

## Institutional Drivers of IMF Behavior

This chapter looks at the institutional drivers of the trends discussed above. It focuses on Board-approved policies, management communications and guidance, and the implications for priorities for action by operational staff.

### Executive Directors

Board positions on the three issues—accommodation of aid, analysis and mobilization of aid, and poverty reduction and growth effects—are briefly summarized below. The discussion builds on Annex 1, which sets out relevant content of Chairman’s Concluding Remarks and Summings Up.

IMF policy on the accommodation of aid in PRGF-supported programs is clear. When the PRGF was introduced in 1999, Executive Directors agreed that increased aid should be allowed to affect the fiscal and external stance within a stable macroeconomic environment and in a noninflationary manner.<sup>1</sup> In 2003, the Board endorsed the accommodation of additional aid within PRGF-supported programs, as long as the flows were sufficiently concessional and did not endanger macroeconomic stability.<sup>2</sup> During the discussion, Executive Directors highlighted potentially adverse effects of aid on external competitiveness and fiscal and debt sustainability, which needed to be taken into account in programming decisions including for the accommodation of aid. In 2005, Executive Directors clarified how program design should be tailored to changing aid levels, according to country conditions and policies.<sup>3</sup> The Acting Chair’s Summing Up said: “Directors were of the view that, given a large increase in aid inflows, if absorption capacity is adequate and adverse effects on the tradables sector are contained, a *spend and absorb* strategy would be appropriate. . . . Directors considered, however, that a more restrained spending policy could be in order if the effectiveness of higher spending is constrained by absorptive capacity, if there is a

#### Box 4.1. IMF Engagement with Donors: Different Possible Roles

- ✓ **Catalyst**—with the IMF’s macroeconomic sign-off (in the PRGF and/or other instruments) taken by donors as the green light to proceed with their disbursements (assuming donors’ other conditions are met).
- ✓ **Partner**—with the IMF participating in local donor events—especially related to budget support—and harmonizing staff mission timing to the extent possible.
- ✓ **Advisor**—with the IMF providing information to the authorities and donors, based on its analysis of alternative policy and aid scenarios.
- ✗ **Mobilizer**—with the IMF advocating higher aid levels for individual countries.
- ✗ **Convener or Coordinator**—with the IMF playing a lead role in convening donors.

tension between aid volatility and spending rigidities, or if there is an unacceptable erosion of competitiveness. . . . Directors considered that [the] inflows could help underpin macroeconomic stability, by financing fiscal deficits and crowding in private sector investment through lower interest rates.”

IMF policy on the mobilization of aid in the context of the PRGF is not clear. Fund policy requires that programs considered by the Board have no unfilled financing gaps. In this context, alternative scenarios, as discussed earlier in this report, are not relevant to PRGF operational programs, but only to more upstream stages of program development when the authorities are thinking through possible options, including for approaching donors. But Fund policy on the role of the Fund—and Fund staff—in such an approach to donors is not clear. Box 4.1 sets out five possible roles for the IMF—from catalyst to convener or coordinator, with intermediate roles in between. Starting at the top, Executive Directors agree on the IMF’s *catalytic* role, which is grounded in a long tradition of Fund work, and most would probably agree on the *partner* role, although this is not a policy matter on which the Board would need to take a

<sup>1</sup>See IMF (1999e).

<sup>2</sup>See IMF (2003b).

<sup>3</sup>See IMF (2005k).

position. The IMF's *advisory* role is also long-standing. Where there are disagreements is on Fund activities on *mobilizing* and *coordinating* aid, as emerged in the 2004 discussion of the Role of the Fund in Low-Income Member Countries. At the conclusion of that meeting, the Acting Chair said: "By helping members develop appropriate macroeconomic frameworks, and by providing financial support through the PRGF, the Fund could play an important catalytic role in mobilizing development assistance. Directors agreed, however, that the Fund's role in mobilizing aid on behalf of low-income countries for MDG financing needs to be clarified. Many Directors held the view that the Fund should not play a role in mobilizing aid . . . but rather its contribution in this area lies in providing policy advice based on sound assessments of financing gaps and macroeconomic implications of aid flows, in terms of both levels and variability. Some Directors preferred a broader role of the Fund, including in promoting and coordinating aid inflows for MDG purposes."<sup>4</sup>

Fund policy on the treatment of pro-poor expenditures and social impact in the context of PRGFs is clear; but because of proximity to the PRSP and shared responsibilities with the World Bank, the precise outlines of IMF policy are not always clearly perceived either within or outside the IMF. It is indeed difficult to distinguish what exactly is the *Fund's* role in low-income countries (as defined in the discussions of the PRGF) from the role of the authorities and the Bank (as defined in Board discussions of the PRSP and HIPC, based on papers prepared jointly by Fund and Bank staff). Quite naturally, these Board discussions have addressed a number of issues related to country activities, Bank activities, and IMF activities. But one result of these many discussions of closely related topics is a blurring of perceptions of the boundaries between the two institutions' responsibilities and accountabilities. Notwithstanding precise wording of Summings Up and Concluding Remarks, it takes a very close read to keep straight the specific responsibilities accorded to the IMF under the PRGF, as opposed to the Bank and/or the authorities under the PRSP.

## Management

Management, which chairs the Executive Board, has a particular responsibility to seek to forge a clear consensus on the Board and to translate that consensus into communications of Fund positions and operational guidance for staff. In light of the Board discussions, the following paragraphs look at the IMF's evolving institutional posture and communications on aid and poverty reduction in SSA and how that evolving posture

informed the guidance and feedback provided to operational staff working on PRGFs.

## Communications

Introduced in 1999 toward the end of the term of then Managing Director Michel Camdessus, the PRGF was distinguished from its predecessor the ESAF by its explicit poverty-reduction orientation. The documentation introducing the PRGF acknowledged that growth was essential for poverty reduction—but it also emphasized that poverty could be an impediment to growth. It specifically argued that: "To be effective and sustained, growth-oriented policies should be implemented in a framework in which the pressing need to reduce poverty is also a central objective. From this . . . has come a commitment to making Fund-supported programs for low-income countries better integrated with policies to fight poverty, better-owned, and better-financed."<sup>5</sup>

The approach was highlighted in management's Key Features document, cited earlier, which was re-endorsed by the Board in 2002 as guidance for staff.<sup>6</sup> It was still operative in 2003, when a senior FAD official characterized the "new Fund view" as: "Growth is seen as necessary for poverty reduction, but poverty reduction is recognized as a factor contributing to the achievement of high quality growth."<sup>7</sup> But this view—emphasizing the two-way linkages between poverty reduction and growth that management had emphasized in 1999<sup>8</sup>—had by then already lost much ground within the IMF.

Today—in the context of the MTS—management's message is very different. In the past few years, there has been a refocusing of management's message onto growth as a necessary ingredient for poverty reduction, with the acknowledgment that critical programs in health and education are important and warrant protection and support in government budgets and grant funding from donors.<sup>9</sup>

Institutional communications continue to suggest a more expansive view of the IMF's role in aid mobilization, advocacy for aid, and alternative MDG scenarios than the Board has agreed.<sup>10</sup> For example, the IMF website indicates that: "The IMF contributes to this effort [to achieve the MDGs] through its advice, technical assistance, and lending to countries as well as its role in *mobilizing* donor support."<sup>11</sup> It later states that the IMF helps poor countries achieve the growth levels needed to reduce poverty through, *inter alia*, "*advocating* for increased aid" from developed countries and that

<sup>5</sup>See IMF (1999d).

<sup>6</sup>See IMF (2000a).

<sup>7</sup>See Heller (2003).

<sup>8</sup>See IMF (1999d).

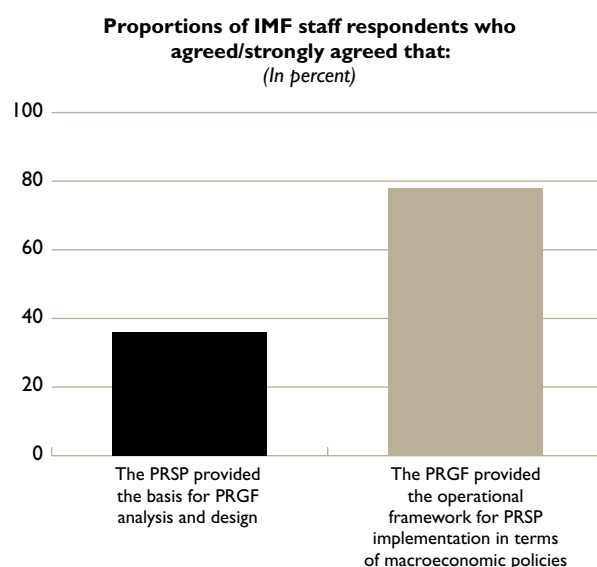
<sup>9</sup>See de Rato (2006).

<sup>10</sup>The italics in this paragraph are not in the original; they have been added for emphasis.

<sup>11</sup>See [www.imf.org/external/np/exr/facts/mdg.htm](http://www.imf.org/external/np/exr/facts/mdg.htm).

<sup>4</sup>See IMF (2004d).

**Figure 4.1. Survey Views on the Relevance of PRSP for PRGF and Vice Versa**



it encourages countries to develop and analyze alternative frameworks for achieving the MDGs—which is at variance with the evaluation’s findings with respect to work on PRGFs. In a similar vein, a recent issue of *IMF in Focus* states that the IMF encourages countries to develop and analyze *alternative frameworks* for achieving the MDGs and to use these to underpin their poverty reduction strategies.” In responding to Jeffrey Sachs, Thomas C. Dawson, then Director of EXR, stated: “that same sense of urgency [that characterized IMF follow-up to the G-8 call for IFI debt relief] is present when IMF teams work with countries and development partners . . . to consider their *strategies for meeting the MDGs*.”<sup>12</sup> The evaluation did not find strong support for these statements either in Fund policy or in PRGF operations.

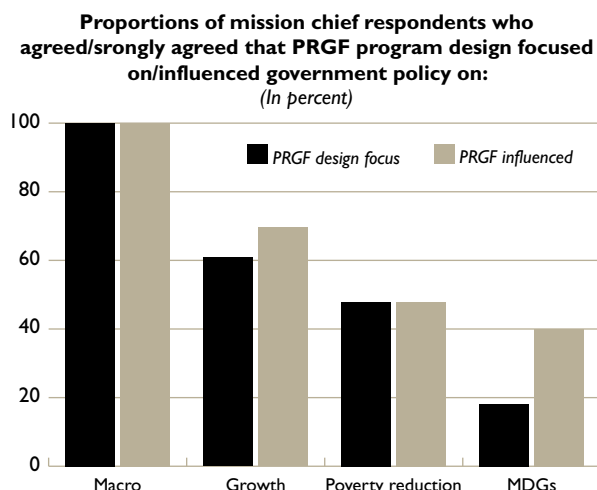
#### Guidance to staff

As with Board policies, operational guidance to staff is clear on IMF policy governing the macroeconomic foundations of the accommodation of aid; unclear on the analysis and mobilization of aid; and clear on the treatment of social impact and poverty reduction issues but less clear on what constitutes a pro-growth budget.

The Fund’s internal review process focuses on a short list of issues centered on the preconditions for macroeconomic stability, customized to the particulars of country situations. In the documentary evidence, attention to the monitoring of priority expenditures, the anal-

<sup>12</sup>See Dawson (2006).

**Figure 4.2. Survey Views on the Relevance of PRGFs for Macroeconomic, Growth, Poverty Reduction, and Other Millennium Development Goals (MDGs)**



ysis of distributional issues, and/or proactivity in the seeking of additional donor funding was rare, although there were isolated instances in which PDR and/or FAD reviewers raised them. Nor is this agenda reflected in the 20 ex post assessments that have been carried out for SSA PRGF countries, which are focused on bread-and-butter macroeconomic issues, albeit expanded in recent months to include aid-related issues.<sup>13</sup>

Mirroring the lack of agreement on the Board, the institution’s operational guidance is not clear on what IMF staff are to do on aid. As noted earlier in Box 2.3, the Key Features (also included in the PRGF Handbook) call for “normative macro-projections to signal financing needs and, where warranted, seeking higher aid flow commitments that can be built into the program.”<sup>14</sup> But it is not clear how this differs from the development of alternative scenarios and the mobilization of aid nor how staff should proceed in light of the Board’s more cautious stance.

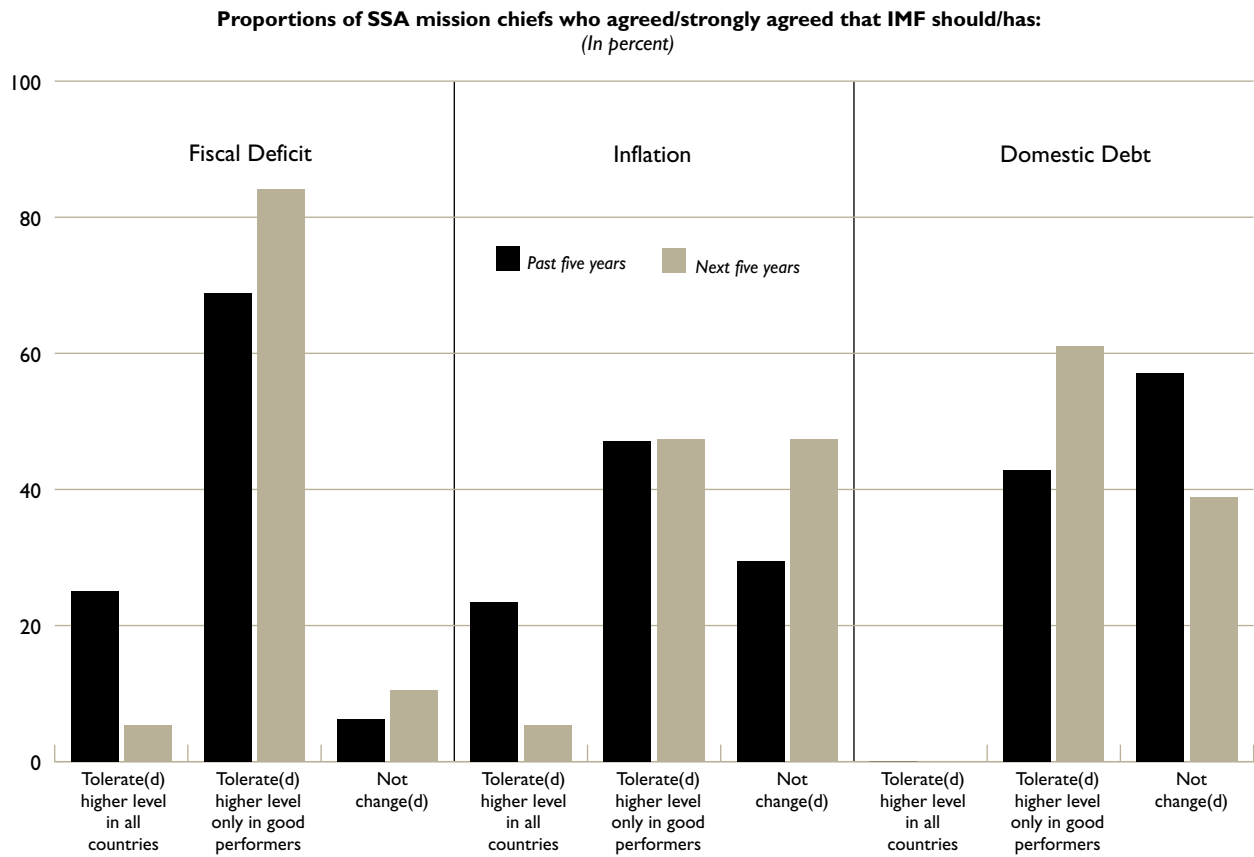
The PRGF Staff Report Checklist magnifies the confusion.<sup>15</sup> It states: “Especially for strong performers, PRGF staff reports demonstrate that staff have sought higher commitments of donor resources and consider presenting normative projections of grants and concessional loans based on poverty and growth goals. Staff reports should identify the incremental poverty-related spending that could be funded by additional external or fiscal resources should they become available.”

<sup>13</sup>See, for example, the Uganda ex post assessment, IMF (2005d).

<sup>14</sup>See IMF (2006g).

<sup>15</sup>See IMF (2006h).

Figure 4.3. Survey Views of Mission Chiefs on Fiscal Deficits, Inflation, and Domestic Debt

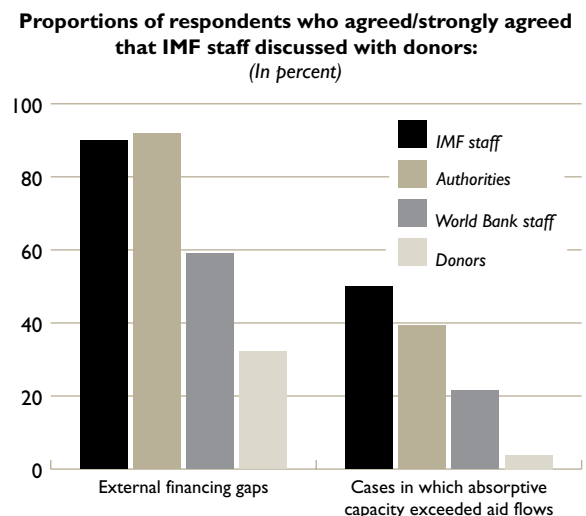


On social impact issues, as noted in Chapter 2, the PRGF Handbook and Checklist provide the basis for staff inputs. That guidance is clear and consistent with Board discussions that budgets supported by PRGFs should be pro-poor and pro-growth, although the guidance is not particularly clear on what constitutes a pro-growth budget. On PSIA, the guidance is clear—that PSIA, where available, should inform the design of countervailing measures as needed.

### Operational Staff

During interviews with the evaluation team, SSA mission chiefs said that their focus in the PRGF was on macroeconomic stability. They said they considered other issues in the context of the PRGF, including the composition of public expenditures—and their possibly pro-poor and/or pro-poor orientation—and the use of poverty and social impact analysis, but this could *only* be substantively done when timely and relevant analysis

Figure 4.4. Survey Views on IMF Proactivity in Discussing Aid Gaps with Donors



**Box 4.2. Resident Representatives’ Perspective on Donor Coordination**

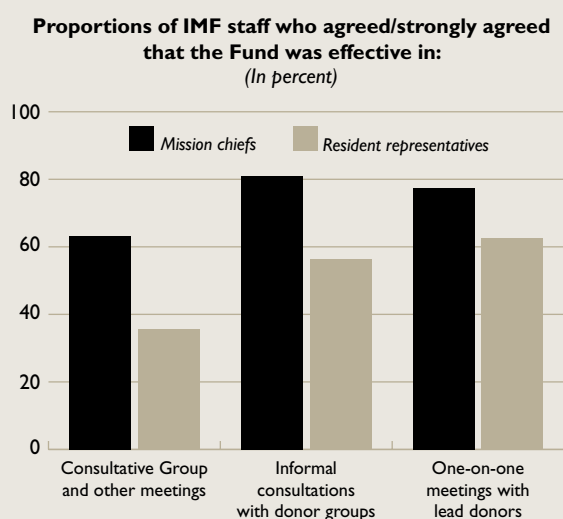
The SSA resident representatives are the IMF’s eyes and ears—and voice—on the ground. As such, their responses to some survey questions were of special interest—particularly when they differed from those of the mission chiefs. This occurred on a number of aid- and donor-related questions, where resident representatives have many more opportunities to interact with the local donor community than mission chiefs, who are more removed from the local aid scene. Figure A, for example, suggests that the resident representatives have a less sanguine view than mission chiefs of the IMF’s effectiveness at formal and informal aid meetings.<sup>1</sup>

<sup>1</sup>The figure also shows a less positive view of the IMF’s effectiveness in one-on-one meetings with lead donors. However, that

Resident representatives also show more awareness of donors’ joint policy monitoring efforts than mission chiefs, and greater appreciation of the importance of IMF involvement in these efforts going forward. As shown in Figure B some 75 percent of resident representative respondents reported that such efforts have become more important to the Fund over the past five years and 100 percent see the need for greater attention over the next five years. The shares for mission chiefs are significantly lower—and unchanging—50 percent looking back over the past five years and 50 percent looking ahead to the next five years.

difference between the residents representatives’ and mission chiefs’ responses is not statistically significant.

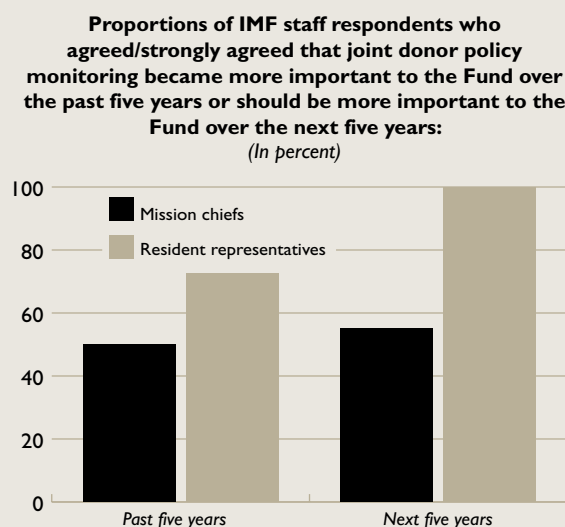
**A. Surveyed Staff Views on Effectiveness of Their Efforts in Interacting with Donors**



was provided by other sources, especially the World Bank. Meanwhile, less than 40 percent of surveyed staff agreed that the PRSP provided the basis for the PRGF, with twice as many agreeing that the PRGF provided the macroeconomic basis for the implementation of the PRSP (see Figure 4.1 above).

All mission chief respondents to the evaluation survey agreed that PRGFs have focused on macroeconomic issues and influenced government macroeconomic policies. A majority agreed that PRGFs have focused on and influenced government policies on growth (see Figure 4.2 above). A minority (45 percent) agreed PRGFs have focused on poverty reduction and actually influenced relevant government policies. Less than 20 percent agreed that PRGFs have focused on other

**B. Surveyed Staff Views on the Importance to IMF of Joint Donor Policy Monitoring**



MDGs, although twice that many agreed that PRGFs have actually influenced relevant policies.

Figure 4.3 above shows how mission chiefs see the institution’s changing posture toward the fiscal deficit, inflation, and domestic debt. Over 80 percent support greater easing of the fiscal deficit in good-performing countries, with much smaller proportions supporting the relaxation of inflation and domestic debt targets even in good performers.<sup>16</sup> There is no appetite among mission chiefs for a relaxation of fis-

<sup>16</sup>Mission chiefs’ responses for the current account deficit and “spend and absorb” were very similar to those for the fiscal deficit; their responses for foreign debt were very similar to those for domestic debt.

cal policy, inflation goals, or domestic debt targets in weak-performing countries. This position is consistent with Board-approved policy on the accommodation of aid, as discussed above, which conditions the accommodation of increased aid through increased spending and absorption on the strength of country policies, *inter alia*.

IMF staff have been much more diffident in discussing with donors “aid opportunities”—where absorptive capacity exceeds projected inflows—than traditional macroeconomic financing gaps. As shown in Figure 4.4 above, over 80 percent of surveyed Fund staff and authorities agree that staff have discussed traditional financing gaps with donors, while only half as many have highlighted cases where aid absorptive capacity exceeded aid availability. Meanwhile, far fewer donor respondents got the staff’s message, with 35 percent reporting discussions of gaps, and only 5 percent discussions of cases where absorptive capacity exceeds availabilities. Since, as pointed out in the section “Assessing aid requirements,” staff have not done the

requisite analysis that might underpin such a dialogue on “aid opportunities,” the outcome depicted in Figure 4.4 is not surprising—especially taking into account the cautionary signals sent from the Board against staff efforts directed at the mobilization of aid, and advocacy, as discussed above.

Box 4.2 above provides a comparative perspective on Fund efforts to engage with donors from the vantage point of resident representatives as well as mission chiefs. It suggests that resident representatives have a less sanguine view than mission chiefs of the IMF’s effectiveness at formal and informal aid meetings. It also points to a greater appreciation by resident representatives of donors’ joint policy monitoring efforts. These results raise the question of how effectively resident representatives’ observations are being utilized by headquarters, especially for the identification and analysis of cross-country developments in the aid environment—as might have helped the IMF respond earlier to the changes discussed in Chapter 2 and for as yet unidentified future challenges.