

Revisiting the IEO Evaluations of The IMF's Role in PRSPs and the PRGF (2004) and The IMF and Aid to Sub-Saharan Africa (2007)



REVISITING THE 2004 IEO EVALUATION OF THE IMF'S ROLE IN PRSPs AND THE PRGF AND THE 2007 IEO EVALUATION OF THE IMF AND AID TO SUB-SAHARAN AFRICA

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This report is part of an IEO series that revisits past evaluations. Reports in this series aim to determine whether the main findings and conclusions of the original IEO evaluations remain relevant, and to identify any outstanding and new issues related to the evaluation topic that merit continued attention. The assessments are based on desk reviews of IMF documents and interviews of IMF staff and members of the Executive Board.

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ABBREVIATIONS

AFR African Department

DSA Debt Sustainability Analysis ECF Extended Credit Facility EFF Extended Fund Facility

ESAF Enhanced Structural Adjustment Facility

EXR External Relations Department FAD Fiscal Affairs Department

HIPC Heavily Indebted Poor Countries

IEG Independent Evaluation Group (World Bank)IEO Independent Evaluation Office of the IMF

IT Indicative Target
JSA Joint Staff Assessment
JSAN Joint Staff Advisory Note
LIC Low-Income Country

MDG Millennium Development Goals MONA Monitoring of Fund Arrangements ODA Official Development Assistance

OED Operations Evaluation Department (World Bank)

PFM Public Financial Management

PRGF Poverty Reduction and Growth Facility
PRGT Poverty Reduction and Growth Trust

PRS Poverty Reduction Strategy

PRSP Poverty Reduction Strategy Paper

PSI Policy Support Instrument

PSIA Poverty and Social Impact Analysis

The following conventions are used in this report:

- In tables, a blank cell or N/A 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 (e.g., 2012–13 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 (e.g., 2012/13) indicates a fiscal or financial year, as does the abbreviation FY (e.g., FY2013).
- "Billion" means a thousand million; "trillion" means a thousand billion.

As used in this report, 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 3 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 types of documents may become available 20 years after their issuance. For further information, see www.imf.org/external/np/arc/eng/archive.htm.

EXECUTIVE SUMMARY

The 2004 IEO evaluation of *The IMF's Role in Poverty Reduction Strategy Papers (PRSPs)* and the Poverty Reduction and Growth Facility (PRGF) and the 2007 IEO evaluation of *The IMF and Aid to Sub-Saharan Africa* examined IMF processes and programs in low-income countries (LICs). The evaluations came at a time when the Fund was still transitioning from the structural adjustment era to a model with greater country ownership, centered on the poverty reduction strategy process. They found that PRSP content and processes had had little impact on PRGF macroeconomic program design, which nevertheless evolved over the two evaluation periods as LIC performance strengthened and the necessary fiscal and current account corrections required for macroeconomic stability and sustainability lessened. The 2007 evaluation also found confusion about Fund policies with respect to the link between PRSPs—which emphasized participatory approaches, alternative scenarios, and the Millennium Development Goals—and PRGFs—which did not. Both evaluations found an increasing program focus on fiscal governance and support for pro-poor spending.

Since the completion of the two evaluations, the Fund has launched a new facilities framework for LICs, financed by the Poverty Reduction and Growth Trust (PRGT), and has replaced the PRGF with the Extended Credit Facility. The important positive trends identified in the evaluations have continued, especially the enhanced focus on fiscal governance and on program design that seeks to balance the expenditure requirements for growth and poverty reduction with the fiscal deficit requirements for macroeconomic stability and sustainability. In addition, progress has subsequently been made on most of the challenges identified by the two evaluations. Highlights include clarifications of relevant operational policies; program measures to protect social and other priority spending as defined in country-owned PRSPs; and improved external communications, especially in Sub-Saharan Africa. With respect to the use of poverty and social impact analysis in IMF program design, this review found several good practice examples in PRGT programs but not a systematic approach.

Going forward, the present review has identified three strategic issues that warrant continued attention: (i) strengthening IMF support for broad-based growth, poverty reduction, and social safety net programs under the PRGT; (ii) collaboration with the World Bank, especially now that the Bank has relaxed its PRSP requirements; and (iii) external communications on issues related to program design and the implications for growth and poverty reduction. How Management and staff address these issues will require careful attention by country authorities and Executive Directors.

I. INTRODUCTION

- 1. This report revisits the findings, conclusions, and recommendations of two IEO evaluations on the IMF's engagement with low-income countries (LICs): the 2004 Evaluation of the IMF's Role in Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF) and the 2007 evaluation of The IMF and Aid to Sub-Saharan Africa. It includes an update on the main issues raised in the two evaluations and describes developments to date, based on a review of relevant Fund documents—including Board papers, internal memoranda, and program documents and assessments—and databases, and interviews with IMF and World Bank Group staff.
- 2. The coverage of both evaluations started in 1999, the year the IMF and World Bank launched the Poverty Reduction Strategy (PRS) approach to providing assistance to LICs, including new concessional financial assistance and debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. The 2004 evaluation (IEO, 2004) covered PRSPs and PRGF-supported programs completed by end-2002; the 2007 evaluation (IEO, 2007) covered PRGF-supported programs completed through end-2005, along with related activities.
- 3. The years covered by the evaluations were a period of intense debate about the role and effectiveness of the Fund in LICs. For Executive Board members, the expansion of LIC-specific programs elicited concern about mandate creep beyond macroeconomic issues. Staff members were concerned about that as well, while other parties worried that the Fund would not be able to deliver on the PRSP/PRGF's implied commitments to new ways of working, which placed much greater emphasis on country ownership. External stakeholders fretted about the IMF's intentions, given what they saw as a track record of inflexibility and take-it-or-leave-it negotiations with poor countries.
- 4. This report is organized as follows. Section II recaps the findings and recommendations of the two evaluations under consideration. Section III summarizes LIC-related developments in the Fund since 2007 and analyzes the extent to which the conclusions of the original evaluations remain relevant. Section IV concludes with a brief discussion of outstanding issues.

II. THE 2004 AND 2007 IEO EVALUATIONS

5. The two evaluations focused on PRS processes and related products for the IMF's engagement with LICs that were introduced on the eve of the new millennium. As initially designed, PRSPs were to be prepared by LIC governments through participatory processes involving domestic stakeholders and external development partners, including the IMF and the World Bank. Joint Bank-Fund staff assessments (JSAs) were to bridge country PRSPs to Fund (and in some cases Bank) products, such as the PRGF and debt relief under the HIPC Initiative. The PRSP/PRGF suite of papers and products replaced an earlier suite—policy framework papers and the Enhanced Structural Adjustment Facility (ESAF)—which had

come to be widely viewed as too Washington-centric and a driver of the unsuccessful structural adjustment experience of many LICs.

A. The 2004 IEO Evaluation of the IMF's Role in PRSPs and the PRGF

- 6. The 2004 evaluation was carried out in parallel with an evaluation of the PRS approach by the World Bank Operations Evaluation Department (OED),¹ with both evaluations focusing on learning lessons about what was then a relatively new framework for Fund, Bank, and donor support for low-income countries. The IEO evaluation assessed: (i) the effectiveness of the PRS approach, especially with respect to the role of the Fund in LICs and for the delivery of Fund concessional assistance; (ii) the Fund's own contribution to the approach; and (iii) program design under the PRGF.
- 7. The evaluation concluded that the PRS approach had considerable potential at the country level, but limited achievements to date—especially with respect to macroeconomic policies. It found good country-level participation in the PRS process, but limited impact in generating meaningful discussion, debate, and ownership of macroeconomic policies beyond a small circle of country officials. Few PRSPs had provided strategic road maps for policymaking for macroeconomic stability, and there was little macroeconomic policy alignment between PRSPs and PRGF-supported programs. Most PRSPs had focused on the composition of public expenditures, and were tilted more towards ambition than realism in their plans.
- 8. The IMF's engagement with the PRS approach was judged to have fallen short in important process-related areas. The evaluation found too much focus on documents and procedures of the IMF and too little focus on institutional accountabilities. JSAs were overburdened with conflicting expectations, and encumbered by a requirement to judge the adequacy of the PRSP for Fund (and Bank) concessional support. And the PRS approach had done little to change the Fund's "way of doing business," especially with respect to encouraging informed in-country debate on macroeconomic program design; one result was that PRSPs did not provide a policy framework in which PRGF-supported programs could be anchored.
- 9. With respect to PRGF program design, the 2004 evaluation painted a largely positive picture in comparison with the ESAF that the PRGF replaced. A number of "key features" of the PRGF—including greater emphasis on pro-poor and pro-growth budgets, poverty and social impact analysis (PSIA), fiscal governance, and selective structural conditionality—were meant to break with the past (IMF, 2000). The evaluation found smaller and more gradual adjustment in PRGF-supported programs than in ESAF-supported programs, in large part reflecting the greater preponderance of good performers among the early PRGF users. Fiscal correction had focused on revenues, with significant increases in the actual expenditures designated by country authorities as poverty reducing. There was, however,

¹ Now the Independent Evaluation Group (IEG).

limited use of poverty and social impact assessments as a means to identify potentially adverse social and distributional impacts and thus provide a basis for program measures to offset these impacts. On structural conditionality, the evaluation found evidence of streamlining and a shift in composition towards fiscal governance.

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- 10. A number of recommendations emerged from the evaluation—some for PRSPs and some for the Fund. PRSPs should become more flexible and adaptive to country conditions; the focus should shift from documents to results; and the JSA should be changed to a more analytic document that highlights implementation constraints and trade-offs and provides feedback rather than summary judgment. The Fund should clarify what the PRSP means for its operations and engagement; strengthen its prioritization and accountability vis-a-vis partners; and encourage the strengthening of countries' external resource envelopes.
- 11. The IMF Executive Board welcomed the evaluation and its recommendations in July 2004 as timely contributions to a topic of ongoing debate (IMF, 2004a). Executive Directors agreed that the PRS approach needed to be implemented pragmatically and flexibly, taking due account of country-specific circumstances and capacity constraints as well as the need to ensure that Fund-supported programs continued to be designed to assure macroeconomic stability. Directors also agreed that the Fund needed to: set out more clearly its own role in the PRS approach in each country, based on its core mandate in macroeconomic and related structural policy issues; continue to strengthen its collaboration with the World Bank and other partners; and play a supportive role with donors to help ensure adequate provision of aid to LICs.
- 12. Shortly afterwards, the Board discussed a staff paper on *The Role of the Fund in Low-Income Member Countries* (IMF, 2004c), which presented a policy statement crafted by a Management-chaired Committee on Low-Income Country Work.² This discussion occasioned a continuation of the debate among Executive Directors about the Fund's role in LICs. The Board also discussed the 2004 Bank-Fund progress report on PRSPs which assessed the status of PRS implementation along several of the dimensions highlighted by the IEO and OED evaluations (IMF, 2004d).^{3, 4}

The Committee on Low-Income Country Work was formed in early 2004 (prior to the Board discussion of the IEO evaluation) and charged with developing concrete proposals to strengthen the Fund's work on LICs (IMF, 2004b). The committee was chaired by the First Deputy Managing Director and consisted of Deputy Managing Directors and directors of selected area and functional departments.

³ Subsequently, in the fall of 2005, the Board discussed a *Review of PRGF Program Design* (IMF, 2005b). In further related work, *The Managing Director's Report on the Fund's Medium-Term Strategy* set out principles for Fund relations with LICs (IMF, 2005a) and a Working Group on the Role of the Fund in Low-Income Countries was formed to translate those principles into guidance for the operational work of the Fund in LICs (IMF, 2006).

⁴ The first Periodic Monitoring Report (IMF, 2007a) provided a brief follow-up on the implementation of the Board-endorsed recommendations of the 2004 evaluation.

B. The 2007 IEO Evaluation of the IMF and Aid to Sub-Saharan Africa

- 13. The 2007 evaluation was begun in late 2005 as an assessment of the IMF's role in the mobilization and use of aid—which had become a lightning rod for external criticism and also a central element of the debate among Executive Directors on the role of the Fund in LICs. Given the interconnections between aid and the PRSP process, which invariably involved the World Bank at least as much as the IMF, the evaluation zeroed in on the PRGF and program design in an effort to isolate the Fund's contribution.
- 14. Much of the review of program design focused on aid-related issues. Here the evaluation found that PRGF-supported programs (i) accommodated the full use of aid—both spending and absorbing—in good performers (countries with low inflation and strong reserve positions), but were far less accommodating in poor performers; (ii) indirectly catalyzed aid—through their macroeconomic assessment and support for country efforts to improve the underlying macroeconomic environment and fiscal governance; but (iii) did not set ambitious aid targets, identify additional aid opportunities (where absorptive capacity exceeded aid inflows), or develop alternative aid scenarios.
- 15. The evaluation used the key features of the PRGF as a checklist for considering other aspects of program design.⁵ Here—like the 2004 evaluation—it found strong achievements in the fiscal governance area and weak achievements in the PSIA area, with the differences explained by strong Board support and Bank-Fund collaboration on the former and weak Board support and Bank-Fund collaboration on the latter. It also found that PRGF macroeconomic program design was determined in the usual way, per the briefing paper process in Washington, and not by the PRS process or in alignment with the PRSP macroeconomic framework—though feedback from the latter exerted influence in some cases.
- 16. The evaluation found the staff's actions to be fully consistent with the Fund's operational policy, which it also found was not widely understood. The lack of understanding was partly due to confusion between PRSPs—which emphasized participatory approaches, alternative aid scenarios, and the Millennium Development Goals (MDGs)—and PRGFs—which did not. It was also partly due to the ongoing debate at the Board on the role of the Fund in LICs, which resulted in insufficiently clear statements of IMF policy.
- 17. The lack of understanding of Fund operational policy was also partly due to communications failures by the Fund. A recurring theme of the evaluation concerned external perceptions of a disconnect between what the IMF committed to do on aid and poverty reduction and what the Fund actually did at the country level. This included how the Fund handled the programmed saving of incremental budget support in some cases, which donors and civil society organizations saw as the "blocking of aid use" despite major needs

⁵ The evaluation did not consider the key feature of selective structural conditionality, which was the subject of an ongoing IEO evaluation of *Structural Conditionality in IMF-Supported Programs* (IEO, 2008).

in the health sector and elsewhere. Meanwhile, the IMF's External Relations Department (EXR)⁶ was found to have overstated what the Fund was actually doing on alternative aid scenarios, strategies for attaining the MDGs, and the mobilization of aid in the context of PRGF-supported programs. On the ground, operational staff shied away from outreach in view of the perceived risks and consequences of getting the Fund's message wrong.

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- 18. The 2007 evaluation made three recommendations for improving the coherence—actual and perceived—of the institution's policies and actions on aid to Sub-Saharan Africa and related issues. First, the Board should clarify and/or reaffirm policies on aid and PRGF program design. Second, Management should establish a transparent monitoring and evaluation framework for the clarified policies, including periodic stocktakings. Third, Management should ensure consistent communications and clarify expectations and the resources available for local outreach.
- 19. In discussing the evaluation report, IMF Executive Directors supported the need for further clarification of Fund policy on aid mobilization, alternative scenarios, PSIA, and pro-poor budget frameworks (IMF, 2007b). They confirmed the importance of accommodating higher aid flows through higher spending and net imports, subject to macroeconomic stability. They agreed that the Fund's engagement with development partners would benefit from ensuring that institutional communications (both internal and external) were consistent with Board-approved operational policies.
- 20. The Management Implementation Plan—the first of its kind to be introduced in the wake of the 2006 *Report of the External Evaluation of the IEO*—set out a work program of policy and strategy papers on the range of issues covered by the evaluation, which were discussed by the Board over the following six months (IMF, 2007c). In July 2007, the Board reviewed the operational implications of aid inflows for IMF advice and program design in LICs based on two staff papers: *Aid Inflows—The Role of the Fund* and *Operational Issues for Program Design* and *Fiscal Policy Response to Scaled-Up Aid* (IMF, 2007e). It also discussed the IMF's communications strategy (IMF, 2007d) and the role of the Fund in the PRS process (IMF, 2007f).⁷

III. POST-EVALUATION DEVELOPMENTS: WHERE ARE WE?

21. Since the completion of the two evaluations, much has changed in Sub-Saharan African and other LICs, in the IMF, and in the international financial environment in which they operate. LICs—including those in Sub-Saharan Africa—have achieved widespread progress on economic growth and poverty reduction, notwithstanding a challenging environment. In the Fund, relevant changes included the launch in 2010 of a new facilities

⁶ Now the Communications Department.

⁷ Subsequently, in 2008, following further related work on LICs, the Board reviewed a synthesis of the full range of policy decisions and developments related to the Fund's work in LICs since 2004 (IMF, 2008c).

framework for LICs financed by a new Poverty Reduction and Growth Trust (PRGT) and the replacement of the PRGF by the Extended Credit Facility (ECF). And in the international environment, a succession of global crises and recession adversely affected LIC exports, remittances, and aid, putting pressure on foreign exchange receipts, government revenues, and safety net programs.

22. These changes provide the context for the following discussion of post-2007 developments in PRS documents and processes, LIC program design, and communications.

A. PRS Processes and Documents

- 23. In the wake of the 2004 and 2007 IEO evaluations, the IMF clarified its role in the PRS process. During the 2007 discussion of the Fund's role in this process, the Executive Board concluded that "the primary focus of the Fund's work in LICs in the context of the PRS process should be to provide policy advice and technical support on the design of appropriate macroeconomic frameworks and on macroeconomically critical structural reforms" and that "Fund staff should ... not take the lead in microeconomic or sector-specific growth analysis" (IMF, 2007f). While the Fund's primary role in the PRS process remains the provision of macroeconomic and related advice, there is no guarantee or requirement of consistency between a PRSP and a concurrent PRGF/ECF-supported macroeconomic program, as had been noted in the 2007 evaluation.⁸
- 24. PRSPs and PRS processes still play a prominent role with respect to the composition of public expenditures in ECF-supported programs. Most PRSPs focus on the composition of public expenditures, especially social sector spending. Building on this, a 2007 policy clarification (IMF, 2007e) noted that priority poverty-reducing spending was defined in most PRSPs and called for Fund staff to use the same definitions in PRGF-supported programs.
- 25. JSAs were replaced by Joint Staff Advisory Notes (JSANs) after the 2004 evaluation. In late 2004, the Board endorsed the joint IMF-World Bank staff proposal to reposition the JSA as a provider of candid feedback to the authorities and to rename it to better reflect its advisory (rather than judgmental) role. With the move to the JSAN, and the elimination of the requirement that staff state that the PRSP was a suitable basis for concessional assistance, the Fund turned a page—away from what many external stakeholders had perceived as a "Washington sign-off" on what was supposed to be a country-owned and country-driven process (IMF, 2004d).9

⁸ In 2005, in the context of the last in the series of annual Bank-Fund PRSP progress reports, the continuing alignment challenge was attributed to two factors: (i) the perceived tension between realistic macroeconomic frameworks for maintaining stability and more ambitious frameworks for reducing poverty; and (ii) a lack of clear links between PRSPs and annual budgets (IMF and World Bank, 2005).

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⁹ As noted in Box 1, the World Bank sees continuing perceptions of a "Washington sign-off" in its existing PRSP and JSAN policies and processes.

- 26. Since 2007, PRS documentation requirements for IMF concessional and debt-relief facilities have been relaxed somewhat, but the provision to the Board of an up-to-date country-owned PRS document remains a requirement for programs supported by the ECF and the Policy Support Instrument (PSI).¹⁰ One result is that PRSPs and JSANs continue to be produced—at a rate of about one per month. According to staff, the associated documentation requirements for the authorities still involve "procedural hurdles that hamper, rather than support, program implementation" (IMF, 2012f).¹¹ Timing requirements for PRSP submissions in connection with ECFs were relaxed in 2009, and there was another modest relaxation last year following intense Board debate and with dissent from several major shareholders.¹² During the Board discussion, a number of Directors noted that a complete delinking of PRSPs from ECF-supported programs, as advocated by some, could diminish the Fund's role in poverty reduction.
- 27. Recently, the World Bank Board approved the elimination of all requirements for LICs to submit PRSPs to the Bank and for Bank staff to submit JSANs to the Bank Board (World Bank, 2014b; see also Box 1).¹³ How this proposed change will affect the Fund remains to be seen. According to the Bank's draft directive for the new approach, "... the World Bank Group will continue to collaborate closely with the IMF at the country level. In addition, World Bank Group staff will work with IMF staff to prepare a JSAN whenever requested (for example, for remaining HIPC cases or if it continues to be required under IMF financing for low-income countries)" (World Bank, 2014a).

¹⁰ Current rules also require that, for each request or review of a PRGT-supported program, the member country present a detailed statement describing how the program advances its poverty reduction and growth objectives.

¹¹ However, staff also noted that there are cases in which countries continue to develop PRSPs as part of their own planning and budget preparation needs.

¹² The staff report on the *Review of Facilities for Low-Income Countries*—which set the stage for the Board debate—noted continuing concerns by authorities about PRS documentation requirements (IMF, 2012f). Initially, the staff report proposed that JSANs be issued to the Executive Board for information only. However, this proposal was rejected by a number of Executive Directors who expressed concerns that it could diminish the Fund's role in poverty reduction. During the Board discussion, it was agreed that JSANs should be circulated to the Executive Board for discussion or for information (Decision No. 15356-(13/32)).

¹³ As noted in IMF (2012f and 2013c), the World Bank's existing requirements for PRSPs are looser than the Fund's. The Bank has no explicit links between PRSPs and approvals or disbursements of financial assistance, and all JSANs are circulated to Executive Directors exclusively for information.

Box 1. The World Bank Group's New Country Partnership Framework: Implications for the PRSP and JSAN

The World Bank Group (WBG) is in the process of revising its approach to country strategy formulation, with a new Country Partnership Framework aimed at "helping countries achieve ambitious 'twin goals' of ending extreme poverty and promoting shared prosperity in a sustainable manner."

According to the World Bank's April 2014 draft directive, WBG Management "proposes to remove the policy that IDA [International Development Association] countries should transmit a Poverty Reduction Strategy Paper (PRSP) to the World Bank ahead of a country strategy" because "[p]reparing a full PRSP every few years imposes a significant burden on the already strained capacity of many low-income countries" and "[t]he current expectation that IDA countries transmit their PRSPs to the World Bank prior to discussion of the CAS [Country Assistance Strategy] is sometimes misperceived as a 'Washington sign-off' on a country development strategy."

The draft directive further notes that "the new [approach] will also obviate the need for a mandatory Joint Staff Advisory Note (JSAN) to be sent to the Bank's Executive Directors following each PRSP. Currently the WBG and IMF are expected to review the country's PRSP and provide advice to the country authorities, their Boards and other stakeholders. But by the time a PRSP is completed and approved by the country, it already embodies wide country consultations as well as WBG and IMF advice that was provided well upstream.... [Hence] Management proposes that the preparation of JSANs will no longer be a policy requirement for the World Bank Group's work in IDA countries."

Source: World Bank (2014a).

B. Program Design

28. Elements of LIC program design have evolved over the post-evaluation period—and in some cases have been more clearly expressed. But the basic principles of the Fund's approach to program design have remained broadly unchanged. This section briefly reviews the evolution of program design, along the dimensions of the PRGF key features highlighted in the 2004 and 2007 evaluations. For purposes of comparison, it focuses on programs supported by the ECF, which replaced the PRGF.¹⁴

Fiscal flexibility

29. LIC program design still aims to balance the requirements for macroeconomic stability and sustainability with the requirements for growth and poverty reduction. Almost all the PRGF-supported programs that were reviewed by the 2004 and 2007 evaluations supported measures for improving domestic resource mobilization. The magnitude of programmed macroeconomic adjustment—and in turn the need to consolidate expenditures—was appropriately smaller for stronger performers, because they were closer to achieving stability. A review of a more recent and diverse sample of PRGF/ECF-supported programs, conducted for this report, suggests that those findings are still valid, with the

¹⁴ It does not cover PSIs that some LICs, e.g., Mozambique, Rwanda, Senegal, Tanzania, and Uganda, adopted in the absence of pressing financial needs.

cross-country differences illustrating the range of challenges that countries have faced and the corresponding range of programmed expenditure responses (Box 2).¹⁵

Box 2. What Happened to Expenditures During IMF-Supported Programs in 2007–13?

Programmed expenditures (as a share of GDP) rose in cases where macroeconomic conditions were sufficiently supportive, based on previous expenditure and revenue performance...

- In **Burkina Faso**, back-to-back programs focused on revenue increases, geared to creating the fiscal space to boost expenditures—both capital spending for growth and recurrent spending for poverty reduction programs, the need for which intensified with a succession of shocks related to the food and fuel crises, adverse weather conditions, and inflows of refugees from conflicts in neighboring countries. The overall fiscal deficit, including grants, narrowed from 5.7 percent of GDP to 3.2 percent over the period 2007–12, even as expenditures were able to rise from 23 percent of GDP to 26 percent.
- In the **Kyrgyz Republic**, programmed expenditures rose even as revenues declined during the Fund-supported programs in 2008 and 2010. In the earlier PRGF period, fiscal policy had been prudent, with increasing government revenue supporting balanced budgets by 2007–08 and a sharp Paris Club-related decline in public debt. The resulting buffer created room for countercyclical fiscal policies in 2009–10, involving a decrease in the value-added tax rate and an increase in social and capital spending which was made all the more urgent by the 2010 domestic political crisis. The ECF arrangement approved in 2011 saw a return to consolidation starting in 2012.
- In Malawi, stop-go reforms precluded a steady improvement in the deficit, but expenditures as a share of GDP were still able to rise slightly in 2008, allowing for increased subsidies for fertilizer and seed in the wake of the global food crisis. Malawi's fiscal performance through 2007 had been good, with revenue gains, scaled-up aid inflows, and expenditure restraint creating the fiscal space for additional social spending.

But in other cases, programmed expenditures (as a share of GDP) fell—to offset unsustainable spending in the previous period...

- In **Ghana**, the 2009 PRGF-supported program started on the heels of an unsustainable pre-election expansion that had seen increases in expenditures as a share of GDP by 4 percentage points and in the fiscal deficit to almost 15 percent of GDP. Under the program, expenditures were programmed to be reined in to establish a firm basis for future growth and poverty reduction, even as social safety net programs were protected and in some cases expanded.
- In **Grenada**, a broadly similar situation prevailed at the start of the 2010 ECF-supported program, with expenditures (especially public investment) cut sharply in the face of rising debt incurred during the previous PRGF period.
- In Nicaragua, large increases in current spending (on wages, pensions, and health insurance benefits) in a context of limited fiscal space (revenues were stable, but budget-support loans and grants by donors, including the World Bank, declined) increased the central government deficit from 0.9 percent of GDP in 2008 to 2.0 percent in 2009. Agreement on a revised program that focused on safeguarding macroeconomic stability took time to reach, due to uncertainties regarding the impact of the global financial crisis and the size of donor support, as well as political resistance to expenditure restraint.
- In **Armenia**, the 2010 ECF/EFF arrangement included a tightening of fiscal policy to withdraw the stimulus—largely from current expenditures—that had supported the economy during the crisis under the preceding Stand-By Arrangement. A decrease of 2 percentage points of GDP in the structural primary balance was programmed in the first year, followed by annual reductions of about 1 percent of GDP over 2011–13, fueled by both increasing tax revenues and decreasing expenditures (as a share of GDP).

Source: IMF program documents and Ex Post Assessments.

¹⁵ The 17-country sample consists of: Armenia, Benin, Burkina Faso, Burundi, Gambia, Georgia, Ghana, Grenada, Kyrgyz Republic, Malawi, Mali, Mauritania, Nicaragua, Niger, São Tomé and Príncipe, Sierra Leone, and Zambia.

Aid

- 30. An important policy clarification following the 2007 evaluation concerned the treatment of aid in program design, and whether—and how much of—aid increases should be programmed to be spent or saved. Broadly speaking, the clarified policy was that, going forward, Fund-supported programs should accommodate the full use of aid whenever this approach would not jeopardize macroeconomic stability (IMF, 2007e).
- 31. Aid, especially grants, has remained important to LICs in the post-2007 period, but its prominence in program documents has declined. This is largely for two reasons. On the aid supply side, donor commitments of official development assistance (ODA) to LICs peaked in 2007. And on the aid demand side, debt relief—along with improved prospects for mineral exports in a number of LICs—opened up new opportunities for non-aid financing for a number of LICs.
- 32. The 2007 clarification of policy covered adjusters to provide for automatic changes to performance criteria linked to pre-specified aid surprises and/or shortfalls (IMF, 2007e). The post-evaluation programs for the countries considered in Box 2 showed an increase in the spending of aid surprises compared with the evaluation period. Though the reasons for departures from full spending were not typically set out in the program documents, the sample programs without full spending involved consolidation after spending overruns in the preceding period.
- 33. The 2007 policy clarification also stressed the importance of ensuring the consistency of program design with debt sustainability (IMF, 2007e). Non-transparency of program aid projections had been flagged in the 2007 evaluation, especially with respect to assumptions about medium-term inflows. These projections had tended to taper off prematurely, complicating the authorities' and partners' expenditure planning. The Fund's clarified policy calls for greater transparency (IMF, 2007e). Current Bank-Fund debt sustainability analyses (DSAs) regularly set out grant (and related) assumptions for 20 years into the future and require Fund and Bank staff to pool their knowledge about likely aid inflows. While program documents now provide more detailed aid projections than in the past, these forecasts are subject to a high degree of uncertainty, given the many unknowns underlying the assumptions.
- 34. Staff analysis of alternative aid scenarios increased in the wake of the 2007 policy clarification. The 2007 evaluation had found that such scenarios were little used by staff largely because of the Board's insistence on single (most-likely) scenarios for program requests. The policy clarification reaffirmed that PRGF- and other Fund-supported programs should be based on a single baseline scenario, but that staff should assist the authorities in

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¹⁶ ODA disbursements continued rising through 2011, but at a reduced rate, and were driven by sharp increases to a few large LICs (see http://www.oecd.org/dac/stats/statisticsonresourceflowstodevelopingcountries.htm).

preparing alternative scaling-up scenarios in the context of PRSPs and Article IV discussions (IMF, 2007e). Scaling-up exercises were subsequently carried out for 15 Sub-Saharan African countries, 17 but they had little influence on program design since much of the scaled-up aid did not materialize.18

Fiscal governance

- 35. Public financial management (PFM) is still a central pillar of Fund-supported LIC programs, aimed at promoting the effective and transparent mobilization and efficient use of domestic resources and aid, in partnership with the World Bank and others. A review carried out for this revisit of 17 LICs shows that all but one country had PFM as a major pillar of the structural agenda supported by Fund programs. 19 In most cases the agenda was supported by technical assistance by the Fund (and others) and by program conditionality.²⁰
- 36. There is considerable cross-country variation in the specific coverage of the PFM agenda, and in the degree of implementation and results. For example, in the case studies reviewed in Box 2, the program-supported PFM agenda ranged from being central and highly substantive in Burkina Faso to marginal in Armenia (where the program's larger governance focus was on the private sector rather than PFM, which was supported by technical assistance), with the other five country programs lining up in between. There was greater dispersion in outcomes, as implementation rates also varied across the sample countries, with Burkina Faso having the strongest performance as well as the strongest program, and the Kyrgyz Republic and Nicaragua at the opposite end of the performance spectrum. As Ex Post Assessments for a number of sample countries make clear, the larger challenge entails moving beyond enacting new fiscal governance regulations to ensuring their actual utilization.
- 37. The emphasis on PFM is not confined to the LICs in the sample reviewed for this revisit. According to The Application of Structural Conditionality—2009 Annual Report, structural conditionality has increasingly focused on public sector resource management and accountability, topics that comprised nearly half the structural conditions in Fund-supported LIC programs (IMF, 2010a). The 2011 Review of Conditionality found an increase in such conditionality in LIC programs in the period 2008–11 (IMF, 2012b). This marked a

¹⁷ Covering Benin, Burkina Faso, Central African Republic, Cote d'Ivoire, Ethiopia, Ghana, Liberia, Malawi, Mali, Niger, Rwanda, Sierra Leone, Tanzania, Togo, and Zambia (Berg and others, 2012; IMF, 2008b; IMF, 2008d; IMF, 2009b; IMF, 2010b; and IMF, 2013a).

¹⁸ Both Africa and LICs as a group received only about half of the original Gleneagles commitments that had been made in 2005 at the height of the scaling-up era.

¹⁹ See footnote 14.

²⁰ Structural performance criteria were discontinued in May 2009. Since then, all structural conditions have taken the form of structural benchmarks or prior actions and have been monitored through reviews (IMF, 2010c).

continuation of the trend highlighted in the IEO evaluation of *Structural Conditionality in IMF-Supported Programs* (IEO, 2008).

12

Pro-poor and pro-growth budgets

- 38. The 2004 and 2007 IEO evaluations focused on how pro-poor and pro-growth PRGF-supported budgets were. The 2004 evaluation found wide variations between "average" and "best" practice handling of social spending in PRGF-supported programs, which included increasing attention to protection of social expenditures, even in some cases where this required an expansion of the fiscal deficit. Three years later, the 2007 evaluation highlighted Sub-Saharan African authorities' concerns that Fund staff had focused *too much* on social sector spending—often, they said, to the neglect of infrastructure, which many saw as more pro-growth and in turn more poverty reducing.
- 39. Key changes in the post-evaluation period were the IMF Board's recognition, in 2007, of PRSP-based priority-spending floors as a PRGF best practice (IMF, 2007e) and, subsequently, the introduction of a requirement to aim to safeguard PRSP-defined social and other priority spending under PRGT-supported programs (IMF, 2009a). This requirement applies to ECF-financed programs as of January 2010 and has three defining elements: (i) safeguarding of social and other priority spending; (ii) reliance on PRS documents for the identification of such spending; and (iii) monitoring of such spending through explicit program targets, typically an indicative floor, whenever possible (IMF, 2012a).
- 40. Importantly, the numbers suggest that the new requirement is being met. An analysis prepared for this report found that the share of PRGF/ECF-supported programs with social and other priority spending floors rose from less than 50 percent prior to the introduction of the requirement to 100 percent in 2011–13. Indeed, of the 30 ECF-supported programs approved in 2010–13, all but one included floors on social and priority spending.^{21, 22}
- 41. The reliance on PRS documents for the identification of spending targets is important for several reasons. First, it has effectively bridged Fund-supported programs to country-owned strategies to which the Fund has a Board-approved link.²³ Second, it has thus far

²¹ The single exception was the Grenada program, for which the requirement was satisfied through its plan to develop a tracking system for priority spending, as there was no such system in place at the start of the program—an approach allowed under IMF guidance to staff.

²² In examining Fund programs, some observers have found a much smaller rate of inclusion of social indicative targets in PRGT-supported programs. The difference is due to the coverage of the measure used, and whether it includes all ongoing programs in a given year or all programs approved in that year. Martin and Watts (2012), for example, found that the use of social spending floors had increased in recent years—with 70 percent of ongoing PRGT-supported programs in 2010 having such floors, a number that compares with 92 percent of PRGT-supported programs actually approved in 2010.

²³ Some observers have called for a uniform set of targets—as an alternative to country-based priorities—to facilitate cross-country comparisons. IMF (2012f) noted that in commenting on the 2012 *Review of Facilities for Low-Income Countries*, some civil society organizations called for greater uniformity and periodic

jointly involved the Bank and the Fund, and the Fund has been able to look to the JSAN for the Bank's assessment of possible spending targets for education, health, and infrastructure. Third, it has built on the lessons of experience, as identified in the 2007 evaluation, in monitoring and reporting on the use of HIPC savings for social and other priority spending.

- 42. But there is room for improvement in the follow-up process. Analysis of the Monitoring of Fund Arrangements (MONA) database, through which Fund staff tracks whether individual program targets have been implemented, indicates that in 2010–13, on average, 64 percent of the social and other priority spending indicative targets had been met at the time of their respective test dates. But the quality of the expenditures and shortfalls from the targets have not received much analysis in Fund documents, either in individual ECF program review documents or in broader Fund-wide reviews and stocktakings. For example, the 2011 Review of Conditionality simply noted that "[f]ollowing the revamping of facilities for LICs in 2009... the use of poverty-related ITs [indicative targets] increased in PRGT programs," but did not provide any further analysis (IMF, 2012c). Similarly, the 2012 Review of Facilities for Low-Income Countries cited the progress on including social and other priority spending targets in new programs approved since 2010, but without referring to the quality of the expenditures or the rate of target compliance in individual programs (IMF, 2012f).
- 43. Staff has made efforts to examine the outcomes of Fund-supported programs on growth and poverty reduction in LICs in the aggregate. For example, the *2011 Review of Conditionality* cited staff empirical research that found that social spending grew faster in program than in non-program LICs during 1985–2009 (IMF, 2012e). And the 2012 *Review of Facilities for Low-Income Countries* cited research that found favorable results for IMF longer-term engagement in LICs, especially on growth and, to a lesser extent, on inequality during 1986-2010 (IMF, 2012g). In both cases, staff has carried out substantial follow-up work, building on the empirical foundations set out in the original studies, while extending them in ways designed to communicate with researchers and broader audiences outside the Fund.²⁴

Poverty and Social Impact Analysis

44. Fund policy on PSIA has been clarified, but it has proven difficult to implement and it has not resulted in a systematic approach to PSIA's use in LIC program design. Fund staff was expected to integrate poverty and social impact analysis into PRGF program design. However, it was not required to conduct this analysis on its own, but instead to rely on the analysis of others (most notably the World Bank). This operational model was reaffirmed in

reporting on performance. Similarly, Ortiz and Cummins (2013) expressed concern about the lack of universally accepted definitions of pro-poor social and other priority expenditures in programs, with the definition varying according to a country's own priorities.

²⁴ See, for example, Bal Gunduz and others (2013), Mumssen and others (2013), and Clements, Gupta, and Nozaki (2011).

the 2007 policy clarification, which noted that "... while staff is not responsible for conducting PSIAs, it should be proactive in discussing PSIA needs with the authorities and development partners, and take into account pertinent PSIA results" (IMF, 2007e). Shortly after the policy clarification, in the context of the Fund's downsizing, the Fiscal Affairs Department's (FAD's) dedicated PSIA unit was eliminated.²⁵ And a few years later, in 2010, the Fund stopped updating its PSIA webpage.²⁶

- 45. Some PSIA-type analysis has continued to be done by the Fund, largely in the context of FAD technical assistance missions and often in the context of energy subsidy reform.²⁷ Similar to IMF (2012d) but covering a later period, the current review found several examples of good practice in using Fund-produced PSIA-type analysis in program design, especially with respect to the targeting of social assistance. In Togo, for example, the Fund's analysis, which was reflected in program design, assessed options for shielding the poor from the adverse impacts of a proposed elimination of fuel subsidies (IMF, 2011a). And in Moldova, the Fund's analysis of options for sharpening the targeting of social assistance to lower the costs of the safety net contributed to program design (IMF, 2008a). However, not all Fund-produced PSIA-type work found its way into program design, in some cases because country authorities chose not to use the analysis. In Senegal, for example, the authorities chose not to use the Fund's analysis for improving the targeting of electricity subsidies (IMF, 2012i). Overall, the IMF did not develop a systematic approach to integrating poverty and social impact analysis into PRGF program design, as it did with other issues such as setting indicative targets on social and other priority spending.
- 46. This review found limited Bank-Fund collaboration on PSIA in the post-2007 period. The 2007 evaluation had found ineffective Bank-Fund collaboration on PSIA, in part giving rise to the policy clarification noted above.²⁸ A document search carried out for this review found almost no mentions of PSIA carried out by the World Bank or other agencies in post-2007 program documents. Mauritania's 2011 Ex Post Assessment was the most explicit in this respect, referring to PSIA work in 2006 (IMF, 2011b). Most such mentions were in the

²⁵ FAD's PSIA unit had been set up in 2004 to facilitate the integration of PSIA into PRGF-supported programs, leveraging expertise and available resources from both inside and outside the IMF. In limited cases, the group also conducted PSIA in areas central to the work of the Fund and where no other analysis was available. By mid-2007, the PSIA unit had carried out 34 PSIA exercises and prepared guidance notes to assist area departments in program design (IMF, 2007a; Gillingham, 2008).

²⁶ See https://www.imf.org/external/np/exr/facts/sia.htm.

²⁷ See Clements and others (2013). Much of this work was carried out for emerging market economies.

²⁸ In interviews for the 2007 evaluation, Fund staff said they had looked to the Bank for inputs, which (with few exceptions) were not forthcoming with the timeliness or relevance they needed, while Bank staff said they did not have the resources to carry out the analysis requested by Fund staff, which they said was often requested at the last minute. Similar findings emerged from staff consultations undertaken later in 2007 in preparation of the Joint Management Action Plan (JMAP) for Bank-Fund collaboration (IMF and World Bank, 2007), which were subsequently cited in the JMAP Progress Report (IMF and World Bank, 2010).

background annexes of staff reports that simply listed technical assistance missions and Bank-Fund shared work programs.²⁹

47. Meanwhile, World Bank staff preparation and use of PSIA in the design of Bank-supported development policy operations has increased—in part financed by a multi-donor trust fund (World Bank, 2013). But there is no evidence of its use by IMF staff. In interviews for this review, Bank staff managing the trust fund said they had not received any requests for funding by IMF staff, while noting that Bank country teams may well have shared the analysis with their Fund counterparts. Covering an earlier period, IEG's 2010 evaluation of Bank work on PSIA does not mention the IMF as a user of Bank PSIA (IEG, 2010).

C. Communications

48. The IMF's external communications on LIC-related issues have improved since 2007, both because LICs have generally performed well and their story is therefore easier to tell, and because the Fund has invested in telling it, especially through outreach at the country level in Sub-Saharan Africa. In the wake of the 2007 evaluation the IMF adopted a new external communications strategy that focused on outreach to a broader set of external stakeholders (IMF, 2007d). The tentative conclusions set out below are based largely on post-2007 IEO evaluation findings, IMF documents and staff interviews, and external publications.

Country programs

- 49. Consistent with the new communications strategy, the available evidence points to an increase in country-level outreach, with (appropriate) differences across countries. The 2009 IEO evaluation of *IMF Interactions with Member Countries* found that an increasing amount of outreach had taken place to parliamentarians, civil society, the media, and market participants in LICs during the two-year 2007–08 evaluation survey period, with the majority of LIC authorities wanting more, especially to parliamentarians. But it also concluded that for many IMF staff members at the time, incentives remained biased against outreach—citing risk aversion, ineffective training, and meager resources (IEO, 2009).
- 50. Area department managers have subsequently stressed the importance of outreach by missions and resident representatives, even as LICs' more positive economic outcomes have reduced staff concerns about missteps. The African Department (AFR), in particular, has taken a number of steps to improve incentives for in-country staff outreach (IMF, 2013b and 2014), many involving the role of and support for the department's resident representatives. Examples include: the assignment to resident representatives of primary responsibility for outreach and

²⁹ Staff cite evidence of cooperation on technical assistance missions, as for example on a recent FAD mission to Yemen on energy subsidy reform.

primary interlocutor function; the inclusion of outreach effectiveness as a factor in their performance reviews; and twice-yearly departmental retreats for them to encourage crossfertilization on outreach issues.³⁰ Management's own outreach, including via major conferences, as in Tanzania in March 2009 and in Mozambique in May 2014, have reinforced area department signals to staff and stakeholders.

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- 51. Some reputational and stigma issues remain. The IEO evaluation on *The Role of the IMF as Trusted Advisor* (IEO, 2013) found that almost a third of African non-program countries expressed concerns about political stigma from engaging with the Fund. For program countries, it was only 5 percent. These findings are consistent with the IEO evaluation of *IMF Interactions with Member Countries* (IEO, 2009), which found variations across evaluation case-study countries in the degree of stigma-related resistance that staff encountered in doing outreach in PRGT-eligible countries.
- 52. Meanwhile, many LIC authorities have indicated an interest in more outreach to help educate their populations on macroeconomic issues and tradeoffs. According to a 2012 survey for the IEO evaluation on *The Role of the IMF as Trusted Advisor*, 76 percent of responding authorities from LICs with IMF resident representatives would have liked "more outreach with stakeholders outside the government, both to help politicians and policymakers understand the implications of policy reforms and to build public support for reforms..." (IEO, 2013).

Institutional policies and priorities

- 53. The evidence also suggests more effective communications on LIC-related institutional policies and priorities than in the period examined by the 2007 evaluation, in particular with respect to the Fund's ability to convey difficult messages. The 2007 evaluation found that the Fund had miscommunicated about its activities to deflect criticism of its limited program support for the Millennium Development Goals. In the post-evaluation period, the relevant question is whether the Fund's communications exaggerated its support for countercyclical policies in LICs during and after the food, fuel, and financial crises.
- To explore this issue, this review examined a variety of Fund documents produced for inside and outside audiences in the post-evaluation period. What emerged was an evolving set of messages that focused initially (in 2008–09) on countercyclical policies, drawing on "buffers" built up in the preceding period, and subsequently on consolidation as those buffers were depleted.³¹ This review found straight talk from the Fund and a balanced approach

³⁰ The Office of Internal Audit's 2012 review of the Fund's outreach strategy found that "AFR's outreach practices developed with EXR contains elements that could be replicated across the Fund" (IMF, 2012h).

³¹ Though program-supported countercyclical policies were popular with outside audiences, Fund-supported consolidation policies were not. For example, in discussing the April 2010 *World Economic Outlook*, Oxfam (2010) expressed concern that "poor countries were being forced to cut back on their economic crisis-response spending too soon…" Similarly, Ortiz and Cummins (2013) emphasized that following the 2008–09

presenting both sides—the cases where countercyclical policies were possible and the cases where consolidation was necessary. Examples include the 2008–13 issues of the *Regional Economic Outlook* for Sub-Saharan Africa, which are especially relevant as the publication is used primarily as a vehicle for external communications with African audiences.³²

IV. CHALLENGES GOING FORWARD

- 55. The Fund has made significant progress on most of the challenges identified by the 2004 and 2007 IEO evaluations. Highlights include clarifications of relevant operational policies on a broad front; measures to protect social and other priority spending in new ECF-supported programs; and improved external communications. Equally important, positive trends identified in the evaluations have been maintained, especially the enhanced focus on fiscal governance and on program design that seeks to balance the expenditure requirements for growth and poverty reduction with the fiscal requirements for macroeconomic stability and sustainability. With respect to the use of poverty and social impact analysis for program design, this review has found several good practice examples in LIC programs, but not a systematic approach.
- 56. Nevertheless, challenges remain, with three strategic issues warranting continued high-level attention: (i) strengthening IMF support for broad-based growth, poverty reduction, and social safety net programs under the PRGT; (ii) collaboration with the World Bank, especially now that the Bank has relaxed its PRSP requirements; and (iii) external communications on program design and the implications for growth and poverty reduction. How Management and staff address these three interrelated issues will require careful attention by country authorities and Executive Directors.
- 57. *Pro-poor policies and poverty reduction*. Clear progress has been made in including protections for social and other priority expenditures in ECF-supported programs—building on country-owned PRSPs—with almost 100 percent compliance since the 2010 introduction of such a requirement. But the Fund has done little analysis of the quality of these expenditures, implementation of these programs, and their results. And less systematic progress has been made in underpinning LIC program design with poverty and social impact analysis. These considerations could become more important constraints on the Fund's effectiveness as it steps up its work on distributional issues and inequality and as LICs seek

period of countercyclical and coordinated policies, "premature expenditure contraction became widespread in 2010 ... despite vulnerable populations' urgent and significant need of public assistance." They questioned whether the projected fiscal contraction trajectory—in terms of timing, scope and magnitude—as well as the specific austerity measures being considered, were conducive to socio-economic recovery and the achievement of development goals. See also van Waeyenberge, Bargawi, and McKinley (2010); Molina-Gallart and Muchhala (2010); and Martin and Watts (2012).

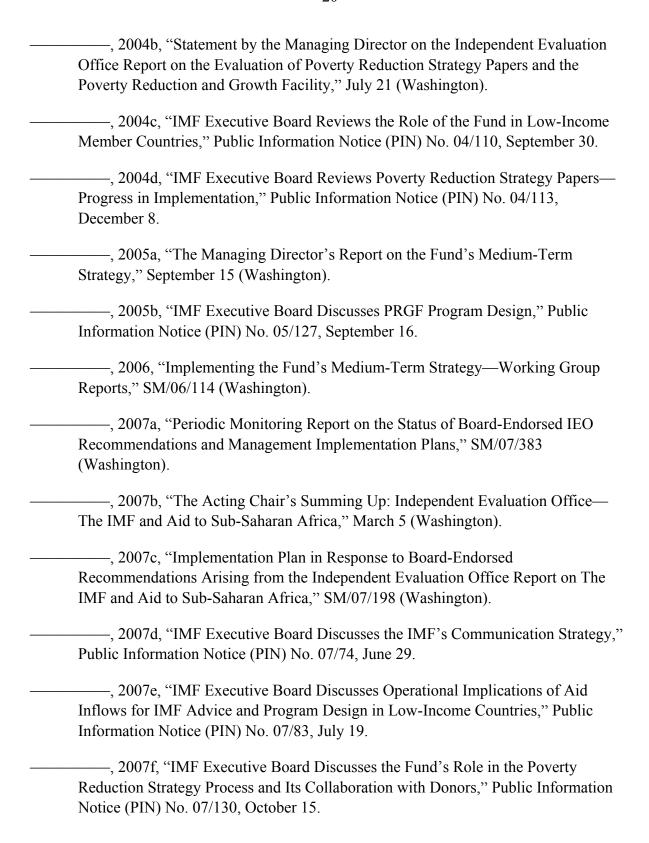
³² Other *Regional Economic Outlooks*, such as for Middle East and Central Asia, convey a similarly evolving picture from countercyclical policies to consolidation, albeit with much less concentration on LICs given the latter's much smaller representation in area departments other than AFR.

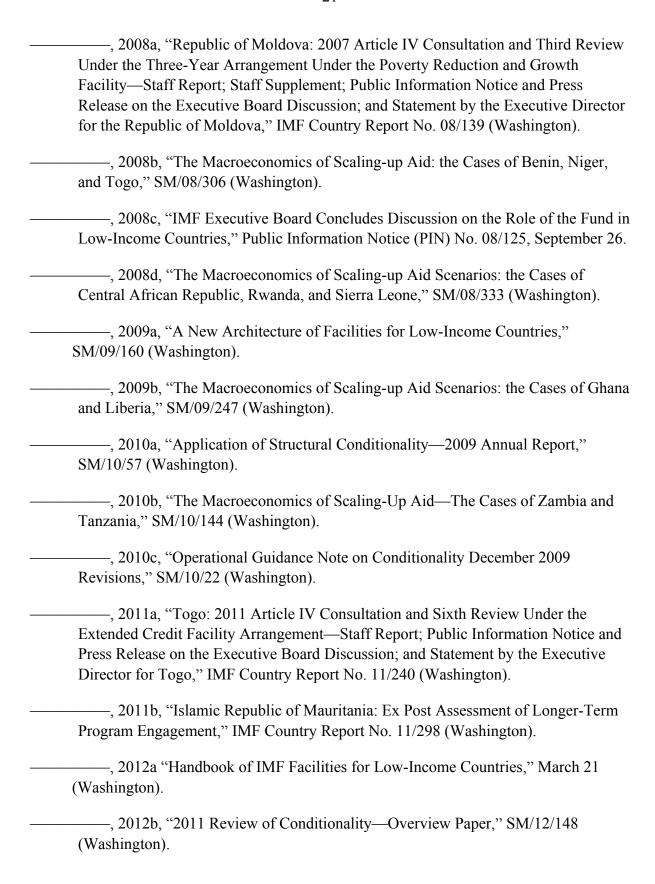
to build and strengthen their social safety nets. They constitute the unfinished agenda of the Fund's support for poverty reduction in LICs.

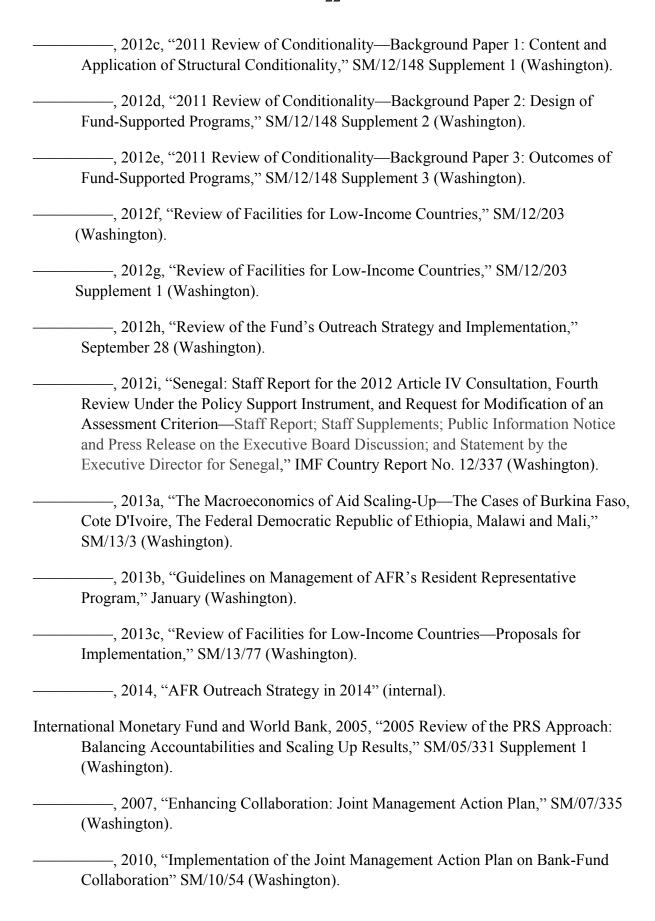
- 58. Bank-Fund collaboration. Over the past decade, collaboration with the World Bank on LICs has been structured around the PRSP process, which was an integral part of the requirements related to LIC programs in both institutions. PRSPs and JSAs/JSANs also served as organizing tools for much of the two institutions' analytical and diagnostic work in LICs. Both institutions will need to find alternative processes to coordinate their work now that the World Bank will not require the PRSP and related documentation as part of its operational work. Therefore, over the coming months, IMF Management and senior staff will need to work closely with their counterparts at the World Bank to establish new protocols that ensure that both institutions cooperate effectively to further the poverty-reduction agenda. These new processes and protocols will need to build on the lessons of experience, which indicate that collaboration works best where there are clear and complementary institutional mandates, defined links to core Fund and Bank activities, and a shared understanding of the respective staff roles and responsibilities, e.g., on the joint work on debt relief (and DSAs), public financial management, and PRSPs and JSANs. They also will need to take account of the fact that coordination has worked less well on PSIA, an activity where mandates and incentives have not been well aligned and where differences in institutional cultures and timeframes have made effective cross support difficult to achieve.
- 59. External Communications. Fund external communications on LIC-related issues remain an ongoing challenge. Despite the rising LIC tide, there will always be some countries that face macroeconomic instability and that require policies that will adversely impact vulnerable groups, even if efforts are made to shield these groups as much as possible. Effectively communicating these program requirements to external audiences will require clarity about the evidence supporting the particular policy recommendations in such cases and why and when the Fund believes they will help the poor as well as the broader economy. The empirical work that Fund staff has conducted in recent years in connection with the respective reviews of conditionality and LIC facilities provides an important foundation for an expanded dialogue with external researchers and stakeholders on the evidence base for the Fund's advice on policies and program design. The research, the ensuing debate, and staff efforts to encourage the testing and replication of their results by outside experts and critics deserve the full support of the Board and Management.

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Statement by the Managing Director on the Independent Evaluation Office Report on Revisiting the 2004 IEO Evaluation of the IMF'S Role in PRSPs and the PRGF and the 2007 IEO Evaluation of the IMF and Aid to Sub-Saharan Africa

I would like to thank the Independent Evaluation Office (IEO) for preparing this helpful and informative report, which provides an update on the progress made in enhancing the IMF's engagement with low-income countries (LICs) in the period since the original IEO evaluations were conducted in 2004 and 2007. I broadly concur with the findings of this follow-up report and have taken note of the issues identified as warranting continued high-level attention.

The IMF's engagement with LICs has evolved significantly over the past twenty years. In the early 1990s, the preponderance of LICs faced deep-seated economic problems that could be addressed only through a combination of stability-oriented macroeconomic policies, important structural reforms, and, in many cases, comprehensive debt relief. While some LICs remain constrained by social divisions and fragilities, the LIC group as a whole has recorded strong growth for an extended period, with an accompanying decline in poverty levels and improvement in key human development indicators.

Against this background, I welcome the IEO's findings that the IMF has enhanced its engagement with LICs over time, including through the 2009 reform of our facilities for LICs and an increased focus on protecting social and other priority spending in IMF-supported programs and surveillance work. I would also note that the volume of technical assistance and training provided to low income members has increased significantly since 2008.

While the IEO's assessment is generally encouraging, management and staff are committed to further improving the services for our LIC membership. Looking ahead, we shall continue to focus on providing customized policy advice across the range of issues within the IMF's mandate, standing ready to provide financial support in a flexible manner, and assisting countries in building institutional capacity through technical assistance and training.

The IEO report identifies three strategic areas that merit continued high-level attention, with which I broadly agree.

• Strengthening IMF support for broad-based growth, poverty reduction, and social safety net programs is an ongoing task. Among recent initiatives, we have enhanced the analytical and operational toolkits available to country teams by issuing staff guidance notes on the promotion of jobs and growth and on working effectively on small states and fragile states. Analytical work on issues related to growth, income inequality and fiscal policy, including energy subsidy reform, structural transformation and diversification, and the macroeconomic management of natural resource wealth has also been expanded; a toolkit on the analysis of export composition and the scope for

diversification in developing countries has recently been prepared and made available to the wider public. We see merit in further enhancing the follow-up on priority spending floors, including by reviewing periodically the quality of these expenditures, their implementation, and results. We also agree on the importance of integrating poverty and social impact analysis into PRGT program design. While the Fund has limited resources to conduct such analysis, we will need to ensure that country teams draw more systematically on the work of other agencies, whenever available.

- Maintaining strong collaboration with the World Bank, including drawing on its expertise on poverty-related issues, remains a top priority for the Fund. The IMF has long-standing close ties with the Bank and a well-established framework for cooperation. Of course, there is always room to do better and now may be a good time to look again at how to strengthen our engagement in the wake of the significant restructuring undertaken at the Bank. We are mindful of the implications for IMF operations posed by the Bank's decision to eliminate the requirement of Poverty Reduction Strategy Papers (PRSPs)—a document that has, in the past, been a pillar of Bank-IMF engagement in LICs. Supporting poverty reduction has been, and will continue to be, a key element of programs supported by our concessional lending facilities: staff is currently reviewing options for ensuring that the tight links between poverty reduction and access to the IMF's concessional resources are maintained, while adjusting some of the operational modalities. A proposal on this issue will be brought to the Executive Board for consideration in the coming months.
- Enhancing external communications and dialogue with LICs, especially on issues related to program design and the implications for growth and poverty reduction, remains a major objective, to ensure that the Fund better understands and tailors its policy advice to country needs and circumstances. As the report rightly points out, we have already invested significant resources in this area and have made concrete progress in the effectiveness of our outreach efforts in Sub-Saharan Africa, both at the country level and in engaging with a broader set of external stakeholders. The success of two major outreach conferences in Africa in 2009 and 2014 has highlighted the value of promoting an inclusive dialogue among stakeholders at the regional level. We will continue to build on these positive experiences in the future, including by adapting our approach to the rapidly changing media landscape and expanding the use of new media tools—including social media—as discussed in the recent review of the IMF's communications strategy.

To sum up, management and staff remain fully committed to maintaining a strong emphasis on poverty reduction and growth in our operational and analytical work with LICs. We will also look at every opportunity to further enhance our collaboration with the World Bank and strengthen our communication efforts with all stakeholders.