2004 PRGF request was concerned with macroeconomic stability, fiscal consolidation, and growth-enhancing structural reforms.[18] The program placed special emphasis on strengthening government revenues and improving public expenditure management. These concerns, combined with an expected reduction in aid flows, led to a programmed reduction of the domestic primary fiscal deficit (moving to a surplus over the medium term). The program rationale for the fiscal policy stance included the reduction of pressures on domestic interest rates.[19]

[17]Ghana obtained a $40 million loan from Nigeria to finance its participation in the West Africa Gas Pipeline.

[18]Mozambique's EPA took place in December 2003 (IMF, 2003h). It called for sustaining the efforts to consolidating macroeconomic stability and deepening structural reforms. The aforementioned background paper to the 2005 PRGF review found that Mozambique in practice mostly spent and absorbed additional aid for that period as a whole. IMF (2005h).

[19]But the program made also a general reference that to achieve poverty and development goals a significant scaling up of aid would be required, noting also that sectoral absorptive capacity needed to be improved.

In the fourth PRGF review in 2006, the program projected higher aid and expenditure for the program year, and forecast less tapering of aid and spending beyond the program horizon. These changes arose from the explicit program recognition that macroeconomic and fiscal performance had been better than expected, even in the face of revenue shortfalls. In addition, the program also noted the recent increase in aid and the expectation that it would be sustained. The latter was reflected in the program appraisal, with aid flows no longer considered a main risk to the program as in previous years.

Program adjusters were also changed in 2006 to allow for the full use of aid windfalls and the partial financing of aid shortfalls. Prior to these changes, the program design was a matter of controversy in 2005, with nongovernmental organizations arguing that program targets and adjusters restricted the use of additional aid.[20] The Fund responded publicly in 2006 on the use of adjusters and program reviews with respect to aid.[21] In due course, the fourth PRGF review in 2006 adjusted the definition of fiscal targets in the program to focus on domestic financing rather than the primary deficit, as was the case in previous programs and reviews.

[20]Hanlon (2006).

[21]Perone (2006).

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ANNEX

5 Evaluation Survey

This annex provides background on the evaluation survey. It first provides an overview of the approach followed in preparing the questionnaire and in identifying recipients. The following two sections, respectively, profile survey recipients and respondents. The final section presents selected survey results and findings.

Approach

The survey aimed to collect views on IMF activities in SSA from the authorities in the 29 PRGF countries, local donor representatives, local civil society representatives, and the staffs of the AfDB, IMF, UNDP, and World Bank. A Washington-based research firm, Fusion Analytics (Fusion), assisted in the preparation of the questionnaire and administered the survey. To protect the anonymity of the respondents, all survey responses were handled by Fusion, and survey recipients were advised of the confidentiality of their responses. The survey was developed in English and translated into French and Portuguese.

The survey had four main parts. An introductory section sought information on respondents' background, including the nature and timing of any engagement with a PRGF-supported program. The second part of the survey posed questions about PRGF program design and its impact on economic outcomes and aid mobilization. The third part looked at specific aspects of PRGF preparation, including the extent to which it was grounded in national processes and whether it took into account the analytical work and experience of other stakeholders. This section also included questions relating to IMF missions and quality of dialogue with the authorities and other stakeholders, including civil society. The fourth part asked respondents' views on the evolution of the IMF's approach on a range of issues such as macroeconomic stability and the MDGs.

Survey Recipients

The evaluation team relied on a variety of methods to obtain the initial list of survey recipients and to secure adequate response rates. As part of its design, the survey targeted groups expected to be knowledgeable about the IMF and its operations.

The survey was sent to 100 government representatives from the 29 PRGF countries. Survey recipients were drawn mostly from ministry of finance (50 recipients) and central bank staff (30 recipients). There were 20 recipients from ministries of health, education, and infrastructure. Government representatives were identified on the basis of lists provided by the offices of the three IMF Executive Directors representing SSA countries and IMF and World Bank staff (both in operational departments and external relations). In the event, some 50 recipients responded to the survey, representing 25 (or 86 percent) of the 29 PRGF countries under study. Of this, 25 came from finance ministries, 20 from central banks and 5 from sector ministries—suggesting some selection bias in favor of ministries of finance.

The evaluation team aimed to reach donor representatives resident in SSA countries. Contact information was gathered from agency headquarters, agency websites, and IMF and World Bank sources, including Executive Directors' offices. The donor sample of 92 survey recipients included staff from the aid agencies

Table A5.1. Evaluation Survey Responses

	Authorities	Donors	AfDB	IMF	UNDP	World Bank	Civil Society	Total
Number of survey recipients	100	92	26	71	22	71	87	469
Number of respondents	50	52	20	44	11	44	46	266
Percent response rate	50	57	77	62	50	62	53	57

Note: For the authorities, the 50 responses covered 25 of the 29 PRGF countries under study, or about 86 percent.

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Table A5.2. Selected Survey Results

	Percent "Agree" or "Strongly			
	IMF	Authorities	World Bank	Donors
I. Design of PRGF programs				
1 PRGF program design focused on macro stability	100	98	98	97
2 PRGF program design focused on economic growth	55	57	20	53
3 PRGF program design focused on poverty reduction	38	36	12	23
4 PRGF program design focused on MDGs	13	26	3	13
5 PRSP provided the basis for PRGF analysis and design	37	62	28	48
6 PRGF provided framework for PRSP implementation in terms of macro policies	78	59	59	76
7 PRGF program design reflect an integrated assessment of constraints to aid absorptive capacity	38	58	22	26
8 IMF has increased importance of PSIAs in PRGF program design	74	50	37	41
9 IMF has increased importance of additional policy scenarios in PRGF program design	59	50	24	33
10 IMF has increased importance of additional aid scenarios in PRGF program design	88	47	32	33
11 IMF should attach more importance in the next five years to PSIAs	74	92	87	86
12 IMF should attach more importance in the next five years to additional policy scenarios	88	89	87	83
13 IMF should attach more importance in the next five years to additional aid scenarios	85	89	90	59
II. Effectiveness and influence				
14 PRGF influenced government's policies affecting macro stability	95	93	85	91
15 PRGF influenced government's policies affecting economic growth	61	49	23	50
16 PRGF influenced government's policies affecting poverty reduction	40	28	21	9
17 PRGF influenced government's policies affecting MDGs	29	15	11	7
18 When PRGF was off track, program aid flows decreased	77	74	73	46
III. Role in aid moblization and use				
19 IMF adequately anticipated future financing needs	76	66	32	24
20 IMF catalyzed the availability of additional aid	73	75	46	39
21 IMF proactively engaged in CG and other formal meetings	54	69	18	28
22 IMF proactively engaged in informal consultations with local donors' groups	68	65	24	29
23 IMF proactively engaged in one-on-one consultations with lead donors	68	48	28	29
24 PRGF monetary and fiscal policies accomodated the use of available aid	90	60	42	61
25 PRGF monetary and fiscal policies accomodated the use of aid earmarked for health	80	53	37	32
26 PRGF monetary and fiscal policies accomodated the use of aid earmarked for education	83	63	38	32
27 PRGF monetary and fiscal policies accomodated the use of aid earmarked for infrastructure	79	38	24	33
IV. Communications and relationships				
(A) Authorities				
28 IMF missions took place at an appropriate time for government's work on budget	83	74	61	72
29 IMF missions took place at an appropriate time for government's work on aid mobilization	66	62	43	41
30 Meetings between IMF and authorities were full and candid exchange of views with respect to policies	95	82	56	71
31 Meetings between IMF and authorities were full and candid exchange of views with respect to mobilization of aid	76	68	30	65
(B) Donors				
32 IMF missions took place at an appropriate time for donor decisions on aid	56	51	20	15
33 IMF discussed with donors external financing gaps	90	92	59	32
34 IMF discussed with donors the country's absorptive capacity for utilizing aid flows	61	64	24	22
35 IMF discussed with donors external financing gaps, highlighting situations in which the country's absorptive capacity for aid flows exceeded the amount of aid coming in	50	39	22	4
36 Meetings between IMF and donors were full and candid exchange of views with respect to aid	73	75	37	43
(C) Civil society				
37 IMF missions took place at an appropriate time for national dialogues with civil society, the authorities, and donors	47	37	13	22
38 Meetings between IMF and civil society were full and candid exchange of views	30	38	9	17
39 IMF has increased the level of importance attached to listening to the views of civil society	82	44	50	43
40 IMF has increased the level of importance attached to explaining IMF views to civil society	85	48	52	48
41 IMF has increased the level of importance attached to increasing the transparency of IMF policies	79	52	48	48
42 IMF should attach more importance in the next five years to listening to civil society	77	86	72	65
43 IMF should attach more importance in the next five years to explaining IMF views to civil society	83	92	88	74
44 IMF should attach more importance in the next five years to increasing the transparency of IMF policies	74	100	88	87

Notes: * significant at the 10 percent level; . . . question not included in the civil society survey.
[1]There were not enough responses from AfDB and UNDP to conduct meaningful significance tests.

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Agree" (4 or 5)			Difference of Means *t*-Tests[1]									
			IMF				Authorities			World Bank		Donors
Civil society	AfDB	UNDP	Authorities	World Bank	Donors	Civil society	World Bank	Donors	Civil society	Donors	Civil society	Civil society
71	89	75	1.01	1.01	1.17	4.13*	0.00	0.20	3.51*	0.20	3.51*	2.95*
49	78	75	–0.22	3.43*	0.14	0.54	3.68*	0.34	0.74	–3.08*	–2.71*	0.37
14	22	25	0.20	2.81*	1.41	2.46*	2.56*	1.20	2.23*	–1.17	–0.22	0.92
13	0	0	–1.49	1.68*	–0.10	0.00	3.06*	1.26	1.38	–1.72*	–1.64	0.10
50	56	25	–2.28*	0.87	–0.94	–1.15	3.20*	1.07	0.97	–1.74*	–1.99*	–0.14
66	78	50	1.86*	1.86*	0.21	1.18	0.00	–1.46	–0.57	–1.46	–0.57	0.87
33	44	25	–1.73*	1.60	0.99	0.45	3.41*	2.51*	2.12*	–0.39	–1.09	–0.57
...	29	67	2.12*	3.25*	2.63*	...	1.07	0.66	...	–0.30	...	...
...	43	33	0.72	2.91*	1.86*	...	2.15*	1.20	...	–0.70	...	...
...	29	33	3.98*	5.48*	5.03*	...	1.19	0.99	...	–0.09	...	...
...	100	100	–2.04*	–1.30	–1.23	...	0.65	0.70	...	0.05	...	...
...	86	100	–0.08	0.19	0.61	...	0.27	0.70	...	0.41	...	...
...	100	100	–0.40	–0.56	2.45*	...	–0.18	2.89*	...	2.92*	...	...
69	90	75	0.48	1.53	0.78	3.20*	1.05	0.31	2.73*	–0.67	1.69*	2.20*
41	60	0	1.10	3.76*	0.93	1.80*	2.53*	–0.10	0.69	–2.51*	–1.78*	0.75
13	10	25	1.24	1.89*	3.14*	2.83*	0.66	1.96*	1.57	1.34	0.91	–0.49
9	29	0	1.44	2.05*	2.38*	2.26*	0.63	1.12	0.89	0.55	0.28	–0.28
...	100	0	0.26	0.34	1.92*	...	0.07	1.59	...	1.58	...	...
36	75	50	0.96	4.39*	4.88*	3.65*	3.25*	3.72*	2.61*	0.68	–0.42	–1.03
24	63	25	–0.19	2.54*	3.09*	4.86*	2.72*	3.27*	5.07*	0.64	2.08*	1.32
...	80	50	–1.32	3.49*	2.20*	...	5.27*	3.67*	...	–0.94	...	...
...	80	75	0.24	4.27*	3.48*	...	3.89*	3.15*	...	–0.48	...	...
...	50	50	1.74*	3.86*	3.53*	...	1.79*	1.60	...	–0.07	...	...
21	75	50	3.26*	5.14*	3.11*	8.34*	1.59	–0.05	3.68*	–1.56	1.98*	3.60*
29	50	25	2.64*	4.25*	4.46*	5.02*	1.38	1.67*	2.02*	0.39	0.66	0.23
29	50	33	1.95*	4.43*	4.82*	5.54*	2.21*	2.58*	3.11*	0.53	0.89	0.30
33	38	0	4.02*	5.83*	4.20*	4.41*	1.33	0.37	0.39	–0.85	–0.89	0.00
48	100	75	0.93	2.26*	1.05	3.26*	1.29	0.18	2.26*	–1.01	0.99	1.91*
37	71	25	0.32	1.99*	2.03*	2.46*	1.65*	1.71*	2.11*	0.16	0.50	0.31
52	83	50	1.87*	4.51*	2.75*	4.82*	2.52*	0.94	2.73*	–1.13	0.36	1.37
44	83	0	0.71	4.51*	0.84	2.69*	3.59*	0.27	1.95*	–2.53*	–1.15	1.31
54	63	50	0.37	3.26*	3.56*	0.18	2.86*	3.18*	–0.17	0.52	–2.92*	–3.25*
...	25	25	–0.28	3.35*	6.12*	...	3.53*	6.36*	...	2.22*	...	...
...	25	25	–0.21	3.38*	3.28*	...	3.56*	3.47*	...	0.19	...	...
...	14	0	0.81	2.51*	4.35*	...	1.56	3.39*	...	2.02*	...	...
61	86	0	–0.17	3.44*	2.63*	1.01	3.40*	2.64*	1.11	–0.54	–1.85*	–1.26
10	29	25	0.85	3.20*	2.08*	3.61*	2.30*	1.26	2.70*	–0.93	0.40	1.31
21	33	0	–0.68	2.25*	1.06	0.84	2.84*	1.56	1.45	–0.79	–1.37	–0.38
21	0	50	3.41*	2.80*	3.19*	6.10*	–0.46	0.05	2.03*	0.46	2.47*	1.80*
24	17	0	3.43*	3.11*	3.25*	6.27*	–0.25	0.05	2.08*	0.27	2.32*	1.86*
25	14	0	2.39*	2.63*	2.50*	5.07*	0.25	0.27	2.25*	0.04	1.96*	1.77*
91	75	100	–0.97	0.49	1.12	–1.55	1.45	2.10*	–0.61	0.62	–2.01*	–2.65*
91	88	100	–1.15	–0.58	0.85	–0.97	0.55	2.00*	0.14	1.40	–0.39	–1.79*
91	88	100	–3.53*	–1.42	–1.30	–1.81*	2.23*	2.31*	1.90*	0.09	–0.39	–0.48

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of Austria, Belgium, Canada, Denmark, the European Union, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Portugal, Sweden, Switzerland, the United Kingdom, and the United States. For each SSA country, the choice of included donors was based on their relative importance in terms of aid flows to that country.[1] Fifty-two donor representatives (or 57 percent) responded.

The list of survey recipients from the AfDB comprised all 26 of the Bank's country economists working on SSA PRGF countries. The AfDB response rate was high, with 20 economists (or 77 percent) responding.

The IMF staff survey recipient list was extracted from an IMF database of resident representatives, mission chiefs, and country desk economists for ESAF and PRGF countries from 1998 to the present. The IMF sample was set at 71, including only current or former mission members with at least three missions and IMF resident representatives. IMF staff answered the survey online, with 44 total responses (62 percent of the sample). Of those, slightly over one-half were mission chiefs and 40 percent resident representatives.

The UNDP staff survey recipient list was developed from UNDP country websites, validated through discussions with UNDP Africa Bureau staff. In all, 22 UNDP offices were included in the sample, with 11 responses.

The list of 71 World Bank staff recipients was extracted from country team lists from 1998 to the present, augmented by informal contacts with World Bank sources. Of 44 (or 62 percent) responding World Bank staff, about half were country managers or country directors and the other half country or sector economists.

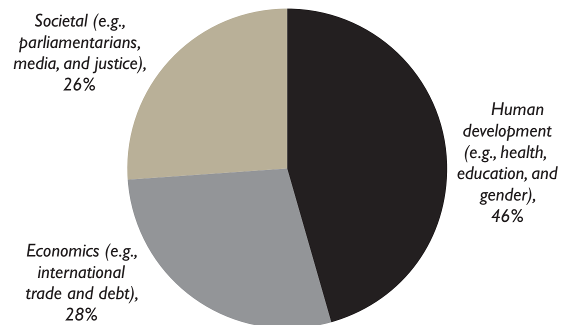
The evaluation team used information and contacts from several sources to construct the survey recipient list for civil society. These included the external relations departments of the IMF and the World Bank; IMF resident representatives and World Bank staff from the Africa Region; and staff of international CSOs, including ActionAid, Christian Aid, EURODAD, Save the Children, Trocaire, and VSO International. A total of 87 civil society recipients were identified and 46 responses received for a response rate of 53 percent. Of the civil society respondents, 23 answered in English, 18 in French, and 5 in Portuguese.

Respondent Characteristics

The evaluation team sent questionnaires to 469 people. Out of these, 266 people responded, for an overall response rate of 57 percent (Table A5.1 on page 63).

[1]Generally, the donors to whom surveys were sent were among the five top providers of aid to the country in question. Aid disbursements were calculated using the most recent OECD-DAC data. See OECD-DAC (2006).

Figure A5.1. Characteristics of Civil Society Representatives
(n = 46)



The total sample of responses was fairly evenly distributed across the authorities, donors, civil society, and IMF and World Bank staff. Responses from UNDP and AfDB comprised small shares of the total. The response rate for each of the seven categories of survey recipients was at least 50 percent. These response rates are broadly comparable to those from surveys used in other IMF reports and evaluations.[2]

Respondents from all non-IMF groups expressed familiarity with the IMF's work in SSA, including the PRGF process. Excluding civil society representatives (who were not asked specifically about the PRGF), a majority of respondents were actively involved in the PRGF process; over half were involved in the design and 68 percent took part in implementation. Twenty-three percent of respondents reported no involvement with PRGF processes.

While civil society representatives were not asked directly about their involvement with PRGFs, they were asked about their familiarity with the work of the IMF. Specifically, respondents were asked about their main sources of information on IMF activities. The most common source of IMF information was participation in national consultation processes (around one-third of respondents). Figure A5.1 also shows the main sectors of civil society respondents' work. As illustrated, those focused on human development issues (including health, education, and gender advocacy) had the highest representation in the sample.

Other Issues

The main text presents the survey results in the form of simple figures. This section provides details on significance tests and a summary table of survey results.

[2]See, for example, IMF (2005m), IMF and World Bank (2004), and IEO (2006a).

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Despite the statistical tests suggesting significance for a number of questions, the survey results should be interpreted with caution and as indicative of the views of the relevant respondent groups. There is, of course, no way to completely remove selection bias from the choice of recipients, or from the responses received, which are more likely to come from those familiar with the work of the IMF and from those with strong opinions on Fund activities in SSA—both positive and negative.

To strengthen the interpretation of the results, tests examined the statistical significance of within-group and between-groups' differences in responses. The evaluation team used two tests for the purpose: (1) a *t*-test for the difference of means—used to compare two group responses—with the null hypothesis that the difference between the two means is zero; and (2) construction of confidence intervals around the responses of each individual group.

Table A5.2 on pages 64–65 provides details on responses by all seven groups to a broad range of survey questions, including results of the difference of means *t*-tests described above. The questions listed are divided along thematic lines, and include queries on the IMF's influence and effectiveness, the Fund's role in the mobilization and use of aid, the design of PRGF programs, and communications and relationships with other stakeholders. As shown in the table, there are statistically significant differences between IMF staff and civil society responses for most questions, especially on issues of aid mobilization, IMF mission outreach, and concern for poverty issues. There are also significant differences between IMF staff and World Bank staff and between IMF staff and donor responses on many issues, including aid mobilization, the influence of PRGF programs, and the effectiveness of Fund communications. IMF staff responses are statistically closer to those of the authorities than to the other groups for many questions, though these two also differ significantly on issues of aid mobilization and use. UNDP and AfDB staff responses were generally not high enough for meaningful significance tests.

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Statement by the Managing Director

Staff Response

IEO Comments on Management and Staff Responses

The Acting Chair's Summing Up

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Statement by the Managing Director on the Independent Evaluation Office Report on the IMF and Aid to Sub-Saharan Africa

Executive Board Meeting
March 5, 2007

We welcome the IEO report on the IMF and Aid to Sub-Saharan Africa (SSA) as an important contribution to making the Fund's engagement with low-income countries more effective. The report's candid assessments and useful recommendations will help management and the Board clarify further the institution's mandate and policies to help SSA achieve growth and reduce poverty. The report should be considered in the context of the Fund's Medium-Term Strategy (MTS), which reiterates the Fund's commitment to low-income countries and sets out the framework for more focused engagement in those countries.

It is encouraging that the IEO report confirms the improvement in macroeconomic performance that has taken place in Sub-Saharan African (SSA) countries in recent years, and notes that this is due in part to the advice and actions of the Fund. The report acknowledges that Sub-Saharan Africa has experienced a period of unprecedented high growth and low inflation, which in turn contributed to a reduction in poverty. While several factors were at play, the Fund's policy advice was instrumental in promoting sound macroeconomic policies and in better accommodating the use of aid. In addition, the Heavily Indebted Poor Country (HIPC) Initiative and the Multilateral Debt Relief Initiative have greatly reduced debt-related vulnerabilities and the costs of debt servicing, thus enabling the more effective use of increased aid.

The report recognizes that through the Poverty Reduction and Growth Facility (PRGF), the Fund has delivered in those areas that are its primary responsibility—promoting macroeconomic stability and high-quality growth. There were many improvements in the Fund's assistance to low-income countries as the Fund moved from the Enhanced Structural Adjustment Facility (ESAF) to the PRGF. The report notes, for example, the promotion of higher domestic resource mobilization and higher social spending, including through the introduction of program floors on such spending. It highlights, in particular, the improvements in the Fund's efforts to support fiscal governance. The report also recognizes the continued evolution in the Fund's policy advice in the face of changing circumstances, including helping low-income countries to manage the macroeconomic challenges of using aid as effectively as possible. In light of these improvements, we would take issue with the report's assessment that practices under the PRGF have gravitated back to "business as usual."

The Fund's engagement in low-income countries has been and will continue to be focused on its core mandate of providing advice and support for sound macroeconomic policies as a prerequisite to sustained poverty reduction. We would have expected performance to be evaluated against the Fund's mandate in SSA, but in some instances, the report evaluates Fund performance in terms of the expectations of external stakeholders—thus complicating the interpretation of some of the findings. For example, the report finds limited progress in Fund-supported programs in incorporating distributional issues. However, distributional policies generally lie outside the Fund's core mandate. In fact, the Fund's role in this area is not direct action, but rather to be a cooperative partner with those whose expertise is in fighting poverty, most notably the World Bank. This is also consistent with the Fund's engagements under the Monterrey Consensus. It has always been expected, for example, that PSIA would be conducted by other agencies in the context of the Poverty Reduction Strategy Paper process (and then utilized by Fund staff in the design of programs). We accept the report's view, however, that there is scope for further clarifying this point, especially in our external communications.

The report also finds that the Fund has played a limited role in the international effort to mobilize more aid, in part because of mixed guidance from the Fund's Executive Board. This finding underscores the importance of further clarification by the Board regarding the Fund's mandate and policies on several aid-related issues.

We agree with the report's emphasis on the importance of accommodating higher aid flows through higher spending and net imports, while underscoring that this should not jeopardize macroeconomic stability. The report finds that, in line with Board approved

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policies, PRGF-supported programs have generally accommodated the use of new aid in countries with adequate reserves and moderate inflation. By contrast, the report finds that in countries with low foreign exchange reserves levels and high inflation a portion of the aid was saved. Resolving problems of macroeconomic instability, inadequate reserves, or unsustainable debt burdens, is at the heart of Fund work. In some cases, reserves were previously so low that they could not safeguard against shocks; in other cases, the buildup in reserves was of a more temporary nature and thus did not allow resources to be used effectively over time. The Fund's strategy will therefore continue to be implemented on a case-by-case basis—with the general objective being to bring all its low-income members to a situation in which aid can be fully absorbed and effectively spent.

The report's suggestion that institutional communications should be more consistent with Board-approved operational policies is well taken. Efforts are under way to strengthen this process significantly. For example, the African Department has developed a strengthened external communications strategy, comprising both country-specific and general policy messages. More generally, there has been a stepped-up internal communications effort across the Fund to better align staff understanding with institutional priorities.

Going forward, we will build on our commitment to support low-income countries as laid out in the Medium-Term Strategy. In particular, the 2006 report on implementing the MTS notes: "*the Fund's policy advice, capacity building, and financial assistance should focus on macro-critical issues, including institutions relevant to financial stability and economic growth. It is true that macroeconomic policies and institutions are only part of the story, and that these do not necessarily translate into growth and poverty reduction unless a more multi-disciplinary view of development is taken. But, equally, a relatively small international institution such as the Fund cannot be engaged in too many areas without compromising effectiveness—including in its core macroeconomic mandate*."

In this context, Fund management agrees with the thrust of the IEO's three specific recommendations.

- The first recommendation calls for further clarification by the Executive Board on several aid-related issues, including the mobilization of aid, alternative scenarios, PSIA, and pro-poor and pro-growth budget frameworks. We look forward to the Board's guidance on this in the context of the discussions of the IEO report and forthcoming staff papers on related topics.
- The second recommendation calls on management to establish transparent mechanisms for monitoring and evaluating the implementation of the clarified policy guidance. While there already exists a well-developed internal review process to ensure that Board directives are consistently implemented across countries, we agree that there is merit in strengthening mechanisms for follow up, such as ex post assessments of past Fund arrangements and broader stocktaking in the context of periodic Board reviews of the PRGF.
- The third recommendation calls for a clarification of expectations—and resource availabilities—for resident representatives' and missions chiefs' interactions with local donor groups and civil society. The generally positive assessment by the country authorities of their working relationship with the Fund is encouraging. However, the more mixed responses from donor groups indeed call for improved coordination and communication. We also need to engage better with other external stakeholders, including civil society organizations and parliamentarians. Given the constraints on staff time and budget, this needs to be done in a strategic way.

Following the Board discussion of this IEO report, and consistent with the new policies governing the work of staff in response to IEO reports, we will return to the Board with a detailed and costed work plan. Under the Fund's work program, the Board is already scheduled to discuss several staff papers over the next few months that will consider most of the issues raised in the IEO report—including the role of the Fund in the PRSP process, donor collaboration and management of aid flows, and issues relating to program design in low-income countries. We anticipate that these discussions, in addition to the lessons learned from the IEO report, will help improve the Fund's effectiveness in low-income countries. We will consider and report to the Board any needed modifications to our work program in order to address the issues raised by this report and in light of the Board's guidance.

Again, Fund management welcomes the IEO report and we look forward to building on its lessons learned. The accompanying staff comments provide some further detailed responses to the IEO's findings and recommendations.

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Staff Response to the Independent Evaluation Office Report on the IMF and Aid to Sub-Saharan Africa

Executive Board Meeting
March 5, 2007

The IEO report underscores the challenges and complexities of the Fund's work related to both the availability of aid for countries in Africa and its effective use. The report contains insightful analysis, and staff concurs with many of its findings, conclusions, and recommendations, which will prove helpful in our ongoing efforts to define more clearly the institution's mandate and strengthen its effectiveness. The recommendations should be considered in the context of the Fund's Medium-Term Strategy (MTS), which sets out the framework for more focused engagement in low-income countries. The MTS has launched a process that will address substantive aspects of the IEO report's recommendations and these findings will be useful in ensuring that the MTS work is focused on the right problems.

The report acknowledges that Sub-Saharan Africa (SSA) has experienced a period of unprecedented high growth and low inflation, contributing to a reduction in poverty. Most of the report presents the improved performance in SSA as part of the "external context" in which the Fund's work in low-income countries took place, rather than analyzing the extent to which PRGF-supported programs, or other forms of Fund assistance, contributed to this outcome. While several factors were at play, the Fund's policy advice was instrumental in promoting sound macroeconomic policies and accommodating the effective use of aid. This advice was complemented by the Fund's extensive technical assistance on a range of fiscal, monetary, and financial sector issues. In addition, the HIPC Initiative and MDRI have greatly reduced debt-related vulnerabilities and the costs of debt servicing, thus increasing fiscal space. The report also acknowledges that the Fund has made progress in projecting aid inflows in the face of a changing and sometimes uncertain aid environment, and has catalyzed aid through the PRGF's macroeconomic assessment.

The report speaks throughout of considerable learning and adaptation in a range of areas, including a flexible approach to accommodating aid and a stronger pro-poor focus. Many specific improvements are discussed (for example, the promotion of higher domestic resource mobilization, floors for social spending, support for fiscal governance, and more relaxed program adjusters). In this context, the finding that the Fund "gravitated back to business as usual" by the end of the period seems at odds with the discussion in the main body of the paper.

In general, the interpretation of some findings is complicated by ambiguity about the evaluation standard utilized. The expected measure of the Fund's performance would be its mandate as given by the Executive Board or stated by management. While the report sometimes uses this as an evaluation standard, in many instances Fund performance is evaluated against the expectation of a subset of external stakeholders. We recognize that part of the report's criticism relates to areas in which the mandate is ambiguous, but in several instances the report could have been more explicit about whose expectations were or were not fulfilled.

Also, while the Fund's mandate as defined by the Board provides a benchmark for part of the assessments, the IEO's interpretation of this mandate does not always coincide with staff's reading of the Board's directions. PRGF-supported programs focus on macroeconomic stability and growth, which in turn will support the desired goals of higher living standards and poverty reduction. The "poverty-reduction orientation" of the PRGF, and the choices made by management and staff to help countries reduce poverty, need to be understood with these overarching directives in mind, and specific criticisms made by the IEO should be evaluated in that light:

- The Fund's role in mobilizing and advocating a scaling up of aid is a central topic of this report. The IEO notes that the Fund has done little to mobilize aid, while acknowledging that this is an area in which the Board has not given staff a clear mandate. At the same time, Fund staff are expected to make sure that each program approved by the Board is "fully financed." Here we recognize that clarifying the meaning of the term "fully financed" in the context

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of a growth-oriented development strategy will be important.

- Implicit in the report's analysis is also a supposition that the Fund should be more active in helping countries confront distributive issues associated with programming for higher growth. But again guidance from the Board has made it clear that while the Fund should be mindful of the distributive consequences of the programs it supports, the Fund is not intended to be the lead agency on a wide range of policies that impinge upon distribution—this mandate lies with the Bank and other donors.
- Finally, Fund staff should incorporate, whenever available, good-quality poverty and social impact analysis (PSIA) into its advice and programs. However, Fund staff is not responsible for conducting PSIA—even though staff has conducted limited PSIAs in house on an ad hoc basis when resources allowed, focusing largely on reducing costly and inefficient transfers or subsidies or mitigating the impact of fuel price increases on vulnerable groups. We accept, however, the report's view that there may still be scope for enhancing coordination with the World Bank on the use of PSIA in program design. In this context, we would note that the finding that Fund staff considered that the Bank did not always provide timely and quality PSIA, points to the initial lack of clarity on the role of the Bank rather than to the substance of the Bank's work per se. We would also note some additional successful examples of Bank-Fund collaboration on PSIA, such as on Ghana (electricity reform) and Burkina Faso (cotton sector reform).

The Accommodation of Aid Inflows

We appreciate the report's emphasis on the importance of accommodating higher aid, through higher spending and net imports. Indeed, as noted in the report, Board guidance fully supports a "spend and absorb" strategy for countries where it is compatible with maintaining macroeconomic stability. However, the report's suggestion that the Fund had promised a "shift . . . in program design with respect to the programmed absorption of increased aid" (page 7, first paragraph) needs to be nuanced because, under the PRGF, securing macroeconomic stability and limiting financial vulnerabilities continue to be the primary objectives of program design, in part by building up a prudent reserve buffer. While countries are establishing stability, full spending and absorption may not be the best path to sustained growth and poverty reduction. The Fund has indeed modified its program design in the post-stabilization countries (so-called mature stabilizers), where the objective has shifted from stabilization to accelerated growth.

The question then is whether the Fund's approach to accommodating aid use has gone far enough, fast enough. One could read the report as advocating that immediate spending and absorption of aid is always the preferred strategy; for example, the report suggests that the Fund has unduly blocked the use of aid in some countries with low reserves. We prefer to emphasize a strategy that, as countries emerge from instability, could include saving part of aid inflows as a prudent and fully justifiable policy—for example, to build up an external reserve buffer, curb an excessive debt burden, smooth expenditures over time in the context of aid volatility and limited absorptive capacity, or support disinflation.[1]

On a more technical note, while the quantitative analysis of the programmed use of aid is innovative and thought-provoking, its methodology and scope do not permit an assessment of whether Fund programs are accommodating the use of aid over time, in the context of a multiyear strategy. In particular:

- The analysis of the link between aid and spending and absorption is static. It suggests that in countries with problems of macroeconomic instability part of aid is programmed to be saved. This policy is good when it leads eventually to a situation where aid can be fully absorbed and spent—but the analysis gives us no insight into this.
- The focus on the immediate (i.e., same-year) use of increases in aid implies that any attempt at expenditure smoothing will show up as less than full spending and absorption.[2]

Aid Projections

We see merit in the report's call for greater transparency about the derivation of the Fund's aid forecasts. Fund projections have broadly reflected the changing aid environment, adapting to the evidence of scaling up in certain countries in recent years. In addition, we were encouraged by the important finding that aid forecasts are accurate for the program period one year ahead, which has the largest operational relevance. Nonetheless, the report's finding that it is hard for readers to understand the nature of the projections in Fund-supported programs calls for better explanations of the program strategy. In particular, in the absence of longer-term commitments by donors, outer-year Fund projections tend to be more cautious. Against this background, Fund-supported programs are being updated

[1]In this context, the repeated reference to a minimum level of reserves equivalent to two or three months of imports (which is modest in light of the prevalence of shocks) as "high" gives the impression that Fund teams were overly zealous.

[2]See Appendix 1 for an overview of further problems related to the methodology for estimation.

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frequently (usually at least every six months), while outer-year projections have less operational impact. Moreover, in the context of aid uncertainty, the authorities often prefer cautious projections, avoiding costly disruptions to the budget process (for example, through start-and-stop projects).

We concur on the importance of the authorities, with the input of the Fund and other partners, developing alternative macroeconomic frameworks, based on different scenarios for aid inflows. PRGF-supported programs are necessarily based on a single baseline scenario to guide authorities in their immediate economic policy decision making, while being subject to frequent revision as the external environment, including aid allocations, changes. At the same time, there has been increasing use of alternative scenarios in PRSPs, debt sustainability analyses, and Fund surveillance reports, as encouraged by the Board, and more should be done in that context.

The "Key Features" Agenda and the PRSP[3]

The valid concerns expressed in the IEO report concerning the social impact of economic policies under PRGF-supported programs need to be taken up in the context of PRSPs, where these issues are considered by country authorities, in consultation with other stakeholders. The PRGF was expected to draw heavily on the PRSP on such issues as the identification of pro-poor spending, prioritization of expenditures, PSIA, absorptive capacity, and alternative expenditure scenarios. Accordingly, weaknesses in these areas can often be traced to the PRSP process (in which admittedly the Fund needs to play a key role), and in some cases the underlying issue may be need for more effective country/Bank/Fund collaboration in the PRSP context.

- The need to undertake an analysis of absorptive capacity constraints for sectoral programs points to a tension in the agreed division of labor between the Fund and the Bank. The report first notes that the Fund's relative lack of "attention to aid absorptive capacity constraints in education, health, or infrastructure, where the Bank is the lead agency" is in line with this division of labor, but then goes on to note that this was a "missed opportunity for considering synergies between areas where the Bank has the lead on one issue and the Fund on another." The intimate link between microeconomic and macroeconomic policies in this area requires a closer institutional cooperation than now exists, as also recognized in the MTS. The suggestions for improved cooperation in the report are useful in this regard.
- Concerns about overly-constraining definitions of priority spending will also need to be addressed through the PRSPs, where such spending is defined. It should be noted that the Fund, with the donor community, has shown flexibility in the definition of priority spending in countries where the authorities' definition has evolved. In particular in the area of infrastructure, in order to determine whether spending can be considered as priority or pro-poor, the Fund has to follow the advice from other experts. A further observation is that there appears to be some tension between the statements in the IEO report that: (i) staff did not systematically encourage pro-poor budget provisions, (ii) the authorities considered that staff put too much emphasis on pro-poor spending.
- In summary, the suggestion that the Fund has "done little to take into account spending composition issues" merits qualification. In the division of responsibilities between the Bank and the Fund, the Bank is the lead agency in expenditure composition issues. However, within this framework, the Fund has been active on expenditure allocation concerns.[4] Indeed, as noted in the report, Fund efforts have helped to ensure that poverty-reducing spending expanded rapidly during the evaluation period (in fact, some authorities considered that staff put too much emphasis on pro-poor spending). In addition, recourse to wage bill ceilings reflected, in part, a concern to ensure that sufficient resources should be directed to priority nonwage or capital outlays. At the same time, recent Fund guidance to mission chiefs in SSA countries has been to discourage the use of wage ceilings, given their blunt nature.[5]

Communications Strategy and Coordination with Donors

The report's overall finding of a disconnect in external perceptions between the Fund's rhetoric on aid and its actual work at the country level calls for improvements in the Fund's communications. Future efforts should comprise both the clarification of the Fund's mandate, in the context of the MTS, and better communication on discussions and policies at the country level. These steps can build on recent work to strengthen external outreach. In particular, in 2004 the African Depart-

[3]The IEO report takes as a benchmark the "Key Features" agenda, a list of elements of PRGF program design that support the specific focus of these programs on growth and poverty alleviation anchored by the PRSP.

[4]The report could have mentioned the Fund's analytical work and pilot studies on public investment (including for Ethiopia and Ghana) and public private partnerships.

[5]In addition, country authorities have sometimes found wage ceilings useful instruments to help address wage pressures, overstaffed civil services, strong unions, or sectoral lobbies.

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ment developed an external communications strategy comprising both country-specific and general policy messages. An External Communications Team comprising staff from the African and External Relations Departments has been established and country-specific strategies developed for eight countries.

In this context, the relatively positive assessment by the authorities of their working relationship with the Fund is important. The authorities are the Fund's primary counterpart, as the Fund's role is to target macroeconomic stability and growth through policy advice, financial support, and capacity building. A strong working relationship with the authorities is essential, and it appears the Fund has established that with its primary counterparts in the government (usually, the ministry of finance and central bank). However, in recent years, missions have regularly reached out to a broader set of ministries, including health and education, and to other official institutions.

The need to improve coordination with donors is of particular concern. Effective communication between Fund country teams and donors is critical for both sides to be effective in assisting low-income countries. These relationships are inherently complex, given the diversity of operations across the donor community. The Fund and donors are aware of coordination difficulties, and the Fund will continue to be an active participant in the international effort to work for better donor coordination in the context of the 2005 Paris Declaration.

It is also important to recognize the complexity of improving relationships with local nongovernmental organizations (NGOs). As the report recognizes, time constraints may not allow meeting them all, and the views of the authorities have to be considered. In the face of an extensive and diverse NGO community, better prioritization of outreach efforts is needed. In this context, the usefulness of developing regular communications between Fund country teams and parliamentarians also deserves mention.

Recommendations

In line with the above observations and assessments, staff concurs with each of the recommendations of the IEO Report.

The first recommendation calls for further clarification by the Executive Board of the Fund's mandate and policies on several aid-related issues. The IEO report demonstrates the scope for defining more clearly the Fund's commitments to outside stakeholders. In addition, on several issues, staff would benefit from greater clarity in their mandate, building on the MTS, in particular concerning the Fund's role in aid mobilization. The IEO suggests that further guidance should also cover thresholds for spending and absorption of aid increases, but general thresholds cannot properly take into account the wide variety of country-specific considerations (concerning, for example, absorptive capacity, macroeconomic vulnerabilities, the monetary and exchange rate regime, and the budgetary framework). Accordingly, guidance should focus on clarifying the conceptual framework and agreed best practices, which can then be applied for each country. In this context, the upcoming Board reports on the PRSP process, on aid inflows and program design, on the appropriate fiscal framework for managing scaled-up aid, and on public financial management issues in the context of scaled-up aid flows should provide useful vehicles for beginning to address this recommendation.

We also welcome the auxiliary recommendation to ensure the consistency of institutional communications with Board-approved operational policies. The Fund's External Relations Department has initiated such a process, by putting in place new procedures to integrate better Fund operations with communications.

The second recommendation aims to establish transparent mechanisms for monitoring and evaluating the implementation of clarified policy guidance. In this context, we note that a well-developed internal review process is in place to ensure that Board directives are consistently implemented across countries. We acknowledge, however, the case for additional mechanisms, in particular to address external concerns. In this context, we concur that both ex post assessments of past Fund arrangements for specific countries and a broader review of such issues in the context of periodic Board reviews of the PRGF could be helpful.

The report's final recommendation calls for a clarification of expectations—and resource availabilities—for resident representatives' and mission chiefs' interactions with local donor groups and civil society. As noted above, the mixed responses from donor groups are of particular concern and warrant new efforts to improve communication and coordination. The Fund will seek to address the serious and complex challenges to missions and resident representatives posed by the changing aid modalities and decentralization of donor operations, while also taking into account budget and staffing constraints. In this context, we note that the IEO report does not consider the need for prioritization in the current budgetary environment.

Appendix 1. Comments on the Quantitative Analysis of the Use of Aid Increases

In addition to the problems identified in the main text, several additional problems also impinge on the estimation and interpretation of the degree to which higher programmed aid inflows are accommodated in the form of increased fiscal spending and current account deficits. In particular,

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- The focus on averages and regression results in analyzing the degree of spending and absorption of aid in program design could be misleading. For example, if all countries either "spend and absorb" or "don't spend and don't absorb," the average would show partial spending and partial absorption. The latter pattern would then be presented as the typical case, even though no country actually exhibited this behavior.
- The regressions supporting the results emphasized in the report exclude the constant term—a choice that may lead to biased estimates and incorrect inference.
- While the report suggests that programmed aid-based spending is limited if inflation exceeds 5–7 percent, efforts to reduce high domestic government borrowing may actually be driving this result. In the econometric estimation, macroeconomic conditions are always proxied by inflation. However, this abstracts from the potentially important role of high domestic public sector borrowing, which is often the cause of high inflation. In our view, this omission is sufficiently important to cast substantial doubt on any policy conclusions based on the results.
- The report does not always take account of the interaction of absorption and spending decisions. For instance, in Annex 2, the equations are estimated separately for absorption and for spending. However, from a policy perspective, the degree of absorption and spending are codetermined (for example, higher inflation can be related to a reluctance to absorb previous aid flows, leading to excessive liquidity injections as this aid was spent. In this situation, it would be wise to program lower spending, but because of the low expected absorption, not because of the high inflation per se).
- A question stems from the approach to measuring aid projections against outturns using the ratio of aid to GDP. The analysis does not indicate the reason for deviations between predictions and outcomes; is it a result of underestimating nominal aid or overestimating real GDP growth?

The analysis would have benefited from a distinction between the different types of aid delivery and a discussion of their treatment under Fund-supported programs (i.e., "budget" versus "project" support). Program targets generally accommodate *project* disbursements *in full,* given that these are directly tied to specific project expenditures—usually with a large import content—and may be subject to specific procedures with individual donors. By contrast, fiscal targets and program adjustors typically apply to *budget* support, which is *not* linked to specific outlays and may be less predictable in timing and amounts, particularly in outer years (i.e., given donor budget cycles). This distinction—full accommodation for project disbursements and targets and adjustors for budget support—might also have helped address some of the "disconnect in external perceptions." It could also explain part of the apparent "bias" against infrastructure spending, since infrastructure spending tends to be linked to project disbursements, which are not offset when they are delayed or do not take place.

Appendix 2. Factual Corrections/Typos

- The claim in page 6, footnote 3 that the (usually zero) limits on nonconcessional borrowing have generally not been binding (and, by implication, superfluous) is tenuous. The binding nature of zero limits cannot be observed directly. Moreover, there have been several cases in which these limits were breached.
- Page 6, fourth paragraph of the report suggests that there has not been significant poverty reduction in the 29 SSA PRGF countries, over the 2000–05 period that the review largely focuses on. This claim is based on Chen and Ravallion (2004). However, the data used in the latter study end in 2001 (see panel H of Figure 2.1 of the report). One might expect that in 2001–05, some poverty reduction was achieved in the SSA PRGF countries, as per capita income rose significantly (see panel G of Figure 2.1).
- Debt sustainability analysis using the Fund's standard framework for analyzing debt dynamics for low-income countries is mandatory for all low-income countries and is, thus, not limited to HIPC cases (page 10, last paragraph).
- There is an inconsistency in the language of the third bullet on page 2 and the third bullet on page 32. The authors give a sensible account of experience with PSIA in these bullets and also on pages 16–17, the section on "Poverty and social impact analysis" that indicates the constraints on the Fund's involvement and stops short of blaming anyone. However, when one looks at the beginning of the last sentence of the bullets, the use of "also" implies that this experience is an example of weak Bank-Fund collaboration, which is not really the case. We would drop the "also."

Country-Specific Comments

Benin

- Page 15, footnote 43: Benin has not had any formal conditionality (floor) on poverty-reducing expenditure under its PRGF-supported programs (current and past). However, under the 2002–05 PRSP, spending for priority sectors (education and health, agriculture, public works and energy, and water management) was targeted at 28 percent of total spending.

Cameroon

- Page 50, fifth paragraph: Cameroon did not have a ceiling on the wage bill but rather on goods and

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services. The reference in this paragraph should be nuanced in line with Table A3.4 (page 53).

Ghana

- Page 13, first paragraph: Staff's data do not show a projected increase in aid over the medium term.
- Page 21: On nonconcessional borrowing, the correct formulation is that the authorities are interested in nonconcessional borrowing only after exhausting all concessional financing sources and for high-return investment projects.
- Page 48, last paragraph: Ghana also belongs to the group of countries where discussion of the exchange rate included discussions of productivity, and efficiency reforms to increase competitiveness.
- Page 50: The size of the fiscal deficit was not a performance criterion in Ghana's 2003–06 PRGF. The performance criterion was on net domestic financing of the government.
- Page 50, fourth paragraph: The report mentions that the revenue ratio was a program conditionality, which was not the case.
- Page 61, seventh paragraph: Same revision as regards page 21 above on nonconcessional borrowing. In addition to discussion of this issue in the Consultative Group, the issue was also discussed in the context of some review missions.
- Table A3.6. In the case of Ghana, it should be noted that the PSIA was completed *ex ante* (before the petrol pricing reform in February 2005) rather than *ex post*. Indeed, the countervailing measures adopted by the authorities were largely drawn from the findings of PSIA carried out by FAD.

Malawi

- Page 15, footnote 43: Malawi does not have any conditionality (floor) on poverty-reducing expenditure under the current 2005 PRGF arrangement. For the 2000 PRGF arrangement, neither the original program nor the 2003 first review included conditionality (floor) on poverty-reducing expenditure.
- Page 16, first paragraph, last sentence: Under the current 2005 PRGF arrangement, program adjustors allowed for increased central government discretionary expenditures in the event of higher than programmed health SWAp-financed other recurrent expenditures, and allowed for increased spending on central government wages and salaries in the event of higher than programmed health SWAp-financed wage expenditures. Poverty-reducing expenditure was not a quantitative target in the 2000 PRGF arrangement and hence there were no adjustors.
- Page 17, third paragraph: The report is correct that program documents (to date) have not indicated any countervailing measures linked to PSIAs. However, this is largely because the fertilizer PSIA was undertaken in February 2006 and the last issued staff report was in August 2006. However, as of now, the government has not indicated whether it would adopt the recommendations of the PSIA.
- Page 50, third paragraph: Malawi has not had any conditionality on the size of the fiscal deficit under either the current PRGF arrangement approved in 2005, nor the previous one approved in 2000. In both instances, a performance criterion was placed on the central government domestic borrowing.
- Page 52, first paragraph: Malawi has not had any conditionality on priority expenditures under either the current PRGF arrangement approved in 2005, nor the previous one approved in 2000. The current 2005 PRGF includes a ceiling on central government discretionary spending.
- Page 52, first paragraph: The current Malawi PRGF arrangement only includes an adjustor for higher wage spending in the event of higher SWAp-financed wage spending in the health sector, not in priority areas in general.
- Page 54, Table A3.5: The 2000 PRGF arrangement expired with only the first review being completed in October 2003. There was no second review. In neither instance was there quantitative conditionality on the wage bill. This conditionality exists in the 2005 PRGF arrangement.
- Page 54, Table A3.5: The 2000 PRGF arrangement expired with only the first review being completed in October 2003. In neither instance was there an indicative target in poverty-reducing expenditure. What is the reference to the 2002 program?

Mali

- Page 55, Table A3.6 (which discusses the use of PSIA) should mention the Mali selected issues paper issued in March 2006, which assesses the distributional effects of an increase in petroleum prices.

Rwanda

- The report states that Dutch disease was not a major concern (page 48, last paragraph, Annex 3 and also Annex 4). This does not correctly reflect staff's views. In fact, in EBS/05/55 (4th PRGF review, ¶11), staff wrote: "As large external inflows could put pressure on the real exchange rate to appreciate penalizing net exports, it is essential to raise productivity in the export sector. . . ." Also in subsequent reviews and the new PRGF, export promotion was a critical program element, acknowledging that a further real appreciation of the exchange rate is likely with a scaling up of aid.

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- We believe that there is too much emphasis on the PSIA, given the questionable quality of the document (page 60, third paragraph, Annex 4).

Tanzania

- Page 50, third paragraph: Tanzania programs used net domestic financing, not fiscal deficits as performance criteria; the language should be altered to reflect that.
- Page 61, Figure A4.5: In the row "before" of the column on "financing of aid shortfalls," the Tanzania box should be gray; Tanzania did allow limited domestic financing of shortfalls before 2001/02.

Uganda

- The performance criterion on poverty-reducing expenditure (page 15, third paragraph; page 15, footnote 43; Annex 3, page 52, first paragraph; and Table A3.5) was changed to an indicative target under the last (2002) PRGF arrangement.

Zambia

- Page 16, first paragraph: The report misrepresents the process that took place in modifying the indicative target for the wage bill ceiling in Zambia in 2004. A modification to the program was made on the basis of the authorities' request, and was not a reaction to negative publicity and controversy on wage bill ceilings. That is, when the wage bill ceiling could have potentially interfered with teacher hiring, the ceiling was appropriately modified. Persistent claims that the Fund-supported program in Zambia restricted the hiring of teachers and health workers have repeatedly been refuted (see the link below from November 2004). The IEO report could have usefully pointed this out. See http://www.imf.org/external/np/vc/2004/111804.htm.
- Annex 3, page 48, fourth paragraph: We would categorize Zambia as having a low level of international reserves. The PRGF-supported program aimed for a gradual buildup of reserves over the medium term.
- Annex 3, page 50, third paragraph: "The size of the fiscal deficit was typically used as a performance criterion (… Zambia)." The fiscal performance criterion in the program for Zambia is a ceiling on net domestic financing. While an adjustor for excess budget support implicitly creates a temporary cap on the fiscal deficit, the program would allow for spending the excess in subsequent periods (by drawing down government deposits) after appropriate expenditures have been identified and budgeted for.
- Annex 3, page 50, fourth paragraph: Tax revenue was not an indicative target in the PRGF arrangement for Zambia approved by the Board in June 2004.

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IEO Comments on Management and Staff Responses to the Evaluation of the IMF and Aid to Sub-Saharan Africa

Executive Board Meeting
March 5, 2007

We welcome the support by management and staff for the report's recommendations, and concurrence with many of the report's findings. The responses also call for clarification in some areas, as set out below.

Management Response

The evaluation uses Board-approved policies and management guidance as the yardstick for judging staff performance. Chapter 4 and Annex 1 of the report summarize the relevant Board-approved policies and management guidance. The evaluation does *not* assess IMF performance against an external yardstick, as implied by the management response (paragraph 4). However, external perspectives—in part driven by past IMF communications failures—do provide an important context for the evaluation.

IEO welcomes the clarification of management's position on the accommodation of aid. Straightforward language—as used in paragraph 6 to spell out management's program intent with respect to the implementation of Board-approved policy—should become a standard for IMF communications externally and internally. We urge greater clarity on operational policies and guidance to staff, including on the use of alternative scenarios and the Fund's role in the mobilization of aid, poverty and social impact analysis (PSIA), the Poverty Reduction Strategy Paper process, and the achievement of the Millennium Development Goals, following clarifications by the Board where needed.

IEO agrees that IMF staff should concentrate on macrocritical issues and analysis, as indicated in paragraph 8 of the management response. But good practice requires the use of sectoral analysis from the World Bank and other partners.[1] The evaluation finds such use rare, despite its relevance to the economy's likely supply-side response and to PRGF program design. Going forward, the challenge for the Fund is to *proactively* manage the interface with the Bank and other partners to secure the analytic inputs that staff need—as part of a broader approach to the rationalization of institutional partnerships and Fund-Bank collaboration. Otherwise, as the evaluation shows, staff will revert to their macro silos—business as usual—with adverse implications for the quality of their work and for the policy advice they can provide to Sub-Saharan African countries.

IEO believes that solving the problems that currently bedevil the use of PSIA also requires proactive management by the Fund. Management notes (paragraph 4) that "it has always been expected, for example, that PSIA[s] would be conducted by other agencies in the context of the PRSP process (and then utilized by Fund staff in the design of programs)." As detailed in the evaluation, this expectation has not been realized—arguably because not everyone had the same expectations, including those whom Fund staff expected would deliver the PSIAs to them. Indeed, as the IEO report observes (page 24, third paragraph), Fund-Bank collaboration has not worked well in areas where one institution (typically the Bank) is expected to supply the other institution (typically the Fund) with specific inputs and expertise—and where they are perceived to be unfunded mandates by staff in the supplying institution. Such considerations put a premium on the Fund's proactively managing its side of the partnership—including by determining and communicating its needs in a timely manner and elevating concerns to higher levels of management in partner organizations as needed—to see that the job gets done.

Staff Response

A central message of the IEO report is the need for (i) greater candor and directness by the Fund in communicating externally; (ii) greater proactivity (and less passivity) in partnering with the Bank and others; and (iii) greater accountability for both. We disagree with

[1]As noted in the Report of the External Review Committee on Bank-Fund Collaboration, February 2007: "The Fund cannot focus on macroeconomic stability and the fiscal aggregates, without regard for what is happening at the sectoral level."

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staff's reading of this central message as it applies to four key areas, as summarized below.

- The IEO report does not advocate the immediate spending and absorption of aid in all cases. However, it does advocate clear and transparent communications of the Fund's stance in all cases—and the rationale for that stance—including any implicit trade-offs between reducing inflation and/or increasing reserves on the one hand and spending and/or absorbing aid on the other. Public debate on these issues is important. The report also calls for more proactive communications of the Fund's analysis of aid absorptive capacity with donors and other partners.
- The IEO report does not call for the Fund to become the lead agency on Bank-led mandates, such as on the composition of public expenditures, the sectoral underpinnings of aid absorption capacity and growth, or distributional issues. However, it does call for the Fund to be a more active and engaged partner with the Bank and others—and user and requestor of partners' analysis—in areas of material importance to the Fund's work. In these areas, the Fund must occupy the middle ground—neither passively waiting for analysis by others nor taking over the production of that analysis, given the resources constraints the Fund faces and the agreed division of labor with the Bank and more broadly.
- The IEO report does argue that Fund staff have taken too little account of spending composition issues in assessing aid absorptive capacity—drawing on the inputs of the Bank and other partners—including in areas of direct relevance to the Fund's core responsibilities. Pages 10 (fourth paragraph) and 11 (second paragraph) of the report show that PRGFs rarely address the sectoral dimensions of country capacity to absorb and spend aid, while page 15 (second and third paragraphs) highlights PRGFs' neglect of infrastructure's supply-side linkages to the macro assessment and program design.
- The IEO report recognizes that Board-approved policy does not require the Fund to prepare PSIAs, but to reflect existing PSIAs in PRGF program design. Yet this does not happen. Interviewed IMF staff said that most PSIAs prepared by the Bank and other agencies generally lacked the necessary timeliness, relevance, and/or quality to underpin PRGF design. Nor did the evaluation find evidence of compliance with the Fund's operational guidance calling for the provision of at least a qualitative description of likely impacts of major reforms in the Fund's core areas of expertise even if no PSIA work is available.

IEO takes note of the many detailed comments in the two appendices to the staff's response. We note the tensions between page 80's description of the "quantitative analysis of the programmed use of aid [as] innovative and thought-provoking" and the cautions expressed in Appendix 1. Most of the comments included in Appendix 2 are qualifications and clarifications of staff views (rather than factual corrections); they will remain as part of the record of the evaluation.

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The Acting Chair's Summing Up

Independent Evaluation Office—The IMF and Aid to Sub-Saharan Africa

Executive Board Meeting
March 5, 2007

Executive Directors welcomed the evaluation by the Independent Evaluation Office of the IMF and Aid to Sub-Saharan Africa, which they regarded as especially timely in view of its relevance for the planned Board discussions on aspects of the Fund's role in low-income countries and the report of the External Review Committee on IMF–World Bank collaboration, as well as the Fund's external communications strategy. They considered that the report's candid findings and useful recommendations would provide important inputs to the Fund's continuing efforts to clarify the institution's mandate and policies for helping Sub-Saharan Africa, and low-income countries more broadly, achieve growth and reduce poverty. Directors stressed that, although the external perspective provided useful background, the report should be considered in the context of the Fund's current mandate, as well as its priorities envisaged in the Medium-Term Strategy (MTS), which provides the framework for more focused engagement in low-income countries. Directors took this opportunity to reiterate the Fund's commitment to the Monterrey Consensus and the critical importance of the Fund's continued involvement in low-income countries, including through well-designed financial and policy support in the context of surveillance, Fund arrangements, and technical assistance.

Directors were encouraged by the report's confirmation of the improvement in macroeconomic performance in Sub-Saharan African countries over the past decade. While recognizing the contribution of the authorities' own efforts and exogenous factors, they noted the role of the Fund's advice and actions. The Fund's policy advice had been instrumental in promoting sound macroeconomic policies and in better accommodating the use of aid. In addition, the HIPC Initiative and the MDRI had greatly reduced debt-related vulnerabilities and the costs of debt servicing. Directors also noted the various improvements in the Fund's assistance to low-income countries that had occurred since the introduction of the Poverty Reduction and Growth Facility, including the adaptations related to the promotion of higher domestic resource mobilization and higher social spending, and the Fund's efforts to support fiscal governance. More generally, Directors were encouraged by the IEO report's finding that the assessment by the country authorities of their working relationship with the Fund was generally positive.

Notwithstanding the Fund's positive contributions to the use of aid in Sub-Saharan Africa, Directors generally agreed with the report's assessment that considerable scope remains for further improvements. They considered that any improvements in the Fund's engagement in low-income countries should, in line with the MTS, continue to be focused on its core mandate of providing advice and support for sound macroeconomic policies as a prerequisite for sustained growth and poverty reduction. In this context, most Directors confirmed that distributional policies generally lie outside the Fund's core mandate and that poverty and social impact analysis (PSIA) should be conducted by other agencies in the context of the PRSP process, although others saw a continuing role for the Fund. Directors noted that PSIAs have not systematically supported PRGF program design, and emphasized the importance of improving Fund collaboration with development partners, in particular the World Bank, to take these issues into account when helping countries formulate their macroeconomic policies.

Directors confirmed the importance of accommodating higher aid flows through higher spending and net imports, provided that this would not jeopardize macroeconomic stability. They considered that this approach should continue to be implemented on a case-by-case basis and in the context of a multiyear strategy—with the general objective being to bring all low-income members to a situation in which aid can be fully absorbed and effectively spent. Directors concurred on the need for improved transparency and clear communications by the Fund on its stance regarding the use of aid, and on the trade-offs involved.

With regard to other aid-related issues noted in the report, Directors also offered a range of views. On the role of the Fund in developing alternative aid scenarios, many Directors indicated that, in the context of the

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PRSP, the staff should be available to prepare scenarios that illustrate the macroeconomic challenges of scaling up aid, including, in the view of some Directors, those based on estimates by others of additional resources needed for the MDGs when available. Most Directors emphasized, however, that the Fund's role should be limited to assessing the consistency of additional aid flows with macroeconomic stability and the absorption capacity of the country, with more normative advice and the preparation of less likely aid scenarios falling outside the Fund's mandate. On budget frameworks, Directors generally considered that the World Bank and other multilateral development banks should be the lead agencies in providing advice related to expenditure composition issues.

Directors supported the report's recommendation on the need for further clarification of Fund policy on several aid-related issues, including the mobilization of aid, alternative scenarios, poverty and social impact assessments of macroeconomic policies, and pro-poor and pro-growth budget frameworks. Directors asked the staff to come back with specific and costed proposals on how to clarify relevant policies and implement the report's recommendations.

Directors welcomed the report's recommendation to establish transparent mechanisms for monitoring and evaluating the implementation of the clarified policy guidance. In this context, they agreed that existing mechanisms for follow up, such as ex post assessments of past Fund arrangements, might be strengthened. They also noted the usefulness of broader stocktaking in the context of periodic Board reviews of the PRGF. They asked for staff proposals in these areas.

Directors also welcomed the final recommendation in the IEO report to clarify expectations under Fund policies—and resource availabilities—for resident representatives' and missions chiefs' interactions with local donors and civil society groups. They emphasized that, in particular, the concerns raised by donor groups called for improved coordination and communication, while stressing that the Fund should not itself play the role of coordinator or convener of donor activities and assistance. In addressing these challenges, in their view, attention should be paid to changing aid modalities and increasing decentralization of donor operations, while also taking into account the Fund's budget and staffing constraints. Most Directors recognized the particular importance of the role played by resident representatives in this context, but stressed that any further consideration of their role should be informed by a careful cost-benefit analysis, given the high costs involved and the Fund's current resource pressures. Directors agreed that the Fund's engagement with development partners would benefit from ensuring that institutional communications—both internal and external—are consistent with Board-approved operational policies.

More generally, Directors noted that a common theme in the IEO recommendations is the need for improved and more realistic Fund communications. Directors were concerned over the disconnect between the Fund's communication on aid and poverty reduction policy and what is the actual experience at the country level in low-income countries; the resulting expectations gap might put the Fund's credibility at stake. Thus, Directors supported the report's call for greater clarity in the Fund's external relations on what the Fund can and cannot do in its low-income country work. Directors welcomed management's intention to take further steps to build on the efforts to strengthen the communications process that is already under way. They also underscored the importance of a stepped-up internal communications effort across the Fund to align better staff's ongoing work with institutional priorities. At the same time, Directors emphasized that, given the budgetary constraints, improvements in coordination and communication would need to be implemented in a strategic manner.

Directors looked forward to management's proposals on implementing the IEO's recommendations. Some Directors suggested that the IEO may also usefully provide comments to the Board on implementation plans. Noting that several policy issues raised in the IEO report would benefit from greater clarity regarding delineation of Bank-Fund responsibilities, Directors looked forward to reviewing these issues further in the context of their forthcoming consideration of the report on IMF-Bank collaboration. In particular, they noted that greater clarity of the respective institutions' objectives, responsibility for expected deliverables, and accountability for quality would be crucial to help address several of the issues raised by both the reports.

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