

IEO COMMENTS ON MANAGEMENT AND STAFF RESPONSES TO THE EVALUATION OF THE IMF AND AID TO SUB-SAHARAN AFRICA

**Executive Board Meeting
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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 PSIA's 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

¹As 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.”

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.