Independent Evaluation Office Releases Report on The IMF and Aid to Sub-Saharan Africa

IEO Press Release No. 07/01

Independent Evaluation Office

of the International Monetary Fund

Washington, D.C. 20431 USA

March 12, 2007 - The Independent Evaluation Office (IEO) of the International Monetary Fund (IMF) today released its report on ***The IMF and Aid to Sub-Saharan Africa****.* The report covers 1999-2005, a period of improving performance in a number of Sub-Saharan African countries-due in part to the advice and actions of the IMF, including on debt relief. The report presents evidence from 29 Sub-Saharan African countries that used the Poverty Reduction and Growth Facility (PRGF).

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

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

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

Specific findings:

PRGF programs catalyzed available aid-through their macroeconomic assessment and support for country efforts to improve fiscal governance. But IMF staff did little to mobilize additional aid or to analyze and communicate policy and aid alternatives beyond the most likely scenario. The IMF Executive Board remains divided on these issues, and IMF policy is unclear.

PRGF programs accommodated the use of incremental aid in countries with low inflation and adequate international reserves. In other countries, PRGFs typically programmed at least part of the additional aid to be saved. This differentiated approach is consistent with IMF policies on aid accommodation, single-digit inflation, and reserve accumulation. But neither the policies nor their rationale were well communicated to aid providers, civil society, and other stakeholders in individual country situations.

PRGF provisions on poverty reduction and growth were less systematically implemented than those on fiscal governance. IEO attributes the weaker staff performance in these areas to less consistent Board and Management guidance, greater distance from the IMF's core macroeconomic mandate, and less effective collaboration between IMF and World Bank staff. PRGF programs took little note of linkages between spending on infrastructure and the economy's supply-side response-despite the implications for the macroeconomic assessment-and made limited use of poverty and social impact analysis, in part reflecting weak coordination with the World Bank. The report did find evidence of PRGF support for government spending on health and education, especially out of savings from debt relief.

The IMF's public posture and communications on aid and poverty reduction differed from its operational policies and practices. IMF communications oversold what the institution committed to do-and did-on aid and poverty reduction. They undersold the institution's contribution through its support for enhanced macroeconomic stability, fiscal governance, and debt relief.

IMF staff missed opportunities for outreach to local donor groups and civil society. One consequence was that the Fund was slow to recognize how its work would be affected by ongoing changes in the aid environment, such as bilateral donors' shift to budget support. Another was that PRGF programs' considerable attention to fiscal governance received little notice from local civil society organizations concerned about public financial accountability.

Recommendations:

The IEO report recommends the Fund to clarify its undertakings and to implement, communicate, and monitor them in a consistent manner. Specifically:

• The Executive Board should clarify IMF policies on macroeconomic performance thresholds for the accommodation of additional aid, the mobilization of aid, alternative scenarios, poverty and social impact analysis, and pro-poor and pro-growth budget frameworks.

• IMF Management should establish transparent mechanisms for monitoring and evaluating the implementation of the clarified policy guidance-including with respect to the necessary collaboration with World Bank staff-and ensure that institutional communications are consistent with Fund policies and operations.

• Management should clarify expectations-and resource availabilities-for resident representatives' and missions chiefs' interactions with local donor groups and civil society.

The report-along with the Management and staff responses (64 kb pdf file) , and IEO's comments (34 kb pdf file) - were discussed by the IMF's Executive Board on March 5, 2007. Along with all related documents, including the summary of the Board discussion, it is available at **http://www.ieo-imf.org**.

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