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

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.