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 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 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.