The IMF's Role in the Determination of the External Resource Envelope in Sub-Saharan African Countries

ISSUES PAPER FOR AN EVALUATION BY THE

INDEPENDENT EVALUATION OFFICE

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Abbreviations

AfDB	African Development Bank
AIDS	Acquired Immune Deficiency Syndrome
DAC	Development Assistance Committee
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
HIV	Human Immunodeficiency Virus
IEO	Independent Evaluation Office
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
LICs	Low Income Countries
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
NEPAD	New Partnership for Africa's Development
NGO	Non-Government Organization
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PEM	Public Expenditure Management
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
SSA	Sub-Saharan Africa
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
WDI	World Development Indicator

I. INTRODUCTION

1. This evaluation examines the IMF's role and performance in the determination of the external resource envelope in low-income countries in Sub-Saharan Africa (SSA). It focuses on aid—the principal source of external financing for such countries—and in particular on how the IMF has interfaced with country recipients in determining the scale and pace of the *use* of aid, and with donors in determining the scale and pace of the *provision* of aid.[1] The evaluation considers the design of Poverty Reduction and Growth Facility (PRGF) programs—including their underlying assumptions and analysis—as well as implementation issues and outcomes.[2] It examines past IMF policies and practices in these areas, as a basis for distilling lessons for the future, including for scaling-up.[3]

2. A point of departure for the evaluation is two closely related criticisms about PRGFs in SSA. The first is that the IMF has lacked ambition in projecting aid inflows to SSA countries, which may in turn have tempered donor ambition and the actual provision of aid. The second is that the IMF has inappropriately blocked the use of available aid through overly conservative macroeconomic programs, which may have deterred the hiring of public-sector staff, especially in health and education. The evaluation also touches on the IMF's interactions with the authorities and partners—the subject of much external criticism as well.

3. The evaluation studies the 1999–2005 period, grounded (where data permit) in the longer historical context for purposes of institutional learning and accountability. The underlying work program includes quantitative analysis of the 44 PRGF programs initiated during this period, coupled with qualitative analysis of individual country case studies. Surveys and interviews—with the country authorities, donor and civil society representatives, and staff (of the African Development Bank, IMF, UNDP, and World Bank)—support and complement this work. In assessing the IMF's contribution, the evaluation considers the multidimensional role that Fund staff have played vis-à-vis the authorities, donors, and other partners, in the context of the evolving aid architecture and macroeconomic/development paradigm.

4. The remainder of this paper is structured as follows. Section II discusses the determination of the external financial envelope, from the perspective of the authorities of SSA countries and donors. Section III takes up the role of the IMF, from the perspective of its own policies and practices, and of its critics. The evaluation questions are set out in Section IV, and the work program in Section V.

II. THE DETERMINATION OF SSA'S EXTERNAL RESOURCE ENVELOPE

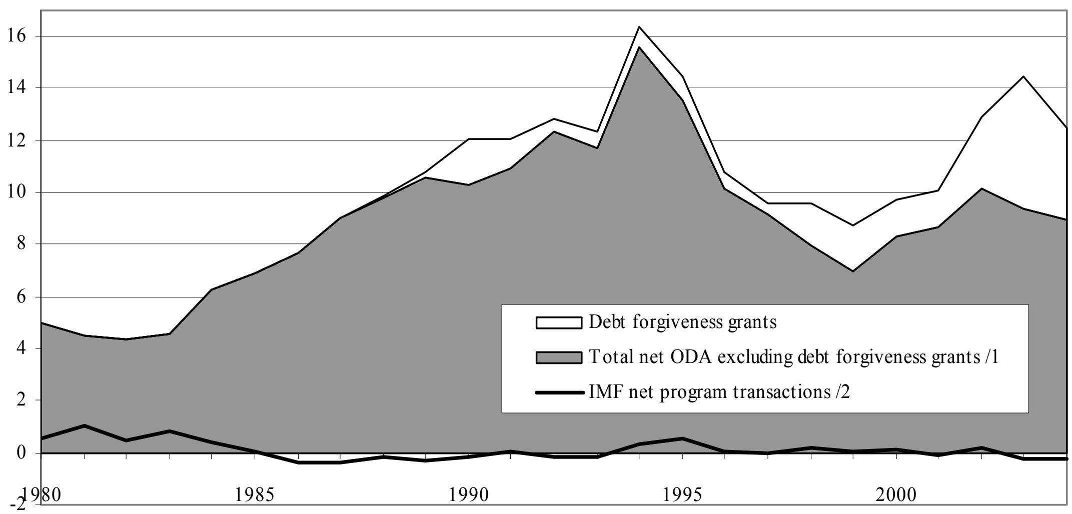
5. In assessing how the IMF has carried out its duties in the arena of external financing for low-income SSA, it is essential to be clear about the scope of those duties. This in turn requires clarity about the challenges the actual principals—the country authorities (who use and/or oversee the use of the aid) and the donors (who provide the aid)—face in managing

their external assistance objectives, and the pressure points where the Fund can exert influence. These topics are covered in this section and the next. (See also Box 1.)

Box 1. The IMF and Aid to SSA

In most low-income Sub-Saharan African countries, the IMF is involved in the provision of external finance both directly and indirectly. Its direct role includes actual financial support, largely through the PRGF, although in practical terms its net financial contribution is fairly small and short-lived relative to other sources of finance (see Figure 1 below). Its indirect role through the PRGF has a much wider financial reach, as it potentially touches on the full complement of external financial inflows, especially aid, which is the principal source of external finance for low-income countries in Sub-Saharan Africa.

Figure 1. ODA and IMF Program Financing in SSA—1980–2004
(In percent of GDP)



Notes: Covers the 29 SSA countries with completed or lapsed PRGFs.
1/ Incorporates ODA relevant offsetting entries for debt relief.
2/ Total purchases and loan disbursements minus total repurchases and repayments.
Sources: OECD-DAC, *International Development Statistics* and IMF, *World Economic Outlook*.

A. Aid and the Country Authorities

6. This section briefly explores the interface between policies and aid as seen by the country authorities.[4] It headlines three issues of particular relevance to their work with IMF missions: (i) country absorptive capacity, as a key determinant of the country's net benefits from aid; (ii) country macroeconomic policies, as the authorities' main lever for affecting the use of aid; and (iii) uncertainty, as a characteristic of the availability of aid that affects both.

Country aid absorptive capacity

7. Is more aid of all kinds always better for a country? An extensive literature on aid analyzes several facets of absorptive capacity—macroeconomic, sectoral, sustainability, and

governance—that may prevent aid's full net benefits from being realized, without accompanying changes in country policies and institutional arrangements.

- Studies of the *macroeconomics* of aid find that aid increases growth—especially in good policy environments—albeit with diminishing returns.[5] While there is much debate about "Dutch Disease" effects, the empirical evidence does not suggest a major problem for SSA at this stage; however, a close watch is warranted.[6]

- The literature on the *sectoral* dimension of aid absorptive capacity typically focuses on the capacity of health, education, and other sectors for actually managing aid surges—an issue very much in play with the emergence of vertical funds as major providers of aid to SSA, especially in the health sector—and the need for major investments in capacity building to accompany aid build-ups.[7]

- For *sustainability,* a key issue is the projected composition of aid flows (grants vs. loans), and, in the case of (concessional) loans, whether returns cover incremental costs.[8] In theory, the concepts are straightforward; in practice, complexity abounds, as there are no substitutes for careful analysis of costs, benefits, and risks, given the major uncertainties, particularly with respect to potential supply-side effects.[9]

- The *governance* dimension of absorptive capacity looks at how corruption and weaknesses in transparency and accountability reduce the net benefits from aid, and underlines the importance of public expenditure management (PEM) reforms and associated capacity-building efforts.[10] Meanwhile, recent research suggests that relatively larger funding through aid flows can undermine accountability to local stakeholders and domestic capacity to mobilize resources.[11]

Country policies and use of aid

8. To be sure, the quality of country policies and institutions affects the net benefits from the use of aid across the range of issues discussed above. But macroeconomic policies also affect the level of aid that a country can actually use in a given time period—with fiscal and monetary policies potentially undermining each other's effectiveness if not properly coordinated.[12] Fiscal policy—designed to maintain macroeconomic stability and control inflationary pressures through wage bill caps and other limits on domestic expenditures—can constrain the use of available aid receipts as a side effect. For monetary policy, currency market interventions intended to limit the real appreciation of the exchange rate (otherwise associated with the use of aid for domestic expenditures) can compel the country as a whole to save available aid instead of using it immediately to finance more imports (or less exports). The bottom line is that such policies directed at macroeconomic management objectives may also have implications for the use of aid resources. Indeed, if full use of all available aid is a policy goal, fiscal and monetary policies need to be designed—and coordinated—with that objective in mind. In turn, to ensure that the macroeconomic policy

mix is optimized across competing objectives such as utilizing aid, managing inflation, and preventing overvaluation of the exchange rate, careful policy analysis is essential, grounded in an appropriate model of absorptive capacity, macroeconomic stability, and competitiveness customized to country conditions.

Country uncertainty about aid inflows

9. Uncertainty complicates everything. Not only are the benefits and costs of aid uncertain and the ways in which policies affect them, but the aid flows themselves are uncertain as well.[13] In low-income SSA, where aid averages some 10 percent of GDP, aid is more volatile than fiscal revenues, and its volatility and unpredictability have been increasing.[14] Not surprisingly, the degree of uncertainty associated with aid projections increases the further into the future they are extended, making medium-term development planning difficult. But the uncertainty is also quite large within the relatively short period of time covered by annual PRGFs, with important implications for the domestic macroeconomic program and for expenditure planning.[15] Even ex post, there are often major differences between donor data and country data about actual flows.[16] Clearly, it is more difficult to recruit new staff for public-sector employment in health, education, and other areas if the underlying donor funding may not be sustained. Equally clearly, this is an area where investment in uncertainty-reducing information and analysis may have high pay-off.

B. Aid and Donor Agencies

10. For individual aid recipients, the unpredictability of aid is compounded by the large number of programs and donors that countries face—from bilateral to multilateral agencies and development banks and funds to global partnerships and philanthropic funds.[17] The end product is a highly complex system, which transforms otherwise simple tasks like reconciliation of the numbers into very difficult ones. Against this background, this section considers three issues that affect individual donor incentives and decision-making about aid and debt relief in particular country contexts—(i) aid predictability and modalities; (ii) country performance; and (iii) the behavior of other donors and creditors.

Donor predictability and aid modalities

11. The difficulty of projecting country aid flows ex ante is not just an adding-up problem. Indeed, even within individual donor agencies, flows are often subject to large forecast errors, due in part to the fact that within aid bureaucracies, there are few incentives for accurate forecasting—and sometimes just the opposite, as individual donor staff members may get more operational resources if they project higher near-term (within the current year) flows. In recent years, efforts to reform the overall aid architecture have aimed at reducing country transactions costs associated with aid, focusing on the harmonization of donor procedures and moving towards more wholesale approaches to the delivery of aid, through coordinated budget support and other vehicles.[18] These new instruments also are having

implications for aid predictability, in part because of the greater volatility of program than project aid, with possible implications for the role of the Fund.[19] (See below.)

Donor interest in country performance

12. The ongoing changes in aid modalities also are increasing donor demand for credible information on country policies. To be sure, donors' commercial, cultural, and strategic links to potential aid recipients remain important considerations in aid allocations. However, country performance is increasingly a factor, especially for donors providing budget support. Indeed, many donors predicate disbursements of their budget support on an on-track Fund-supported program, although some have taken steps to allow for a more graduated response to changes in performance and prevent unnecessary volatility and unpredictability of aid.[20] They also frequently look to the Fund (and the World Bank) for assessments of governance and debt and fiscal sustainability—and primarily to the World Bank and other international agencies for assessments of social sector policies and institutions.

Donor interest in behavior of other donors and creditors

13. Most donors are interested in debt sustainability as an essential ingredient in getting and keeping aid recipients on a growth path towards poverty reduction and the other MDGs. But they also need to sustain their own constituencies' support for their programs, satisfying taxpayers that results are being achieved from the aid and debt relief they finance. In this context, donors also need to know what others (both donors and creditors) are doing, from the perspective of equitable burden sharing. The behavior of others is especially relevant for debt-creating flows, where donor agencies may not be able to justify to their own taxpayers forgiving debt owed to them as new debt to others is being taken on, possibly on commercial terms.[21] These issues have taken on increased importance, in the wake of the HIPC Initiative and the MDRI, as evidenced by the concerns raised in the recent meetings of the IMFC and Development Committee.[22]

III. THE IMF AND ITS CRITICS

14. In considering the role of the Fund on the above issues, this section presents first the Fund's approach and then the views of Fund critics, in both cases highlighting issues most relevant to the evaluation. In reviewing this material, it is important to keep in mind the evolving patterns of aid, country performance, and Fund policy and practice. Indeed, a key feature of the evaluation entails the identification of how Fund policies and practices have changed over time, in the context of evolving country challenges and thinking about how best to address them.

A. The Fund's Approach

15. At the core of the evaluation is the investigation of how the Fund has approached the issues discussed in Section II in the context of its policies and practices, and how this has been reflected in the dialogue with the authorities and with donors.[23]

Dialogue with country authorities

16. The Fund's work with PRGF countries revolves around the macroeconomic framework underpinning program design and implementation. This framework entails the construction of a mutually consistent set of national income, fiscal, monetary, and balance of payments accounts corresponding to the particular policy scenario under consideration. In the context of the current evaluation, a generic issue is how the Fund team develops the scenario and accounts and in particular how it reflects the inputs of the authorities and partners, such as the World Bank and others with expertise in particular areas. More specifically, the evaluation explores how the following issues are addressed in developing the macroeconomic framework underpinning program conditionality: (i) the dimensions of absorptive capacity discussed in Section II; (ii) alternative policy and aid scenarios, including a specific focus on those policies most likely to enhance aid absorptive capacity; and (iii) the effects of uncertainty about aid flows and their economic impact on both aggregate demand and aggregate supply.

Absorptive capacity and program conditionality

17. Guidance to Fund mission chiefs on PRSPs and PRGFs sets out the analytic approach to be followed in considering the design of fiscal, monetary, and external policies—and associated conditionalities—and possible tradeoffs that arise in the context of aid surges and shortfalls.[24] It advises mission chiefs to accommodate higher aid-financed poverty-reducing spending, where the macroeconomic impacts on competitiveness are manageable, if the increased aid flows are largely on concessional terms and do not endanger sustainability. It emphasizes that *"in those few cases"* where the authorities and staff believe that the benefits of the additional flows are outweighed by the costs, the program documents should explicitly justify the stance adopted. Here, the Fund's absorptive capacity assessment is crucial because identified absorptive capacity constraints, together with stability considerations, are the main justification provided by Fund missions for restraining the use of available aid through program design.[25] A recent Fund review of aid management in SSA found that PRGF programs in "mature stabilizers" generally appear to allow for spending and absorption of anticipated increases in aid flows, although actual spending and absorption by the authorities can turn out to be quite different. [26] The evaluation looks at whether and how the Fund has implemented its accommodation policy in practice for a broader group of SSA countries beyond mature stabilizers. In so doing it assesses the programs' specific macroeconomic frameworks—and how they have translated into actual performance criteria and benchmarks

on the fiscal deficit and financing, expenditure caps (including on wage bills), international reserves, and so on.

Alternative scenarios

18. Fund work on “alternative scenarios” underpinned by better policies and greater aid flows constitutes a closely related issue of special interest for the evaluation. Fund missions have long explored policy options with the authorities, analyzing the various technical, sequencing, and political economy considerations that determine the scope for adoption, effective implementation, and pay-off in terms of enhanced growth and poverty reduction. But historically, the Fund’s program focus was on the design of and agreement on a single policy scenario, compared with the unchanged baseline, although there have been a few cases more recently where alternative—and more ambitious—policy and aid scenarios have been considered.[27] The IEO evaluation of the PRGF/PRSP called for greater use of alternative scenarios to deal with the inherent tension between realism and ambition in determining the external resource envelope.[28] Meanwhile, the Board, in a review last year of the PRS framework, considered that alternative scenarios provide a credible framework for scaling up, and for Fund staff to assist in their preparation as needed. It also considered that the Fund would play a critical role in helping countries to analyze the impact of higher aid flows and to adapt macroeconomic policies accordingly.[29] Against this background—and as a basis for learning lessons for future operations in the context of scaling up—the evaluation is examining actual Fund practice in this area, and how alternative (better policy/greater aid) scenarios may have contributed to the dialogue with the authorities and donors.

Uncertainty about aid and its impact

19. How the Fund has advised the authorities on macroeconomic management in the face of uncertainty about aid inflows is a third issue of special interest for the evaluation. Fund guidelines instruct staff to assist in the assessment of potential risks and uncertainties through sensitivity analysis and alternative scenarios. They call for the use of automatic “adjusters” to deal with small/temporary deviations in assumptions beyond the authorities’ control—including foreign financing—with large/lasting deviations handled through program reviews. As noted earlier, they also establish a presumption that increased aid flows will be accommodated within the program, unless otherwise explicitly justified. But recent evidence suggests that actual Fund practice may differ. The above-cited review of SSA “mature stabilizers” found that for the most part, program design—while accommodating *anticipated* aid surges—did not allow for the full use by the authorities of *unanticipated* aid through built-in adjusters to performance criteria.[30] Going beyond the studied subset of mature stabilizers, the evaluation looks into program rationales for the use of adjusters to deal with unanticipated changes in aid flows and how program reviews addressed such changes and aid volatility ex post. It also looks into the ways in which uncertainties about the economic impact of aid (including possible effects on competitiveness, the private sector and other

components of the aggregate supply response, and debt sustainability) are assessed and reflected in program design.

Discussions with donors

20. The evaluation also looks at how the Fund has interfaced with the donor issues set out in Section II. Priority areas include how the Fund has carried out its traditional roles vis-à-vis donors on (i) the acquisition of information about likely donor inflows, as a means to reducing uncertainty in macroeconomic program design, and (ii) the provision of reliable and credible information on country performance and monitoring agreements on debt caps. Moreover, as noted above, Fund staff are now being called on to play an expanded role in helping countries develop alternative scenarios in the context of scaling up, hence the evaluation is examining how these alternative scenarios may have contributed to the dialogue with country authorities and donors on upgrading policy performance and aid flows. Also, with the trend towards budget support, donors increasingly rely on joint conditionality, which can include an on-track IMF program as a condition for their disbursements.[31] For these signaling roles, old and new, Fund communication vehicles include formal surveillance and program documents, participation in meetings of Consultative Groups and Round Tables, local donor and budget support groups, and, on request, "assessment letters"—as well more informal channels of dialogue between Fund missions and resident representatives and donor representatives.[32]

B. The Fund's Critics

21. Frequently articulated criticisms of the Fund's work on aid to SSA are summarized below—providing an important input into the evaluation questions set out in the following section.

Criticisms of approach and assumptions

22. Within the donor community, the Fund's technical analysis is highly respected—especially its macroeconomic analysis. However, as part of the debate on conditionality, some donors have questioned whether the Fund's approach may aggravate the volatility of aid, especially for donors conditioning disbursements on an on-track Fund program.[33] Meanwhile, there are concerns that the institution's work continues to be excessively centered in Washington and reliant on episodic mission visits, at a time when the World Bank and other agencies have decentralized staff and decision-making to country offices. Notwithstanding the presence of a resident representative in program countries, some critics feel that the Fund's headquarters-based approach insulates it from day-to-day issues on the ground, including with respect to the interface between budget and aid management. They worry that the approach may translate into a timing mismatch for the authorities' work on the budget and for the work by budget-support donors on policy monitoring and disbursements, especially in country contexts where the Fund's own financial support is tapering down.

23. Not all observers conclude from the above that a greater Fund presence on the ground is warranted. Many civil society critics feel that the Fund already has too much power in SSA, unduly biasing the stance of policy in favor of financial stability and economic growth and against support for human development programs. Some NGOs focus on Fund macroeconomic policies, arguing that the Fund's "monetarist" approach compromises SSA's ability to achieve rapid economic growth and poverty reduction; in their view, more expansionary monetary and fiscal policies would be more conducive to the achievement of the MDGs and other social goals, both through the policies themselves and through the higher aid levels they could accommodate.[34] Other NGOs focus on the Fund's suite of poverty-focused initiatives, criticizing the PRGF, which they see as little changed from the earlier structural adjustment programs and as a major impediment to the success of the PRSP;[35] the HIPC Initiative, which they emphasize has not prevented the re-emergence of debt burdens in some SSA countries; and the Poverty and Social Impact Assessment (PSIA), which in their view focuses on "finetuning" rather than full-fledged macro level alternatives.[36]

Criticisms of leadership and priorities

24. Critics also fault the Fund for a lack of leadership in its approach to external financing in SSA. Jeffrey Sachs, for example, argues that a key Fund failure is its lack of ambition in supporting the pursuit of the MDGs in SSA. Building on his work on the Macroeconomic Commission on Health and the UN Millennium Project, he contends that the IMF should proactively support country efforts to prepare ambitious MDG strategies, by developing mutually consistent macroeconomic and aid scenarios and monitoring donor delivery on aid commitments.[37] At the opposite end of the spectrum, William Easterly criticizes the Fund for focusing too much on aid resources, and too little on the fundamental reforms needed to jumpstart and sustain growth and development.[38]

25. Also relevant are specific criticisms about the Fund's approach to the interface between sectoral and macroeconomic absorptive capacity. Here, the chief concern is that PRGF conditionality may prevent low-income countries from accessing available aid to address important social problems—from fighting health crises associated with HIV/AIDS and malaria to meeting the goal of universal primary education—through the fiscal, monetary, and external targets that PRGFs contain and that limit the use of available aid resources to pay salaries for nurses and teachers.[39] Indeed, the underlying view of a number of international NGOs is that the Fund restricts aid-financed public spending because of misplaced priorities about macroeconomics and competitiveness, while missing the more important challenge of addressing critical time-sensitive health issues.[40] However, some analysts, focusing on the limitations of absorptive capacity in several frequently cited country cases, stress the need for a more orderly absorption of aid flows.[41]

IV. Evaluation Questions

26. Building on the above, this section sets out the more specific scope, focus, and approach to the evaluation's questions. It is structured around the categories of inputs, outputs, and outcomes, following the standard evaluation results chain approach, as illustrated in Box 2.

27. In considering these questions, three methodological issues should to be kept in mind. First, given the evolution of the IMF's role in LICs, the evaluation needs to take account of: (i) how the Fund's approach to LICs has changed over time; (ii) how actual practice has adapted to the new policy framework; and (iii) how those changes have meshed with the changing circumstances in SSA itself. Second, key considerations for the evaluation are how the Fund drew on the available analytical and empirical literature to tailor its diagnoses and recommendations to country circumstances. Third, and also critical is how, for accountability purposes, the Fund has assessed—and learned lessons from—its own performance with the design and implementation of programs in the context of country-specific and cross-country experience.

A. Program Diagnostics

28. As discussed below in paragraphs 31–33, the main channels through which the IMF affects the availability and use of external financing are through Fund staff's interactions with (i) the country authorities, via discussions of the macroeconomic program, conditionality, and implementation; and (ii) donors via direct contacts and signaling. In this context, the most relevant questions about diagnostics include whether/how the Fund grounded its dialogue with the country authorities and donors in appropriate and systematic analysis, drawing on available research on and knowledge of country-specific issues from within the Fund and outside.

Country considerations

29. Vis-à-vis the country, pivotal questions about diagnostic work concern: (i) the degree to which the IMF appropriately customized its assessment (and subsequently program design) to country conditions, including the possible political economy effects of program conditionality (wage bill benchmarks, for example); and (ii) how absorptive capacity constraints and uncertainty were analyzed, including through the use of alternative scenarios. In addition, the evaluation looks into how inputs from partners, such as the World Bank, were incorporated.

Donor considerations

30. The chief evaluation questions here ask how the PRGF's aid projections were derived (both levels and modalities), and how uncertainty and risk were factored into the analysis. In

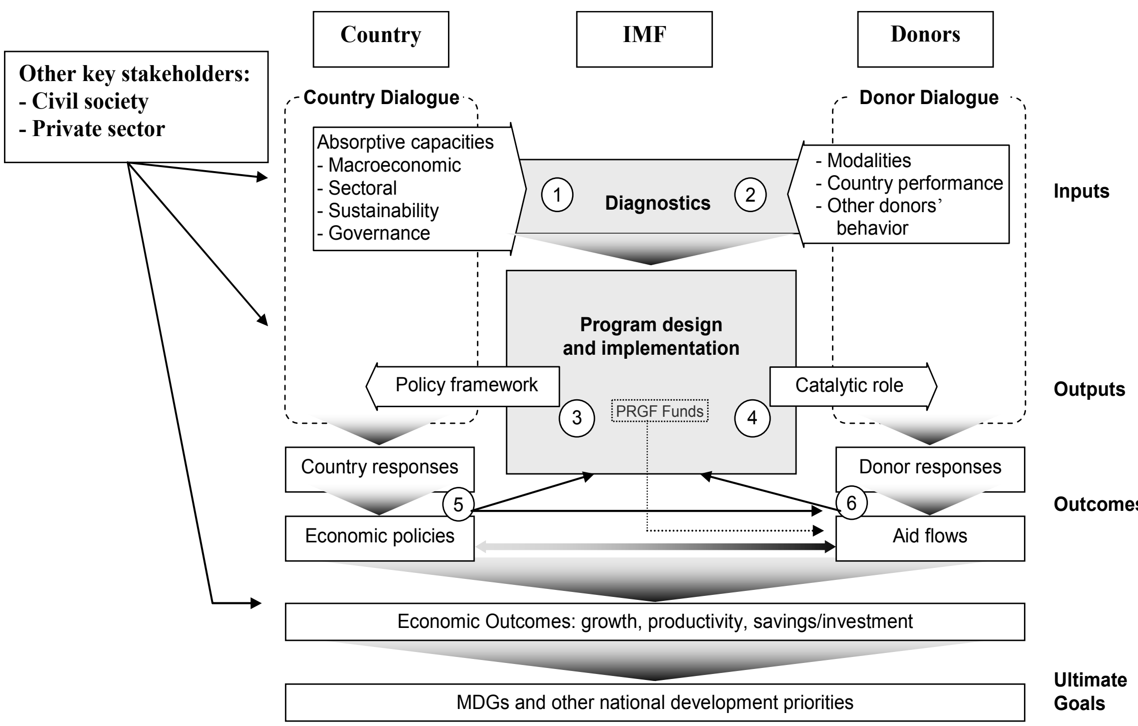
addition, how did program review documents analyze actual aid flows relative to program projections, and draw lessons for subsequent projections?

Box 2. Evaluation Results Chain

This evaluation assesses the role and performance of the IMF in determining the availability and use of aid flows to SSA. Its primary focus is on Fund staff's interactions with: (i) the country authorities, via discussions of the PRGF macroeconomic program, conditionality, and implementation; and (ii) donors, via direct contacts and signaling. The related issues of diagnostics and impacts are also important, with the most relevant questions about diagnostics including whether/how the Fund grounded its dialogue with the country authorities and donors in systematic analysis of absorptive capacity and other relevant issues. The evaluation's ability to make statements about outcomes will be constrained by its timeframe—clearly for recent programs the impact on poverty reduction and other variables can at most be preliminary and indicative—and the standard methodological difficulties of framing counterfactuals and drawing conclusions about attribution.

As depicted below, the six specific areas for evaluation are:

(1) Diagnosis of aid absorptive capacities and policy options for enhancing them
(2) Analysis of aid flows and modalities and how they are affected by country performance and donor behavior
(3) PRGF program design (including conditionalities) and implementation
(4) Catalytic effects of PRGF on aid flows, predictability, and modalities
(5) Country policy and institutional responses, and contribution to country outcomes
(6) Aid responses of donors, and contribution to country outcomes



B. Program Design and Implementation

31. Questions about program design and implementation constitute the core of the evaluation. In short, they ask: How did program design—and especially conditionality—(i) translate into constraints on or accommodation of available aid, and (ii) encourage or discourage donors to provide aid?

Policy framework

32. The evaluation looks at the degree of accommodation of aid inflows—whether anticipated or unanticipated—in program design and actual implementation and reviews. This is done in the context of: (i) the overall macroeconomic framework; (ii) specific quantitative performance criteria, benchmarks, and targets; and (iii) the use of adjusters for dealing with aid surges and/or shortfalls. The evaluation also examines how program and review documents explain program conditionality and associated restrictions on the use of aid and their customization to country conditions with respect to absorptive capacity, and the extent to which technical assistance and other instruments for enhancing absorptive capacity were considered.

Catalytic effect

33. A key evaluation question is how the IMF engaged with donors in identifying possible changes in the level, predictability and modalities of aid in light of country policies, institutions, and aid absorptive capacity. Also critical is whether/how the dialogue between the IMF and donors on PRGF program interruptions may have affected the pace of donor disbursements. How the Fund's operational approach—including its location of work and frequency of missions—may have affected the dialogue with donors, especially in the context of budget support, is important as well.

C. Program Responses and Outcomes

34. Clarifying how PRGFs have affected countries' ultimate goals—as measured by the MDGs and other national development priorities—is an important objective. But one which the current evaluation will not attain to any precise degree: clearly for recent programs, available measures of effects on poverty reduction and related social objectives will be preliminary at best, captured through leading indicators and proxies. Meanwhile, the standard difficulties associated with counterfactuals and attribution apply, limiting the evaluation's ability to make strong statements even about intermediate outcomes. This said, the evaluation does take the analysis of outcomes as far along the results chain as the data and evidence allow, per the following brief discussion of the treatment of country and donor responses.

Country responses

35. On country responses, the evaluation focuses on how intermediate outcomes—such as fiscal and monetary policies and/or structural policies to improve absorptive capacity—affected the use of aid and economic outcome—and the extent to which the evidence points to the PRGF and the Fund as contributing factors.

Donor responses

36. On donor responses, the evaluation looks at the level, predictability, and modalities of aid over time and across countries—and the extent to which the evidence points to the PRGF and the Fund as contributing factors. More specifically, it compares: (i) actual aid levels with program projections; (ii) aid levels and modalities before and after the program (and with and without the program, in cases of program interruptions); and (iii) relevant variations across countries and regions.

V. Work Program

37. This section summarizes the evaluation's country coverage and work program.

A. Country Coverage

38. The country universe for the evaluation comprises the 29 Sub-Saharan African countries with PRGF programs that have been completed or lapsed between the PRGF's launch in September 1999 and 2005.[42] Figure 2 shows the PRGF timelines, and Table 1 the key indicators for these countries.

B. Key Activities

39. The evaluation's main sources of evidence are set out below, relating to primary sources of evidence for the assessment.

Inventories of policies and guidelines, literature, and practice

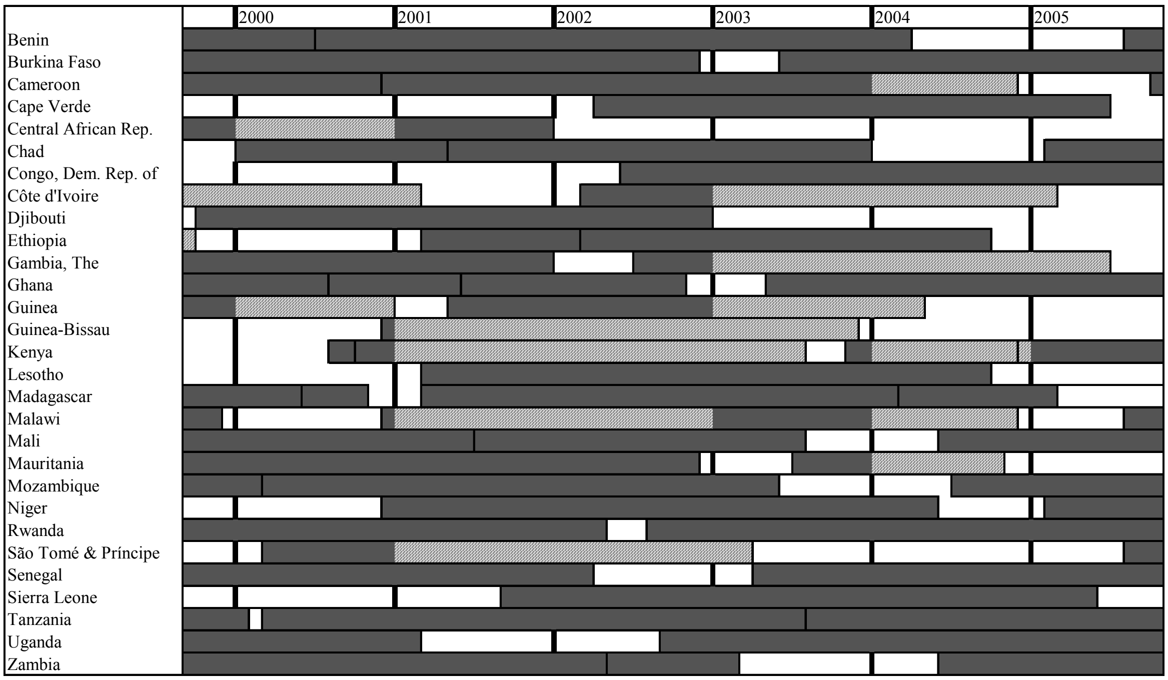
40. The focus of the evaluation is on the 1999–2005 period, but the Fund's role in SSA during this period needs to be viewed in its larger historical context. Accordingly, the work of the evaluation begins with the consideration of the changing context, starting in 1975, in SSA itself, in donor practices, and in Fund policies and procedures.

Quantitative analyses

41. Where data and methodology permit, the evaluation questions are being addressed using quantitative analysis—and statistical tests—covering SSA PRGF countries for the most part, but also looking at the broader range of programs for comparative purposes. This

analysis supports and complements other facets of the work program, such as the desk review exercise, interviews, and field visits (see below).

Figure 2. PRGF Programs in Sub-Saharan African Countries (1999–2005)



Note: Darkened areas indicate the existence of a PRGF program. Diagonal stripes indicate that there were no disbursements during the particular calendar year despite an agreed program. Borders within darkened areas indicate new programs or changes in program size.

Source: IMF, *International Financial Statistics*.

Desk reviews

42. In-depth desk analyses of program documents are being carried out for a sample of about a dozen countries, based on a detailed assessment template derived from the main evaluation questions. The material being examined includes staff reports and related documents (briefing papers, back-to-office reports, review comments, issues papers, ex post assessments, and so on).

Country visits

43. Country visits are central to the work program, involving face-to-face meetings with the country authorities, country-based donor and development agencies, IMF resident representatives, civil society, research institutions, and others. The aim is to gather stakeholder feedback on program formulation and implementation and the contribution of the IMF. Members of the evaluation team visited Burkina Faso, Rwanda, Tanzania, and Zambia during March, and will visit Ghana and Mozambique in June.

Table 1. Aid Indicators for Sub-Saharan African Countries
with PRGF Programs between 1999 and 2005

Country	Net Annual Aid Inflows (In millions of U.S. dollars)	Annual Aid per capita (In U.S. dollars)	Aid as percentage of GDP	GDP per capita (In U.S. dollars)	Population (In millions)
Benin	246.7	38.6	9.5	411	6.4
Burkina Faso	410.1	35.4	13.3	269	11.5
Cameroon	558.8	35.9	5.6	633	15.4
Cape Verde	108.8	243.7	17.7	1,379	0.5
Central African Rep.	73.9	19.6	7.1	277	3.8
Chad	196.3	24.1	10.7	226	8.1
Dem Rep. of Congo	1,425.7	27.1	25.7	100	50.3
Côte d'Ivoire	458.1	28.3	3.9	734	16.1
Djibouti	71.9	105.9	12.5	848	0.7
Ethiopia	1,052.6	15.9	16.4	98	65.7
The Gambia	51.3	37.8	12.7	303	1.3
Ghana	682.9	34.1	10.9	319	20.0
Guinea	231.9	30.6	7.1	434	7.6
Guinea-Bissau	79.4	55.8	36.1	154	1.4
Kenya	432.5	14.1	3.7	382	30.7
Lesotho	56.8	32.0	6.4	505	1.8
Madagascar	393.4	24.5	8.9	274	16.0
Malawi	434.4	41.3	24.7	168	10.5
Mali	412.4	37.0	13.6	274	11.1
Mauritania	257.3	94.6	26.1	364	2.7
Mozambique	1140.3	62.8	30.4	211	18.1
Niger	281.4	25.1	12.9	192	11.1
Rwanda	336.1	42.4	19.1	222	7.9
São Tomé & Príncipe	32.9	217.7	65.2	336	0.2
Senegal	453.3	46.5	9.1	516	9.8
Sierra Leone	250.3	48.3	33.7	141	5.1
Tanzania	1237.1	35.8	13.0	274	34.4
Uganda	760.1	31.7	12.8	248	23.9
Zambia	593.7	59.2	16.9	358	10.1

Note: Entries represent averages for 1999–2003. Aid and GDP are measured in current prices.

Sources: World Bank *World Development Indicators*, IMF *International Financial Statistics*.

Visits to partner headquarters

44. Interviews in major donor capitals—including Berlin, Berne, Brussels, The Hague, London, Paris, and Tokyo to date—seek/have sought to obtain feedback from partners on how the Fund's role in the determination of aid has worked in practice; how the Fund has engaged donors in the forecasting of aid flows; and how the Fund has or has not catalyzed changes in the external resource envelope. Members of the evaluation team also visited African Development Bank headquarters in Tunis and UNECA in Addis Ababa, to discuss those agencies' perspectives on the Fund's evolving role and performance in SSA.

Surveys

45. Survey instruments are being used to systematically canvass the views of the authorities, donors, civil society representatives, and African Development Bank, IMF, UNDP, and World Bank staff, with respect to the role and performance of the Fund.

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[1] See OECD DAC (2005).

[2] The evaluation builds on an earlier IEO review of the role of the Fund in the PRSP and the PRGF, which was carried out in parallel with the World Bank's Operations Evaluation Department/Independent Evaluation Group. That review looked at the PRS process, PRGF program alignment, and the Fund's effectiveness in both. See IEO (2004) and IEG (2004).

[3] See Gupta, Powell, and Yang (2005).

[4] See Heller (2005) for an analysis that starts from the perspective of the Minister of Finance.

[5] See Clemens, Radelet, and Bhavnani (2004), and Gunning (2005) for overviews of the recent literature. Clemens and Radelet (2003) summarize the findings of various studies on the diminishing returns of the aid-growth relationship, including of Hansen and Tarp (2001). Roodman (2004) overviews the literature that identifies critical conditions for aid to promote growth, including a good policy environment. On the link between aid impact and policy environments see also Burnside and Dollar (2000). Clemens, Radelet, and Bhavani (2004) provide evidence that the medium-term aid-growth link is stronger when incremental aid goes for infrastructure rather than health and education.

[6] The literature has generally focused on the adjustment costs associated with shifts in resource flows, and on the potential loss of growth-enhancing externalities from a decline in the traded goods sector. See Ebrahim-Zadeh (2003) for an overview; Rajan and Subramanian (2005) for a recent empirical analysis; and Adam and Bevan (2003), Bevan (2005), and Nkusu (2004) for policy discussions.

[7] See Maureen Lewis (2005); and Shakow (2006).

[8] See, for example, Cohen, Jacquet, and Reisen (2005).

[9] Even in the case of grants, fiscal sustainability often implies the need to improve domestic resource mobilization to finance the higher levels of recurrent costs that may be needed into the future to support aid-financed investments. See Gupta, Powell, and Yang (2005).

[10] Governance concerns have increasingly informed country aid allocations and eligibility for donor budget-support instruments and reform programs throughout the region. See http://www.nepad.org/2005/files/inbrief.php.

[11] See, for example, Moss, Pettersson, and Van de Walle (2006).

[12] See IMF (2005c).

[13] See OECD-DAC (2005).

[14] See Bulíř and Hamann (2001, 2005).

[15] Proposals to deal with aid flows uncertainty have revolved around foreign reserve management and buffers to shield public spending from short-run fluctuations in aid disbursements. See Eiffert and Gelb (2005) and Heller (2005).

[16] See Donovan (2005).

[17] See, for example, Birdsall (2006).

[18] See the Paris Declaration, OECD-DAC (2005).

[19] See Fielding and Mavrotas (2005).

[20] See DFID (2005b) and OECD (2006b).

[21] Donors may also have a stake in the possible effects of other donors' aid flows, both magnitudes and delivery modalities. See also paragraph 7 of this paper and Moss, Pettersson, and Van de Walle (2006).

[22] See IMFC (2006), and Development Committee (2006b).

[23] See IMF (2004, 2005a-e).

[24] See IMF (2003b).

[25] See IMF (2005c), page 21.

[26] See IMF (2005e and k)

[27] See IMF (2005j and 2006).

[28] See IEO (2004).
[29] See IMF (2005a-b).
[30] See IMF (2005e) page 52. In the 2005 review of PRGF program design, the IMF called for a minimization of "the extent to which programs automatically save unanticipated aid inflows, particularly where contingent spending plans are in place." See IMF (2005c) page 20.
[31] See Hofmann and Zattler (2006).
[32] See IMF (2005f, l, and m).
[33] See DFID (2004b).
[34] See ActionAid International (2005).
[35] See AFRODAD (2006b) and http://www.afrodad.org/index.php?option=com_content&task=view&id=67&Itemid=54.
[36] See Oxfam (2005) and Eurodad (2005).
[37] See Sachs (2004 and 2005a), WHO (2001), and UN Millennium Project (2005). For his specific views on how the IMF should be involved, see the correspondence between Sachs and the IMF's External Relations Department in the Financial Times: Sachs (2005b), Dawson (2006), Sachs (2006).
[38] See Easterly (2005 and 2006).
[39] The most commonly cited health examples relate to new resources for fighting HIV/AIDS, malaria, and tuberculosis. See, for example, De Vogli and Birbeck (2005), Stephen Lewis (2005), Ooms and Schrecker (2005). On education, see, for example, Save the Children (2005).
[40] See, for example, ActionAid International (2004, 2005), Bretton Woods Project (2005), and Trócaire (2004).
[41] See Maureen Lewis (2005).
[42] The IEO terms of references mandates that evaluations should not interfere with ongoing operations. See IMF (2000).

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