INTERNATIONAL MONETARY FUND

Aid Inflows—The Role of the Fund and Operational Issues for Program Design

Background Paper

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(In consultation with other departments)

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Introduction

1. **This paper contains background material to the Board paper on "Aid Inflows—The Role of the Fund and Operational Issues for Program Design."** The main paper draws operational implications for program design of increased and volatile aid inflows, based on selected case studies (Annex I) and a review of program conditionality (Annex II). It also uses findings on recent developments in official donor assistance (ODA) and meeting the Millennium Development Goals (MDGs) (Annex III).

2. **The conditionality review includes the quantitative fiscal and monetary targets and the associated adjusters in the first annual programs of 26 arrangements immediately following the establishment of the Poverty Reduction and Growth Facility (PRGF; "first generation programs") and all 34 of the current or most recent PRGF-supported programs or Policy Support Instruments (PSIs) ("second generation programs"), including all successors to first generation programs (Annex II).** The data on the recent programs are taken from the latest published staff report on the use of Fund resources (UFR). The data on the predecessors reflect the program design at the time of the request of the first UFR staff report following the establishment of the PRGF. The distinction between first and second generation programs allows a comparative-static analysis of otherwise gradual changes in program design over time for the 26 cases for which programs existed in 1999/2000 and 2005/06.

3. **The case studies review the design of Fund-supported programs since 1999, with emphasis on aid-related issues (Annex I).** The studies address the accuracy of aid projections, the implementation of a spend-and-absorb approach to aid, management of aid volatility, expenditure management issues, and concerns related to debt sustainability and competitiveness. The assessments of the degree of spending and absorption of higher (or lower) aid are based, in large part, on comparisons of changes in programmed aid with those in spending, current account balances, and reserves. One weakness of this approach is that it does not incorporate in a systematic manner the impact of other shocks, such as in the terms of trade, on policies, and developments. This issue is discussed in IMF (2005), which introduced these concepts.

4. **This study also does not discuss in detail the strength of the link between aid and macroeconomic outcomes.** However, many of the case studies indicate that inflation and competitiveness concerns have played a role in the policy discussions and for program design. In particular, in several instances, inflation increased notably following the spending of higher aid—for example in Mozambique (2002), Burundi (2003), and Rwanda (2004). This appears in line with standard theory, which indicates that higher aid is expected to raise inflation in the absence of monetary sterilization through the sale of either foreign exchange or domestic instruments. However, the case studies also illustrate that, at times,

developments were dominated by nonaid shocks. Key macroeconomic indicators are summarized in the text table below.

5. **The cases include most countries in which aid management was a program design issue: Burundi, Ethiopia, Ghana, Madagascar, Mozambique, Nicaragua, Rwanda, Tanzania, Uganda, and Zambia.** This sample also includes most countries that saw a significant scaling up of aid between 2000 and 2005—defined as an increase in aid by 5 percent of GDP or more (Annex III). At this level, additional aid inflows are assumed to affect macroeconomic and institutional capacity. Some countries that met the 5 percent-of-GDP criterion in 2005 were excluded because large one-time aid inflows were the result of debt forgiveness (Republic of Congo and Nigeria), democracy building (Democratic Republic of Congo and Haiti), or disaster relief (Maldives). Small island economies (Grenada, Kiribati, and Solomon Islands), members that never had a PRGF- or PSI-supported program (Eritrea and Sudan), and one member for which the relative increase in aid was the result of declining GDP (Zimbabwe) were also excluded.

6. **Throughout the case studies, the quantitative analysis focuses mainly on "fiscal aid," defined as budgetary grants plus net foreign financing of the budget.** Some of the case studies also include an assessment of "balance of payments aid," which also includes grants and concessional loans outside the budget, as well as interim Highly Indebted Poor Countries Initiative (HIPC) debt relief in the form of flow rescheduling.[1] Although the distinction between grants and loans is crucial for assessing debt sustainability, this review focuses on the macroeconomic management of aid, and therefore is not concerned with this distinction. While debt relief is a vital part of the broader aid strategy, its direct impact on fiscal resources and foreign exchange markets is generally limited (other than through a subsequent reduction in debt service), and its use is not a separate focus in this analysis. The flow impact of debt relief—while increasing fiscal space—is largely excluded also, mainly on the basis of data limitations.

Aid and Growth

7. **The potential of aid to help boost economic growth is a crucial starting point for the assessment of the effects and management of scaling up.** There is a vast empirical literature on the link between foreign aid and growth, with considerable variation in results depending on the study's methodology, time-horizon, and sample:

- One influential strand of the literature finds that, while aid has little unconditional effect on growth, it can affect growth positively *conditional* on certain other factors.

[1] The data do not reflect the flow impact of stock-of-debt operations, including relief under the Multilateral Debt Relief Initiative (MDRI).

The best known of these studies is Burnside and Dollar (2000), which employed panel data to find that aid had a positive impact on growth in countries with good fiscal, monetary, and trade policies. Other conditioning variables in this literature include export price shocks (Collier and Dehn, 2001), climatic shocks and terms of trade volatility (Guillaumont and Chauvet, 2001; Chauvet and Guillamont, 2002), policies and institutional quality (Collier and Dollar, 2002), institutional quality alone (Burnside and Dollar, 2004), policy and warfare (Collier and Hoeffler, 2002), authoritarianism (Islam, 2003), and economic freedom (Ovaska, 2003).

- Another strand of the literature looks at the unconditional effect of aid on growth; usually finding that aid can influence growth, but not in the linear manner assumed by the studies above. Hadjimichael et al. (1995) were the first to find a strongly positive impact with diminishing returns in a cross-section of African countries. Dunbarry et al. (1998) and Lensink and White (2001) find the same nonlinear relationship in extended samples. Dalgaard and Hansen (2000) and Hansen and Tarp (2000, 2001), confirm the result with more sophisticated instrumentation strategies. Clement, Radelet and Bhavani (2004)—which also contains a very useful review of the literature—find that the unconditional nonlinear relationship is much stronger than previous studies suggest if attention is restricted to "short-impact" aid of the kind that is most likely to have a measurable impact on growth within a relatively short time-horizon.

8. **The debate on the role of aid in supporting growth is still ongoing.** Roodman (2003) and Easterly, Levine, and Roodman (2004) find that the significance of the interaction coefficient (between aid and the relevant conditioning variable) is often sensitive to influential observations and not robust to extensions of the data sample. Rajan and Subramanian (2005a) use noneconomically motivated aid to instrument for aid disbursements, and find little evidence that aid affects growth conditional on better policy or geographical environments, or in a nonlinear manner. The authors argue in a companion study—Rajan and Subramanian (2005b)—that aid adversely affects recipient countries' competitiveness, thereby undermining the positive impact on growth.

Case Study Countries: Macroeconomic Outcomes and Aid, 2000–05

		2000	2001	2002	2003	2004	2005
				(In percent)			
Inflation	Burundi	24	9	-1	11	8	13
	Ethiopia	6	-5	-7	15	9	7
	Ghana	25	33	15	27	13	15
	Madagascar	11	7	16	-1	14	18
	Mozambique	13	9	17	13	13	6
	Nicaragua	10	5	4	6	9	10
	Rwanda	4	3	2	7	12	9
	Tanzania	6	5	5	4	4	4
	Uganda	6	5	-2	6	5	8
	Zambia	26	22	22	21	18	18
GDP growth	Burundi	-1	2	4	-1	5	1
	Ethiopia	6	8	1	-4	13	10
	Ghana	4	4	5	5	6	6
	Madagascar	5	6	-13	10	5	5
	Mozambique	2	13	8	8	7	8
	Nicaragua	4	3	1	3	5	4
	Rwanda	6	7	9	1	4	6
	Tanzania	5	6	7	6	7	7
	Uganda	5	5	7	4	6	7
	Zambia	4	5	3	5.1	5.4	5.2
				(National Currency per U.S. dollar)			
Exchange rate (nominal)	Burundi	721	830	931	1,083	1,101	1,075
	Ethiopia	8	8	9	9	9	9
	Ghana	5,455	7,171	7,933	8,677	9,005	9,073
	Madagascar	1,357	1,318	1,318	1,241	1,871	2,006
	Mozambique	15,689	20,707	23,666	23,782	22,580	23,061
	Nicaragua	13	13	14	15	16	17
	Rwanda	393	443	476	538	575	556
	Tanzania	800	876	963	1,039	1,091	1,127
	Uganda	1,511	1,763	1,755	1,883	1,935	1,738
	Zambia	3,111	3,608	4,307	4,734	4,779	4,464
				(Index; 2000 = 100)			
Exchange rate (real effective)	Burundi	100	96	82	64	64	71
	Ethiopia	100	91	87	90	85	91
	Ghana	100	101	100	100	99	109
	Madagascar	100	112	120	106	80	85
	Mozambique	100	87	90	80	83	85
	Nicaragua	100	101	97	91	89	88
	Rwanda	100	93	87	73	70	75
	Tanzania	100	100	91	75	68	66
	Uganda	100	97	93	82	85	89
	Zambia	100	112	111	102	108	135
				(In percent of GDP)			
Aid	Burundi		3	6	11	12	15
	Ethiopia	9	14	15	11		
	Ghana	0	11	2	5	8	8
	Madagascar	6	6	6	8	15	10
	Mozambique	12	20	18	14	13	10
	Nicaragua	12	8	9	10	11	10
	Rwanda	11	13	12	10	17	17
	Tanzania	5	6	9	10	11	10
	Uganda		5	5	3	2	3
	Zambia	11	9	12	8	6	6

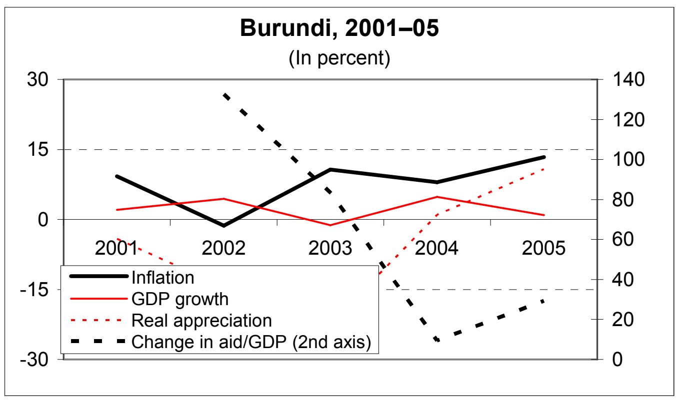
Sources: WEO; IMF country reports; and Fund staff estimates.

Annex I. Case Studies of Fund Program Design and the Use of Aid (1999–2006)[2]

A. Burundi

Summary and Key Issues: Two Fund-supported programs allowed for the full spending of anticipated aid and accommodated aid volatility through target adjusters. The PRGF-supported program (2004–07) envisaged foreign exchange sales to control liquidity in light of sizeable aid inflows and thus provided the financing for a rapidly widening current account deficit. Competitiveness concerns did not materialize.

Macroeconomic stability was consolidated and average inflation rate fell to single digit levels in 2004, while growth picked up to 4.8 percent. However, this trend was reversed in 2005, when real GDP growth was close to 1 percent and inflationary pressures increased due to the droughts in the northern part of the country and higher petroleum prices.



Background: Over the past decade and a half, Burundi has endured an extended period of civil conflict and a complex post-conflict transition to a democratically elected government in mid-2005. Ethnic tensions had degenerated into a civil conflict in 1993 that lasted until the early years of the new millennium. In August 2000, a political resolution began with the Arusha peace accord, and the last rebel movement reached a ceasefire agreement with the government in September 2006. In October 2001, Burundi started to implement a Staff Monitored Program (SMP) that aimed at stabilizing the macroeconomic situation and facilitating the mobilization of donor assistance. One year later, in October 2002, Burundi embarked on the first of two successive programs under the Emergency Post-Conflict Assistance (EPCA) Facility. Upon completion of the second EPCA program, a three-year PRGF arrangement was approved in January 2004.

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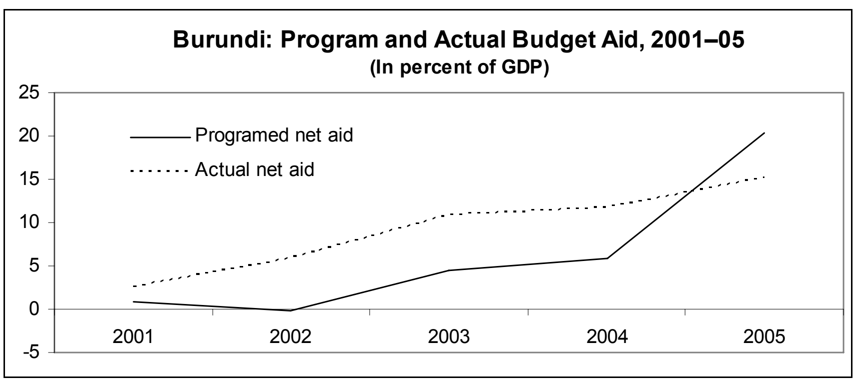
[2] All figures and tables in this annex are based on data in IMF country reports.

Program Design: PRGF-supported program conditionality specified ceilings on net credit to the government from the banking sector and on net domestic assets (NDA) of the central bank (BRB) and a floor on the net foreign assets (NFA) of the BRB. To safeguard debt-sustainability, the programs included a ceiling on outstanding external payments arrears, zero ceilings on short-term external debt, and a small nonzero ceiling on foreign nonconcessional borrowing.[3] In case of any deviation from projected aid disbursement, program adjusters specified a symmetric 75-percent adjustment to the ceilings on NDA and credit to the government and to the floor on NFA. From 2005 onward, the program specified a symmetric 100-percent adjustment in case of aid deviations from programmed amounts and applied a zero ceiling on nonconcessional borrowing. In addition, the grant element in concessional borrowing was raised to 50 percent from the standard 35 percent. In the 2006 program, the ceiling on net credit from the banking sector was changed to a ceiling on net domestic financing.

Projected and Actual Aid: During 2002–04, successive programs were conservative in projecting aid inflows and under-predicted foreign assistance to Burundi. However, this trend was reversed in 2005 and 2006 (estimates), as actual aid disbursements fell short of programmed assistance. In 2005, the divergence between programmed and actual assistance largely reflected delayed disbursements from the World Bank. In 2006, donor disbursements were again delayed as a result of donor concerns over governance issues.



Fiscal Policy, the Spending of Aid, and Debt Sustainability: Fund-supported programs allowed for the full spending of anticipated aid and accommodated aid volatility through target adjusters. As Burundi secured debt relief from the Paris Club in 2004 and through the HIPC Initiative in 2005, expected aid increased significantly and the programs allowed for the spending of aid accordingly. As actual aid flows materialized in excess of program projections, actual budget spending was also above program.

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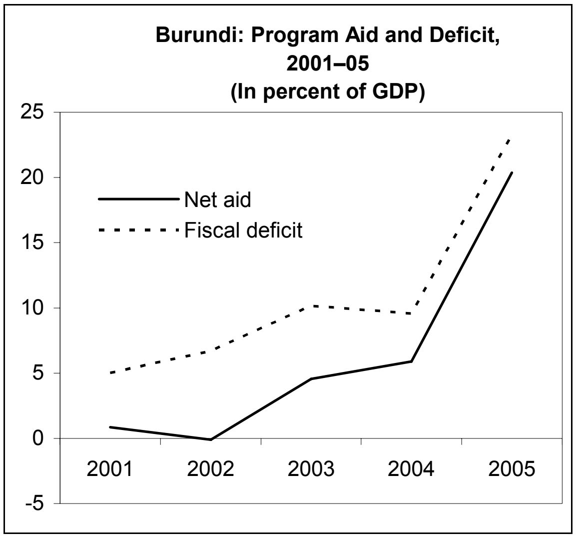
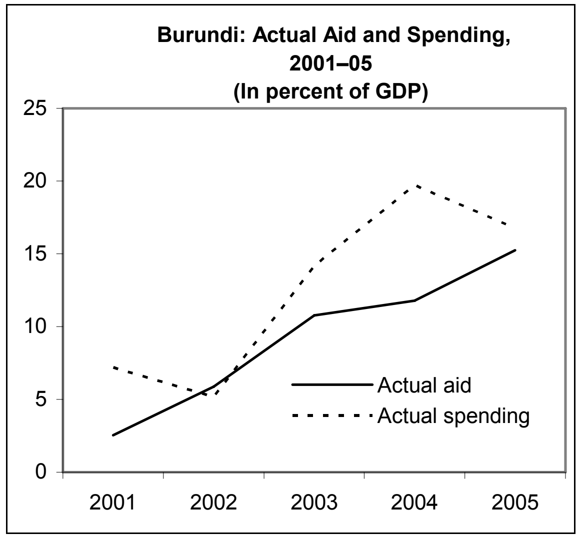
[3] A small amount of Fbu 1.0 billion of nonconcessional borrowing was allowed under the program to allow for working credits from embassy suppliers.





The divergence between programmed and actual aid disbursements has been a major source of difficulty for fiscal management and for maintaining the expenditure profile approved in the budget. Although overall aid flows increased substantially in 2003–05, the composition of budget support versus project aid has varied. Budget support disbursements were significantly delayed in 2004–06, while project grants were disbursed in excess of program projections. As a result, the matching domestic counterpart funding for much higher-than-expected project aid had to increase well in excess of program estimates. This discrepancy contributed to higher-than-programmed deficit and bank financing outturns.

Given the unpredictability of disbursements, nonpriority expenditure and disbursement assumptions have been back-loaded in the 2007 program budget, and spending of 0.5 percent of GDP is made contingent on the confirmation of additional budget support.

Debt sustainability has been a concern in Burundi given the weak administrative capacity for debt management and the large stock of foreign debt that reached 161 percent of GDP in 2001. The accumulated stock of arrears stood at 22 percent of GDP in 2001, and the scheduled debt service amounted to over 104 percent of exports in the same year. The net present value (NPV) of external debt was estimated at 1800 percent of exports in 2004. Much-needed debt relief was granted to Burundi through the enhanced HIPC Initiative. Burundi reached the decision point in August 2005, with the completion point expected at end-2007.

Monetary Policy and Aid Absorption: Under the PRGF-supported program, the authorities liberalized current account transactions and lifted the restrictions on foreign exchange operations. Burundi operates a managed floating exchange rate regime and the BRB intervenes only to limit short-term exchange rate volatility and to reach the level of international reserves that is consistent with the reserve money target. The central bank uses foreign exchange weekly auctions and liquidity auctions for monetary policy operations.

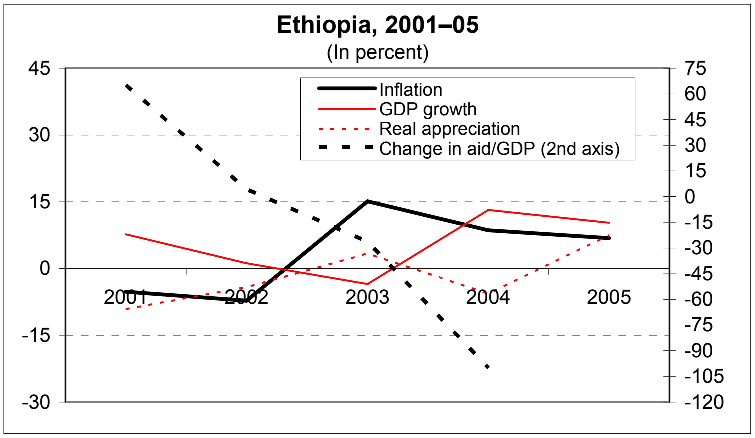
The PRGF-supported program envisaged continued foreign exchange sales to control liquidity in the face of sizeable aid inflows, despite concerns about exchange rate appreciation and competitiveness. However, the real effective exchange rate remained competitive through 2006. Despite a 10 percent nominal appreciation of the currency against the U.S. dollar in 2005, the exchange rate stabilized in early 2006, and the real effective exchange rate remained well below its 2000 level. Furthermore, the authorities and the staff agreed that the main impediments to external competitiveness are structural and that further reforms to liberalize the economy and reduce government intervention, especially in the coffee sector, would mitigate possible adverse effects on competitiveness. Thus, the use of foreign exchange sales to sterilize the impact of high aid inflows was deemed more appropriate compared with a policy of crowding-out private investment.

The monetary policy outlined in the program did not restrict aid absorption as the current account, excluding aid, widened by almost 10 percentage points of GDP in 2005 over the previous year, while gross official reserves increased modestly to 2.9 months of imports in 2005, compared with 2.2 months of imports in 2004.

B. Ethiopia

Summary and Key Issues: The use of aid under Ethiopia's March 2001–October 2004 PRGF-supported program varied over time, with external support initially not spent but instead used to stabilize the economy by reducing a substantial deficit. Spending increased subsequently and then declined somewhat, largely in line with external assistance. Program targets and adjusters generally precluded spending budget support surpluses and accommodated higher domestic financing for only a share of shortfalls. That said, Ethiopia did not make full use of flexibility under the PRGF-supported program and consistently overperformed on fiscal and other program targets. Although aid was partially absorbed early in the program, the authorities generally chose instead to accumulate reserves, which contributed to a slight depreciation. Debt sustainability was a concern throughout and contributed to lower borrowing and a sharp shift toward grants.

Background: The end of hostilities with Eritrea in 2000 contributed importantly to developments in Ethiopia in that it: (i) led to a sharp increase in external support, especially for post-conflict demobilization and reconstruction project spending; and (ii) allowed for a sharp reorientation toward poverty-reducing spending and away from defense related outlays. With agriculture accounting for about half of output in Ethiopia, overall outcomes were heavily affected by weather-related shocks, and growth was much more volatile than in neighboring countries. For example, a bumper crop contributed to 8 percent growth in 2001 and negative inflation in 2001 and 2002 (unexpectedly large food aid inflows were also a factor in the deflation). The worst drought in nearly 20 years then caused a sharp slowdown in growth in 2002, negative growth in 2003, and a steep jump in inflation to 15 percent in 2003, following deflation of 7 percent in 2002. Following the drought, growth then recovered sharply and inflation fell gradually.



Program Design: The program set the following performance criteria: a floor on NFA; a ceiling on NDA; a ceiling on net domestic financing (NDF); and—apart from some initial arrears—zero ceilings on external payments arrears and nonconcessional external debt (less than 35 percent grant element). External budget support surpluses generally could not be spent and higher domestic financing was allowed for only a share of shortfalls under the NFA, NDA, and NDF targets, which were adjusted as follows: (i) fully for surpluses in budget support (with an exception initially for special programs related to post-conflict recovery up to \$50 million, and subsequently also for poverty-related spending up to \$50 million); and (ii) partially for shortfalls (50 percent of the shortfall, initially up to a cap of \$20 million and subsequently up to a cap of \$50 million). The \$20 million amount represented about 0.3 percent of GDP, and the \$50 million amount about 0.6–0.8 percent of GDP.

Projected and Actual Aid: While aid rose sharply in 2000/01, disbursements nonetheless fell far short of projections. Aid disbursements exceeded projections in 2001/02 and 2002/03, but again fell short of projections in 2003/04. The delay of a \$150 million International Development Agency (IDA) credit (about 2.3 percent of GDP) from 2000/01 to 2001/02 greatly affected outcomes in those years. More generally, the spike in assistance for post-conflict recovery and subsequent fall likely complicated aid forecasting.

Ethiopia: Projected and Actual Fiscal Aid, 1999–2004
(In percent of GDP)

1999/00	2000/01		2001/02		2002/03		2003/04	
Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual
5.0	13.1	8.6	12.2	14.2	13.0	14.8	14.0	10.9

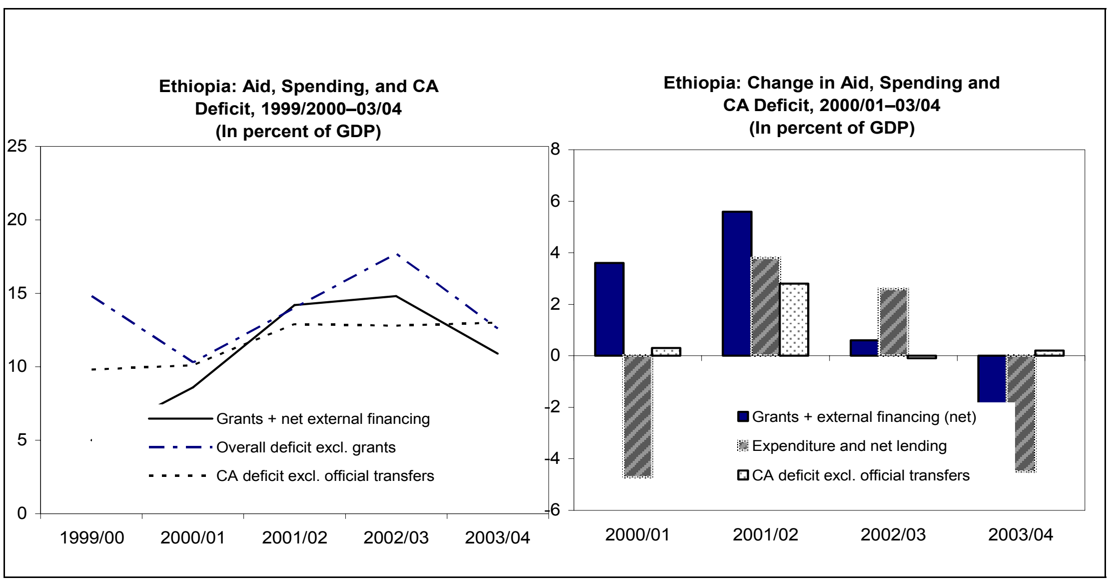
Fiscal Policy and the Spending of Aid: The program initially sought to use higher levels of external assistance to reduce the fiscal deficit and domestic borrowing (the after-grants deficit had reached 11.5 percent of GDP in 2000/01, with domestic financing of 8.6 percent of GDP). Aid projections proved optimistic in 2000/01, but Ethiopia achieved an even smaller after-grants deficit than programmed due to much lower spending. Following the fiscal adjustment in 2000/01, the program generally allowed aid to be spent. Actual spending largely tracked external assistance, which rose sharply in 2001/02 and remained roughly at that level in 2002/03 before falling in 2003/04. Staff agreed to wider deficit targets for both 2001/02 and 2002/03 given the expectation of higher levels of external assistance, but argued for a narrower deficit in subsequent years. In the event, aid exceeded projections in 2001/02 and 2002/03, and Ethiopia's spending and deficit levels were somewhat above those envisioned in the program, but overperformance on revenue collection enabled Ethiopia to stay well below the performance criteria limiting net domestic financing. In fact, Ethiopia overperformed on net domestic financing throughout the program period and accordingly did not use the full fiscal flexibility allowed under the program.

After the initial fiscal stabilization effort, aid increases were partially spent in 2001/02, and more than spent in 2002/03. Spending fell somewhat more than the decrease in aid in 2003/04. By the conclusion of the program, staff were increasingly diverging from the authorities' push for higher spending and optimistic grant assumptions. Staff reports emphasize debt sustainability, including the need to limit domestic borrowing, and also flag the macroeconomic challenges of scaling up and the risks of aid-dependence.

Monetary and Exchange Rate Policies and the Absorption of Aid: With reserves falling sharply to 2.2 months of import cover in 1999/2000, the program initially sought to build reserves, and only a small amount of the aid increase was absorbed in 2000/01. Shocks in 2001 and 2002, including slower world growth and lower coffee prices, worsened the external outlook, and reserve targets were lowered and access was augmented by about $17 million (10 percent of quota). The program envisioned some widening of the current account deficit, particularly in 2003/04, following larger-than-expected aid inflows in 2001/02 and 2002/03. In terms of outcomes, some absorption was seen in 2001/02, but the current account deficit remained essentially flat, thereafter, despite changes in aid. Rather than allow for increased absorption, the authorities chose to build reserves even after coverage improved to close to four months of imports at end-2002/03. Ethiopia consistently overperformed on the program's net foreign assets performance criteria.

Despite substantial aid inflows, the birr depreciated slightly in nominal and real terms over the program period, and competitiveness was not considered a problem. Although the exchange rate regime was significantly liberalized under the program and was characterized as a managed float by the end of the program period, the de facto exchange rate regime appeared to be a very slow crawling peg to the U.S. dollar (the birr depreciated by only 5.5 percent in nominal terms between 1999/2000 and 2003/04). Somewhat surprisingly, inflation was not a key concern as broad money growth had been contained with a relatively low level of domestic credit growth. Among the factors that limited inflation and real exchange rate pressures was a fall in food prices, except for the period of the severe drought in 2002/03 (when inflation reached 24 percent per annum in June 2003).

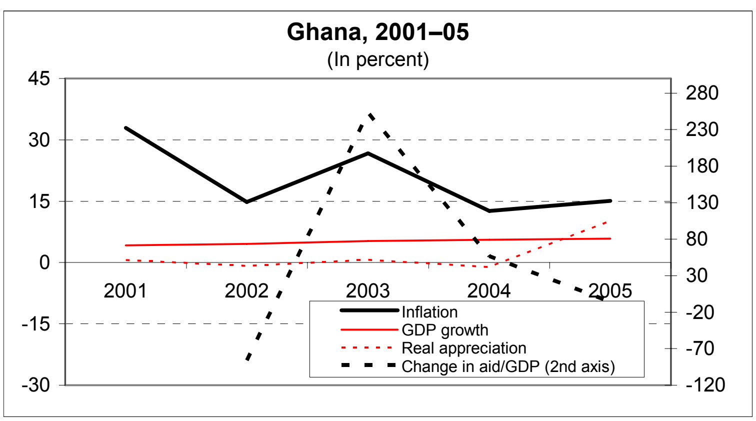
Debt Sustainability: Debt sustainability was a concern throughout the program and, importantly, contributed to lower IDA lending beginning in 2002/03 as well as a marked shift toward grants. In one instance, staff urged that grants be sought to cover a sizeable food security spending plan following a drought in 2002 and 2003, given the high level of domestic debt, and suggested that use of foreign exchange reserves might be considered if grants were not forthcoming. Standard debt-related conditionality was used.



C. Ghana

Summary and Key Issues: Ghana has had two PRGF-supported programs since 1999. Facing high inflation and a low level of international reserves, the programs stressed the need for fiscal consolidation, later anchored by domestic debt reduction targets, as well as the need to beef up the buffer against external shocks. Both objectives have limited the spending and absorbing of aid.[4] This cautious approach was in part a response to high aid volatility during 1999–2003, which prompted the authorities to use most aid to replace domestic financing and to build up international reserves. Since 2006, the PRGF-supported program has encouraged a spending and absorbing approach.

Background: Ghana experienced serious macroeconomic imbalances and volatile inflation in the 1990s, following a significant terms of trade deterioration and excessively expansionary fiscal policies, in particular in the periods running up to presidential elections (1992, 1996, and 2000). Since 2003, the improved macroeconomic management and better external environment, including high donor disbursements, have lifted Ghana's growth and poverty reduction performance. Real GDP has grown at more than 6 percent and inflation has been steadily reduced. In the meantime, the real exchange rate started to appreciate, reflecting in part increased foreign aid inflows.



Program Design: The main fiscal target under PRGF-supported programs was a ceiling on net domestic financing of the central government, supplemented by a floor on the primary surplus (changed to an indicative target later on). On the monetary side, since NDA replaced reserve money (RM) as a performance criterion (PC) during the third review of the

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[4] IMF (2005) identified Ghana as an example where incremental aid inflows were neither absorbed nor spent.

1999–2002 program,[5] the standard NDA/NIR framework, with RM as indicative target, has been maintained. NDF and NIR targets were to be adjusted in both directions in response to higher or lower program support (with caps) before the adjustors were removed in mid-2006.

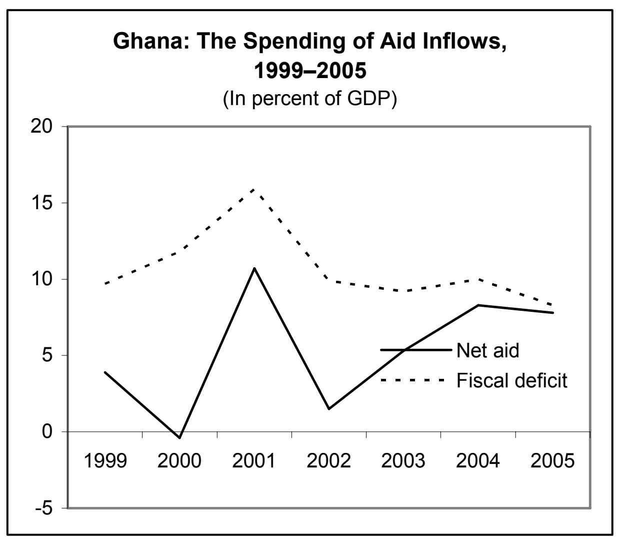
Projected and Actual Aid: Ghana has experienced a high degree of aid volatility. The levels of fiscal aid inflows varied substantially from year to year. The average swing in fiscal aid inflows during 1999–2005 was more than 5 percent of GDP. In 2000 and 2002, Ghana experienced two very severe aid slumps. In both cases, large expenditure overruns veered the program sharply offtrack, which in turn led to the suspension of donor assistance. In the context of volatile aid inflows, the programs' forecast errors have been sizeable, reaching as high as 7.2 percent of GDP in 2000 and averaging 3.2 percent of GDP for the whole period.[6]

Ghana: Projected and Actual Fiscal Aid, 1999–2005

(In percent of GDP)

	1999	2000	2001	2002	2003	2004	2005
Projected aid	4.7	6.8	6.8	5.3	3.8	3.6	7.6
Actual aid	3.9	-0.4	10.7	1.5	5.3	8.3	7.8

Fiscal Policy and the Spending of Aid: The PRGF-supported programs have long focused on saving foreign aid to assist the domestic fiscal consolidation effort. In particular, the 2003–06 PRGF-supported program adopted as its fiscal anchor an ambitious domestic debt reduction plan, which called for halving Ghana's domestic debt stock from the end-2002 level of about 29 percent of GDP. In this context, most foreign aid was programmed to be saved, rather than to be spent. In addition, 20 percent of HIPC Initiative assistance was



[5] During the second review, reserve money surpassed its target of C 1,583 billion by C 1 billion, despite a massive sale of foreign exchange, and a waiver had to be requested.

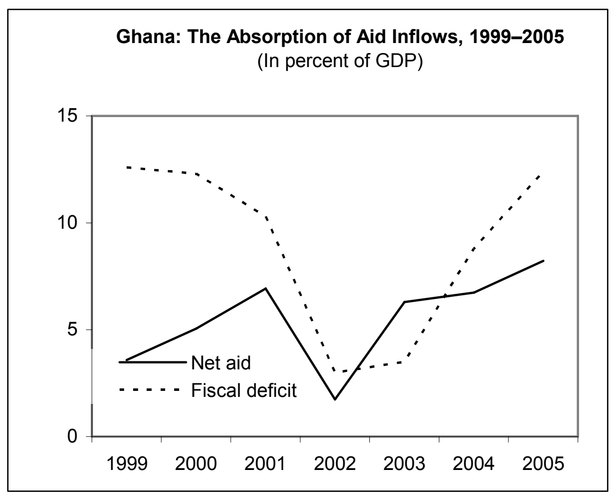
[6] Balance of payments aid was also volatile, though to a lesser degree.

earmarked for domestic debt reduction. Incremental aid inflows would also be saved, as the program adjustors precluded the spending or absorbing of any excess aid inflows because any such disbursements would lead to higher NIR and lower NDF targets.

The actual fiscal performance was largely consistent with the above strategy of saving most aid inflows. In 2001, against the backdrop of an aid surge of more than 11 percent of GDP, the increase in the fiscal deficit (before grant) was only about 4 percent of GDP. During 2002–04, with steadily increasing aid inflows, the fiscal balance was little changed. The limited spending of aid inflows was understandable given Ghana's high initial fiscal deficit and domestic debt stock as well as significant aid shortfalls in 2000 and 2002, which both led to near-crisis macroeconomic instability. The aid shortfall in 2002 was largely accommodated by expenditure cuts.

The recent changes to the 2003–06 PRGF-supported program were in favor of absorbing and spending incremental aid. During the fourth and fifth reviews, existing aid-related program adjusters were removed, allowing any additional aid above the baseline to be fully spent and absorbed. During the discussion for the fifth review, the program targets were also revised to take into account the additional spending funded by MDRI savings.

Monetary and Exchange Rate Policies and Aid Absorption: Consistent with the program's objective of improving Ghana's international reserve cover, which was below one month of imports at end-2000, the absorption of aid inflows has been limited, too. In particular, the substantial increases in aid inflows in 2001 and 2003 did not lead to a similar worsening of the nonaid current account balance.[7] In recent years, however, the current account balance has been more responsive, signaling faster absorption of aid.



In principle, the strategy of neither absorbing nor spending aid simplified monetary policy. Increases in NIR were largely offset by falling NDF. In practice, the central bank's consistent overperformance on NIR targets, above-target inflation, and a very stable cedis/dollar exchange rate suggest the central bank's resistance to appreciation pressures under a

[7] The increase in BoP aid inflows in 2000 was driven by massive depreciation of cedis, which substantially reduced Ghana's GDP in U.S. dollars.

managed float regime as well as partial sterilization of the reserve money impact arising from domestic debt repayments.

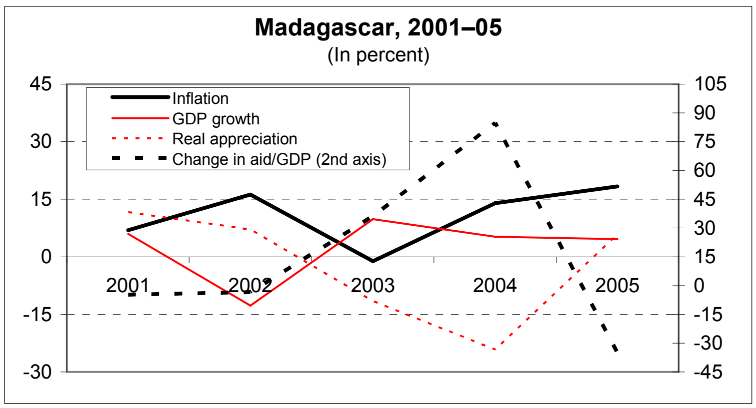
Following a massive depreciation in 2000, the nominal exchange rate against the U.S. dollar continued to depreciate at a slow pace. With higher inflation relative to trading partners, the real effective exchange rate (REER) has remained broadly stable at the same time. The staff reports indicate that Ghana's exchange rate regime and its current level did not adversely affect its external competitiveness. The failure of export diversification during this period was mainly the result of structural impediments. While the programs did not target the export sector per se, program conditionality included measures that would improve the general business environment, including the financial and utilities sectors.

Debt sustainability: The concerns about Ghana's external debt burden prompted a zero-ceiling on medium- to long-term nonconcessional external borrowing, to be maintained throughout the program periods. The required grant element to be excluded from this ceiling was 35 percent. In addition, there has been a separate nonzero ceiling on the short-term external debt stock.

D. Madagascar

Summary and Key Issues: Under Fund-supported programs during the 1999–2005 period (an ESAF/PRGF arrangement through 2000 and a PRGF arrangement from 2001 to 2005) and particularly since 2002, fiscal and current account developments largely tracked external assistance. Considering changes in the nonaid fiscal and current account deficits relative to changes in aid, Madagascar appears to have both spent and absorbed aid, although the degree of spending exceeded the degree of absorption. Program design was not accommodative of using additional aid, but for the most part this was not a concern since aid forecasts were consistently optimistic from 1999–2002 and were only exceeded by actual amounts in 2004. The 2001 program emphasized priority outlays (e.g., programming an initial widening of the fiscal deficit to allow for higher externally financed spending); the new PRGF arrangement launched in 2006 shows an evolution in the Fund's approach with discussion of a scaling-up scenario. Programs emphasized lowering very high initial levels of debt, which was achieved through the HIPC and MDR Initiatives, and then stressed restrained borrowing and close monitoring following debt relief.

Background: Madagascar has very low per capita income ($282 in 2005) and chronically weak revenue collection (7–12 percent of GDP over 1999–2005), making aid critical to the country's budget and achievement of development objectives. From 1999 through 2005, Madagascar received significant amounts of grants and loans, which together averaged nearly 8 percent of GDP per year and generally rose over time, reaching a peak of 14.6 percent of GDP in 2004. External developments other than aid have had significant effects on economic outcomes. On the upside, preferential trade initiatives such as AGOA supported a sharp takeoff in exports and contributed to significant FDI flows. On the downside, the country has been repeatedly hit by damaging cyclones (e.g., three in 2000, two in 2004), faced other natural shocks, seen sharp swings in commodity prices, and other trade conditions (reflected in a 60 percent drop in the terms of trade between 2002 and 2006), and experienced political turmoil in 2002, that caused real output to contract by 13 percent. Shocks also contributed to variability in aid flows and inflation. In response to volatility in Madagascar, access under the ESAF/PRGF and PRGF arrangements was augmented in 2000 and 2004, respectively, and the 2006 PRGF arrangement included Trade Integration Mechanism (TIM) access.



Program Design: Some evolution in program design can be seen over time. Programs set the following performance criteria (PCs): a floor on net foreign assets (NFA); a ceiling on net domestic assets (NDA); a ceiling on net domestic financing (NDF); a floor on tax revenue, and zero ceilings on domestic arrears, external arrears, and nonconcessional external debt (minimum 35 percent grant element). Program targets were at times revised in light of developments and adjusters, while initially being restrictive, provided more flexibility in later arrangements. The ESAF/PRGF and 2001 PRGF arrangements did not allow external budget support surpluses to be used (NFA, NDA, and NDF targets were adjusted fully for surpluses) and capped relaxation in NFA, NDA, and NDF targets in the event of budget support shortfalls. These three targets were also adjusted for deviations in privatization receipts and outlays. The 2006 PRGF is more accommodating. It caps NFA, NDA, and NDF adjustments in the event of a budget support shortfall at SDR 15 million, but allows surpluses of up to SDR 15 million to be used.

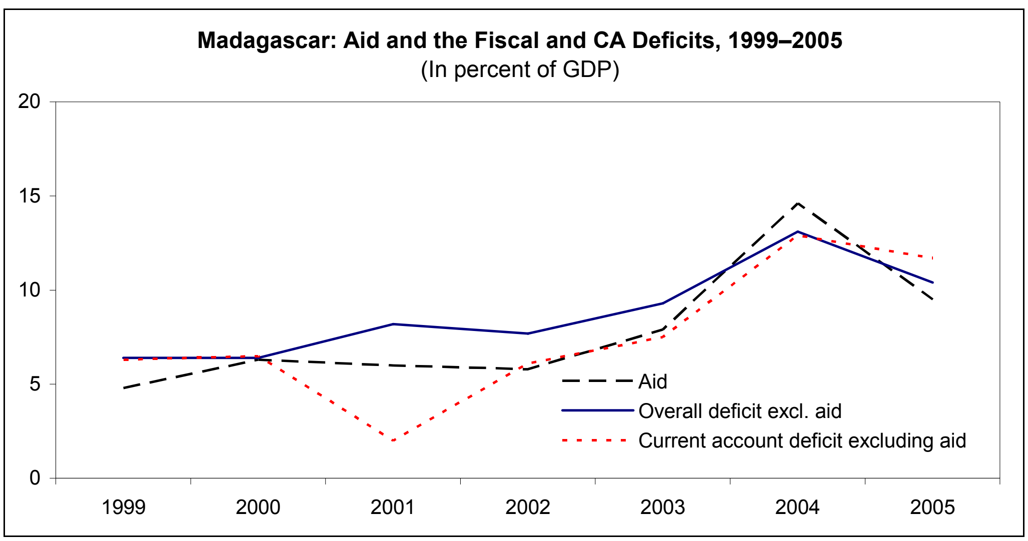
Projected and Actual Aid: As shown in the table below, aid was consistently over-projected for the 1999–2002 period, by an average of 2.6 percentage points of GDP. Factors contributing to lower or delayed aid included the 2002 political crisis and failure by Madagascar to meet conditions for World Bank budget support. Aid forecasts became more accurate over time.

Madagascar: Projected and Actual Fiscal Aid, 1999–2005

(In percent of GDP)

	1999	2000	2001	2002	2003	2004	2005
Projected	7.4	8.6	8.4	8.9	7.9	13.0	10.1
Actual	4.8	6.3	6.0	5.8	7.9	14.6	9.5

Fiscal Policies and the Spending of Aid: As shown in the figure below, changes in external assistance were generally reflected in Madagascar's overall fiscal deficit, particularly beginning in 2003.[8] The ESAF/PRGF arrangement was largely geared toward macroeconomic stabilization and the initial increase in aid between 1999 and 2000 did not lead to a wider fiscal deficit. The programmed increase in social and investment expenditure in 2001 under the PRGF arrangement was not matched by expected external support and led to higher domestic borrowing. It should be noted that, especially in the early years covered in this study, consistently weak revenue collection as well as shortfalls in aid and privatization receipts often led Madagascar to meet overall fiscal and net domestic financing targets through compression of capital expenditure. The program for 2002 stressed the need for prudent fiscal policy given heavy external debt, exchange rate appreciation, and the need to reduce domestic financing. Thereafter, fiscal developments more closely mirrored changes in aid, with Madagascar seeking to use external support to accelerate public investment, consistent with broader macroeconomic objectives, such as containing inflation.



[8] One factor behind this close association may have been the real appreciation of 2000–02 and the real depreciation of 2003–04, which respectively decreased and then increased the local currency value of foreign-financed project spending and the budget deficit in terms of GDP.

Noteworthy under the 2006 arrangement is the cooperation between Madagascar, the IMF, the World Bank, and the UNDP to consider the growth and investment rates needed to halve extreme poverty by 2015. The Madagascar Action Plan (its PRSP) includes two scenarios: a realistic aid scenario on which the 2006 PRGF-supported program is based, and a more ambitious scaling-up scenario for which resources have not yet been identified.

Monetary and Exchange Rate Policies and Aid Absorption: With reserves having fallen in 1999 to less than 2.5 months of import cover, the 2000 program sought to increase reserve cover to three months, which proved difficult due to cyclones and lower-than-expected external support. In 2001, very strong export growth led to a dramatic narrowing of the current account deficit despite only a slight drop in external assistance; international reserves also rose sharply. Export processing zones and AGOA access contributed to the jump in textile exports while the vanilla and clove sectors benefited from higher prices. The sharp widening of the current account deficit in 2002, again with little change in external assistance, reflected the devastating effects of the 2002 political crisis and a collapse in exports (imports also fell but by a smaller amount). After 2002, the current account deficit generally widened when aid increased and narrowed when aid fell, suggesting that aid was largely absorbed. That said, Madagascar often overperformed on its NFA targets due to strength in other components of the balance of payments such as exports and FDI, and thus had some unused leeway under the program to finance larger current account deficits through lower NFA. As evidence of the volatility in Madagascar's balance of payments, despite the 2004 spike in external assistance shown in the figure above, the country missed its NFA target in March of that year due to a range of factors. These included weak exports due to cyclones, higher oil and rice import prices, and a surge in imports due to a tariff and VAT holiday; together, these developments contributed to a very sharp depreciation (about 50 percent against the Euro).

Madagascar liberalized its exchange rate regime in the early 1990s and maintains a managed float with no predetermined path. As mentioned above, Madagascar generally overperformed on its NFA targets. This could have reflected a desire to avoid nominal exchange rate appreciation; there was some concern about competitiveness, particularly between 2000 and 2002, given an appreciation in the CPI-based real exchange rate. On the other hand, the unit labor cost-based real exchange rate did not show the same appreciation, and export growth remained healthy. Further, the NFA overperformance could have reflected a desire to build international reserves given a relatively low import coverage ratio and significant vulnerabilities.[9] Apart from 2002 when the reserve coverage ratio reached 4.1 months of imports of goods and services due to a sharp fall in imports during the 2002 political crisis

[9] The interpretation of monetary developments is complicated by the high volatility of NFA and money growth, which reflects, in part, the role of NFA in cushioning external shocks.

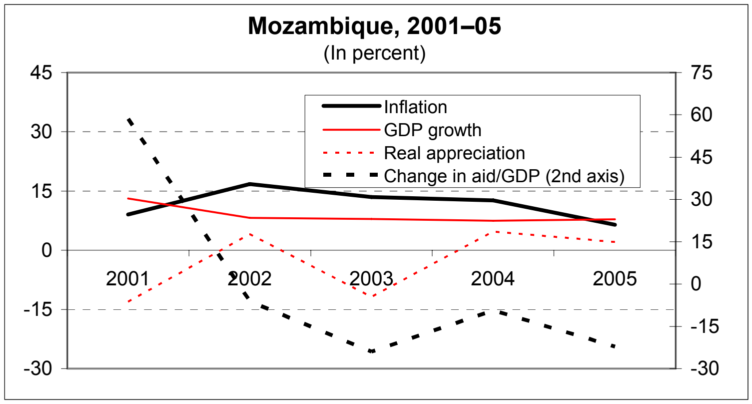
(the U.S. dollar value of reserves actually fell by 16 percent in 2002), reserve coverage reached a maximum of 3.3 months in 2001. On inflation, the program set ambitious goals—at times seeking inflation of 5 percent or less—but often failed to meet these objectives due to factors such as the 2002 political crisis, cyclones, higher prices for oil and other commodities, and at times, increases in NFA that contributed to significant reserve money growth.

Debt Sustainability: Madagascar's very high debt (with an NPV of the ratio of debt-to-exports over 240 percent in 1999) made debt sustainability a key concern throughout the program and highlighted the importance of HIPC Initiative relief. Staff continued to stress the importance of grants and concessional financing after the HIPC Initiative completion point and MDRI relief in order to prevent reaccumulation of unsustainable debt. Standard debt-related conditionality continues to be used (i.e., no external borrowing with a grant element of less than 35 percent).

E. Mozambique

Summary and Key Issues: Since 1999, Mozambique has had two Fund-supported arrangements: a three-year Enhanced Structural Adjustment Facility (ESAF)/PRGF arrangement (PRGF1) that ended in 2003, followed by an ongoing three-year PRGF arrangement (PRGF2) that was approved in 2004. In the first arrangement, monetary and fiscal policies and targets were designed to spend and absorb an expected surge in foreign aid to some extent, while maintaining macroeconomic stability. The request of the PRGF2 targeted a fiscal consolidation in the face of a programmed decline in aid inflows. More recently, the program adopted a more explicit spend-and-absorb strategy under a possible scaling up of foreign aid.

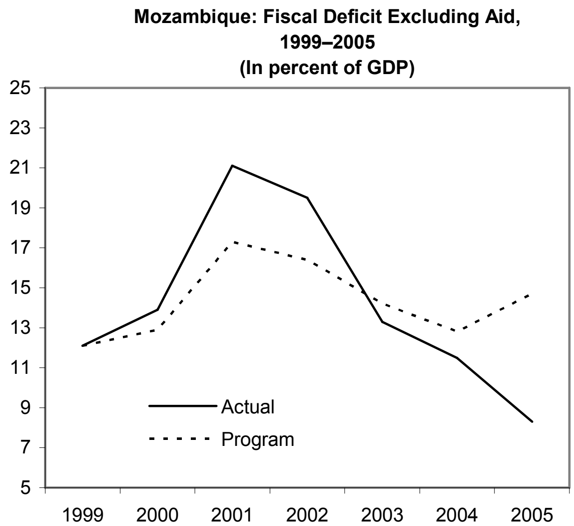
Background: Mozambique received high inflows through the late 1990s with a substantial increase in levels beginning in 2000, a year in which the country was afflicted by flooding. During the aid surge period (2000–03), government spending increased but aid absorption lagged behind, leading to a large injection of domestic liquidity. Despite sterilization policies that raised reserve requirements and interest rates, high inflation persisted and the exchange rate depreciated. For the subsequent periods 2004–06, a reduction of aid inflows was expected. The government pursued fiscal consolidation to limit its recourse to monetary financing and reduce pressures on domestic interest rates and the nominal exchange rate. This consolidation was mainly driven by expenditure restraint, including on the wage bill, but kept the share of priority expenditure increasing above the poverty reduction strategy (PRS) target. In the end, the fiscal consolidation in tandem with a switch to sterilization policies of selling foreign currency helped to contain nominal depreciation and inflation. On the other hand, growth that had been spurred to some extent by the surge of aid in 2000 gradually declined reaching 8 percent by 2005.

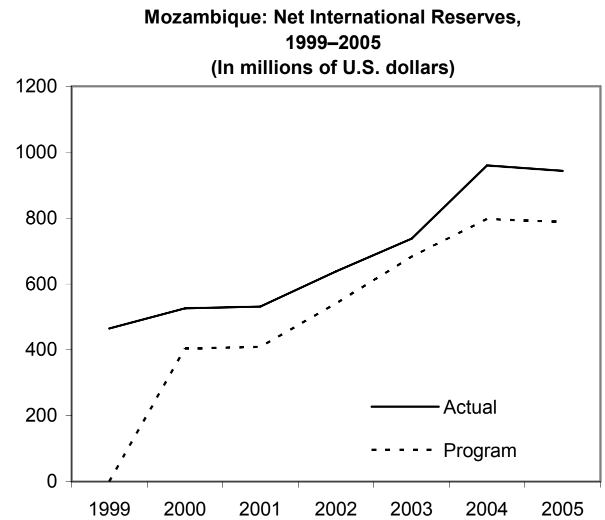


Program Design: In both arrangements, fiscal and monetary conditionality comprised ceilings on the central government domestic primary deficit (PFD) and the stock of net domestic assets of the Bank of Mozambique, and a floor on the stock of net international reserves. Explicit aid-related adjusters were introduced, but their specification changed over time. Initially, the floor for NIR was adjusted upward (downward) in response to any excess (shortfall) in disbursements of foreign program grants and loans, compared to the program baseline. The ceiling of NDA was adjusted downward (upward) for any excess (shortfall) in foreign aid. The PRGF2 also included an aid-related adjuster for the ceiling on the PFD to accommodate extra capital outlays covered by higher-than-envisaged external grants.

By the fourth review of the PRGF2, the PFD ceiling was replaced by the ceiling of net claims of the central government (NCG). In addition, the aid-related adjusters were set asymmetrically to permit the full spending of higher-than-anticipated aid flows. The NIR floor and the NCG ceiling were not adjusted for any excess in disbursements of foreign program assistance. On the contrary, the NIR floor (NCG ceiling) was adjusted downward (upward) by 100 percent of any shortfall in external program aid up to a maximum of $50 million.

Projected and Actual Aid: In general, aid inflows were quite volatile and unpredictable for the period 2000–05. The response to exogenous shocks, including the floods in early-2000, explains part of this volatility. After a flood-related aid surge that reached its peak in 2001, actual aid continuously declined over time. Moreover, aid projections were below the actual levels until 2003 and have become more optimistic since then, remaining above the actual levels.





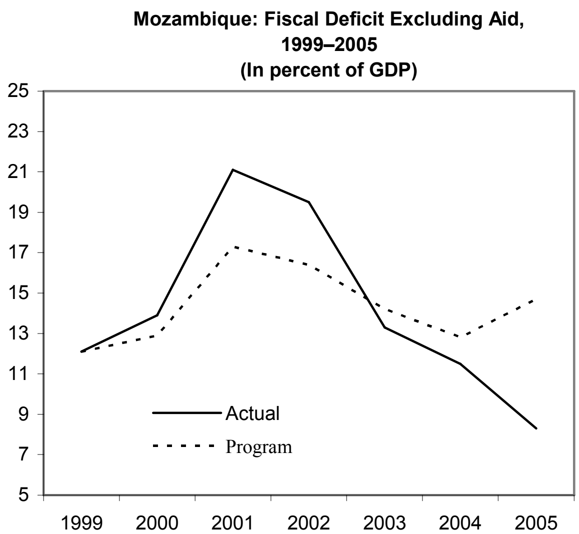
Macroeconomic Policies and Aid: In 1999, at the start of the PRGF1, the design of fiscal and monetary policies accommodated the spending and absorbing of aid to some extent, while maintaining macroeconomic stability. Mozambique was affected by floods in 2000, which attracted more foreign aid**.** As a result, the domestic primary deficit target was raised to accommodate the preliminary flood-related expenditures financed by the additional aid as well as extra poverty-reducing expenditures made possible by the HIPC Initiative debt relief.

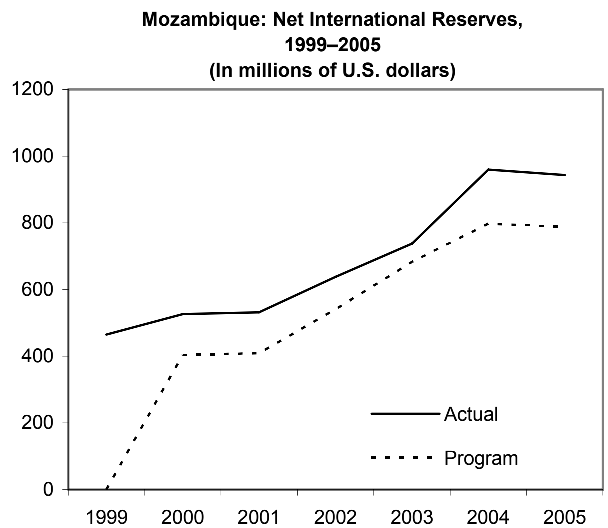
Toward the end of the PRGF1, the actual nonaid fiscal deficit was higher than the program deficit. Actual government expenditures increased by well over 100 percent of the increment in aid, but aid was not fully channeled into higher imports, and therefore not fully absorbed. This led to an injection of domestic liquidity that in turn generated inflation and a nominal depreciation. Although the program called for a reduction of broad money growth and an increase in reserve requirements and interest rates, these policies proved to be insufficient to contain inflation and the accelerated depreciation.

The authorities were also reluctant to sell foreign currency as a means of sterilizing the excess of liquidity during the PRGF1. As a consequence, NIR always remained above the program targets, implying a partial absorption of aid. In fact, between the pre-aid surge period (1999–2000) and the aid surge period (2001–03), the nonaid current account deterioration as percent of incremental aid was close to 66 percent.[10] Thus, aid was not completely absorbed.

[10] See Berg et al. (2007).

In the request for the PRGF2, policies were geared toward attaining macroeconomic stability in the face of a programmed foreign aid decline. For 2004, the program sought a fiscal consolidation by reducing the primary fiscal deficit, while allowing for significant spending in the priority sectors financed by higher revenues. This helped reduce the pressure on already high domestic interest rates inherited from the previous years. The fiscal consolidation took place and the actual nonaid fiscal deficit decreased to below-program levels.





The PRGF2 also envisaged a decline in broad money growth consistent with a targeted reduction in inflation. Although NIR were not expected to change, the authorities indicated that the volatility of foreign aid flows was forcing them to follow a cautious approach regarding reserve accumulation. Consequently, actual NIR were above their program values for 2004 and 2005.

More recently, the current PRGF2 has aimed at following an explicit spend-and-absorb strategy to foreign aid in the context of a possible scaling up of aid. Since end-2005, the program budget has envisaged an increase in spending focused on achieving the PRS targets. Furthermore, the monetary program has taken into account the need to sterilize the liquidity injected by the government spending of foreign aid by selling foreign currency in line with an aid absorption strategy.

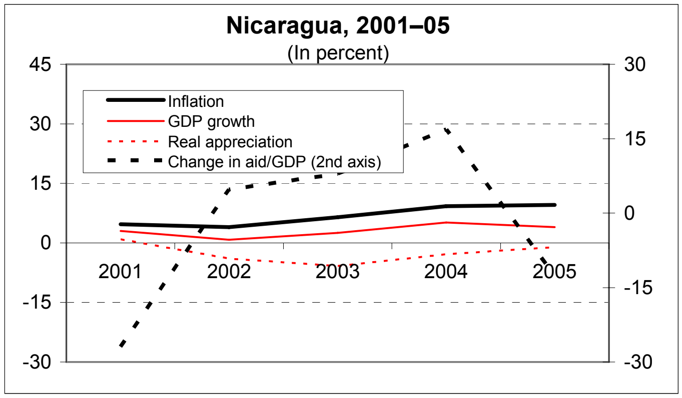
During the PRGF1 (2000–03) and as a result of high inflation, real depreciation lagged behind nominal depreciation. In particular, the average real depreciation for this period was around 5.5 percent, while the nominal depreciation was close to 13.3 percent. Hence, there is little evidence of Dutch disease. However, the partial aid absorption associated with the accumulation of NIR might have been driven by a fear of Dutch disease effects and explained as a way to resist real exchange rate appreciation.

During 2004 under the PRGF2, real appreciation accelerated. The program initially (second review) considered that the real exchange rate was not misaligned reflecting an increase in external assistance flows. However, by the time of the third review, it became clear that the real exchange rate appreciation in 2004 led to a somewhat overvalued level, which was corrected when Mozambique moved to a more flexible exchange rate regime through the introduction of foreign exchange auctions in January 2005. The real exchange rate depreciated to its long-term trend in 2005 and has remained relatively stable since then. In any case, potential Dutch disease effects were supposed to be alleviated by the program allocation of additional spending resources to the most economically and socially productive priority sectors.

F. Nicaragua

Summary and Key Issues: Nicaragua's second annual program under the 1998–2002 ESAF was converted to a PRGF-supported program in 1999, which was followed by another PRGF-supported program in 2002–06. Both programs focused on improving medium-term fiscal sustainability (combined public sector balance) and external viability (international reserve cover). In this context, managing aid inflows has resulted in no spending and partial absorption. Under this strategy, foreign aid was used to substitute for domestic financing, which in turn could crowd in the private sector. This pattern lasted until very recently when the program showed a gradual shift toward a spend-and-absorb approach. Under Nicaragua's crawling peg regime, monetary management in face of high aid inflows remains challenging.

Background: Against the backdrop of the economic collapse of the 1980s and recurrent natural disasters in the 1990s, the main challenges facing the economy were to restore macroeconomic stability through reducing vulnerabilities arising from large fiscal and external imbalances as well as a high level of public debt. During the period under review (1999–2006), Nicaragua has consistently received a large amount of foreign aid, reflecting its important geopolitical location, low level of development, and sizeable humanitarian aid responding to natural disasters. Economic growth accelerated from about 1 percent in 2002 to about 4–5 percent in 2004 and 2005, while inflation steadily increased to about 10 percent. However, the real effective exchange rate continued to depreciate as the inflation differentials were more than offset by the nominal depreciation.



Program Design: The key quantitative targets under the PRGF programs encompassed a floor on the combined public sector (and/or central government) balance, a ceiling on net domestic financing of the combined public sector, a ceiling on NDA, and a floor on NIR. The 2002–06 program initially also included a floor on net reduction of the domestic debt accumulated by the central bank during the banking crisis of 2000–01. In 2006, a wage ceiling was introduced to contain the rapid growth of the public sector wage bill. NDF and NIR targets were to be adjusted in both directions in response to higher or lower program support.

Projected and Actual Aid: The aid projections for program purposes have been on the conservative side, with the outturns better than the projections in all years. The aid surge in 1999 reflected the relief efforts following Hurricane Mitch. The PRGF-supported programs went offtrack during 2000–01 and 2004–05, contributing to the declines in aid inflows during these periods.

Nicaragua: Projected and Actual Fiscal Aid, 1999–2005 1/2/

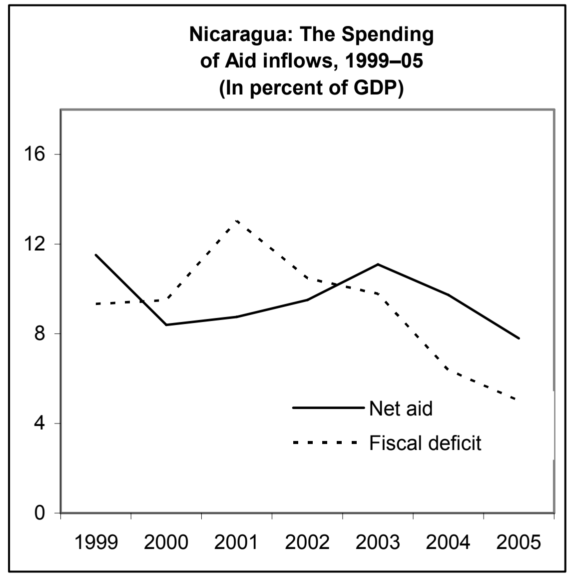
(In percent of GDP)

	1999	2000	2001	2002	2003	2004	2005
Projected aid	9.9	8.2	7.7	9.3	10.4	8.3	7.6
Actual aid	11.5	8.4	8.8	9.5	11.1	9.7	7.8

1/ The combined public sector.

2/ Adjusted for the new GDP series.

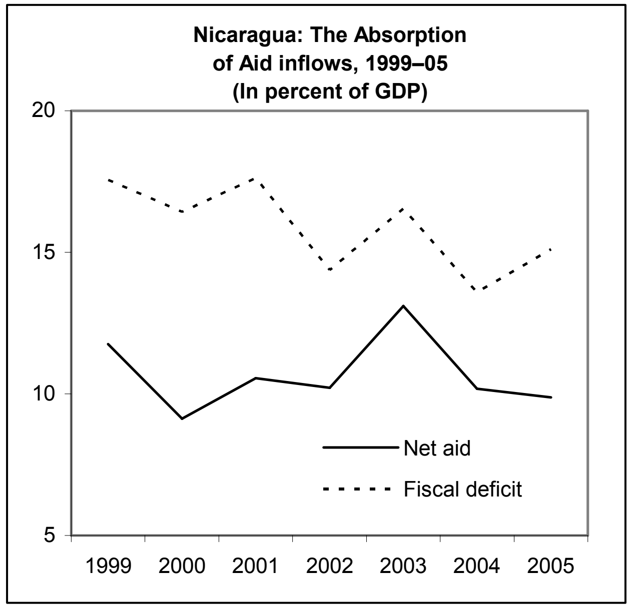
Fiscal Policy and the Spending of Aid: As fiscal consolidation was the cornerstone of the recent two PRGF-supported programs with Nicaragua, spending of aid inflows was limited by a number of built-in constraints. First, the projections of aid inflows were relatively conservative, which limited the room for ex ante spending plans. Second, the 2002–06 program called for paying down the central bank's domestic debt, which was U.S. dollar denominated or indexed. Third, the program adjusters automatically lowered the NDF ceiling in the event of unexpected higher program aid inflows. The emphasis on fiscal consolidation was also evident during subsequent program reviews when projections for outer years, which were first outlined when requesting the program, underwent updating. While the aid projections were normally revised upward, the programs generally maintained the fiscal balance targets.



Actual fiscal performance showed a successful path of fiscal consolidation with little spending of aid inflows**.** Except for 2001, when fiscal spending spun out of control ahead of the presidential election, the fiscal deficit (before grants) has been steadily falling in the period under review, regardless of the fluctuations in aid inflows. The pattern of a steadily improving fiscal balance persisted even when aid inflows increased during 2001–03, limiting the spending of aid. In more recent years, the magnitude of fiscal adjustment has significantly exceeded the decline in aid inflows, which reflected continued efforts of fiscal consolidation.

Some recent changes in program design, however, showed a gradual shift toward accommodating the spending and absorbing of aid inflows. Until end-2005, the adjustors for quantitative PCs, while offering some flexibility to accommodate aid volatility, mainly meant to safeguard the program's key objectives of fiscal consolidation and external viability. For example, although NDF and NIR targets were adjusted symmetrically in response to higher or lower aid inflows, the relaxing of these targets in the event of shortfalls was capped while the tightening in the event of higher disbursements was unlimited. This pattern lasted until the combined seventh, eighth, and ninth reviews, during which the tightening of quantitative targets were also capped at similar levels, allowing most of higher aid inflows to be absorbed and spent. In addition, MDRI savings from the Fund were explicitly allowed to be fully absorbed and spent.

Monetary and Exchange Rate Policies and Aid Absorption: Despite the fact that improving external viability has been the second key program objective, programs remained flexible. Both of the two recent PRGF-supported programs aimed at raising international reserves to over three months of imports. Although this goal was never achieved, programs have generally gone along with lower reserve covers during subsequent reviews even when aid inflows were normally revised upward, which essentially accommodated the absorption of aid inflows. In this context, the evolution of the nonaid current account balance has been responsive to the changes in aid inflows, albeit by a smaller magnitude. In particular, higher aid inflows in 1999, 2001, and 2003 led to a worsening of the current account balance, consistent with partial absorption of aid inflows. The recent cap on PC adjustments in response to higher aid inflows would have further helped aid absorption (see chart).



Nicaragua has been under a crawling peg regime since 1996. Little flexibility offered by the exchange rate regime, together with the program's priority in beefing up the central bank's foreign exchange reserves, left the authorities with very limited choices in liquidity management when aid inflows started to rise. The central bank has stepped up open market operations and raised reserve requirements to mop up excess liquidity. The central bank also slowed the pace for domestic debt redemption. Overall, excess liquidity has been an issue under the program, and inflation targets were often missed.

Debt sustainability: Concerns about Nicaragua's external debt burden resulted in a zero-ceiling on nonconcessional borrowing (both short term and medium to long term) throughout the program periods. The required grant element to be excluded from this ceiling has been 35 percent.

G. Rwanda

Summary and Key Issues: From 1998 to 2002, Rwanda had an ESAF/PRGF arrangement, followed by a second PRGF arrangement during 2002–06.[11] Promoting debt sustainability has been an overriding concern in program design, especially before the attainment of the HIPC Initiative Completion Point in April 2005. This focus has been reflected in both relatively stringent limits on external borrowing and—until 2004—efforts to reduce domestic debt. In line with the latter focus, programs initially limited aid-based fiscal spending, followed in 2004 by a shift to a spend-and-absorb approach. Since 2004, as aid has increased rapidly, the need for improved coordination between fiscal and monetary policies has become an urgent concern.

Background: Since 1994, Rwanda has made much progress in reestablishing economic institutions, liberalizing the economy, and achieving macroeconomic stability. Growth has been fairly strong in recent years, generally at 6–9 percent per year, except in 2003 due to drought and policy slippage. Large credit expansion to the government in 2003 and higher aid inflows since 2004 led to above-program inflation in the context of a managed floating exchange rate regime. Moreover, external debt sustainability deteriorated continuously up to the HIPC Initiative Completion Point, due to excessive borrowing in the face of weak export performance.

Program Design: Fiscal and monetary conditionality comprised a floor on NFA, a ceiling on reserve money (replacing an NDA ceiling in 2002), and a ceiling on net domestic credit to the government. Adjusters on NIR and NCG originally required higher-than-projected program inflows to be fully saved, while lower inflows could be offset by higher domestic borrowing (up to a ceiling).[12] More recently, this restriction was relaxed for higher-than-expected grants. Conditional on the monetary program remaining on track, additional spending of up to 2 percent of GDP was made possible in the fourth review of the 2002–06 PRGF-supported program. A floor on recurrent social spending was introduced in 1999 and was expanded in 2001 to reflect broader PRS priorities.

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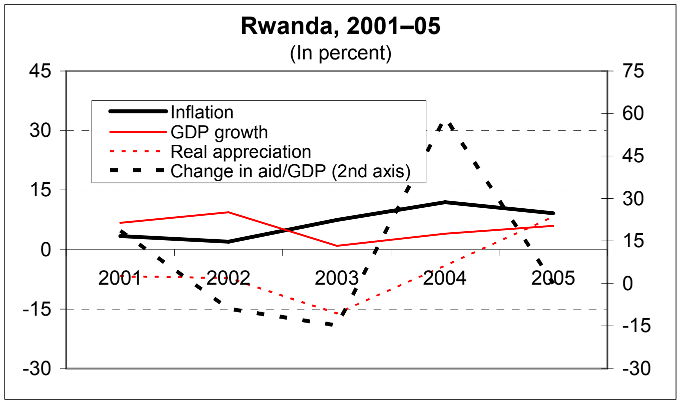
[11] The 1998 ESAF arrangement converted into a PRGF arrangement in 1999. This discussion does not cover the third arrangement, initiated in mid-2006.

[12] These adjusters, however, have not applied to earmarked donor-funded development projects to avoid constraining externally financed project spending, including in the social sectors.



Projected and Actual Aid: Aid was underprojected until 2003, at about half of the actual levels. Projections have been more buoyant since 2003. In the event, actual aid declined in 2003, in response to severe policy slippages, resulting in an aid shortfall. By contrast, aid did increase rapidly in 2004 and through 2005, following policy improvements in early 2004.

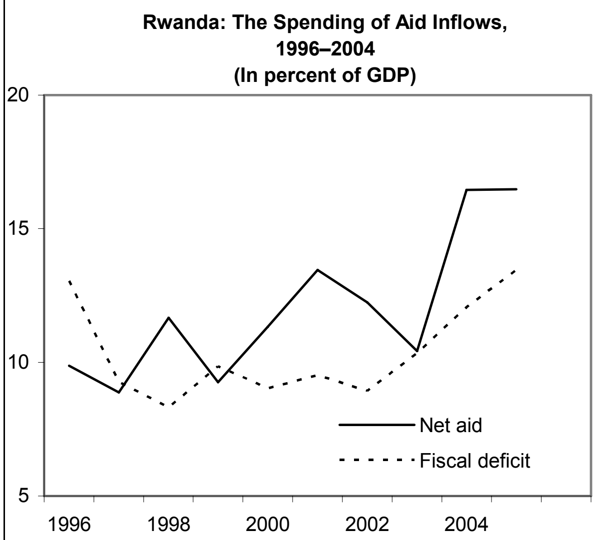
Rwanda: Projected and Actual Fiscal Aid, 2000–05

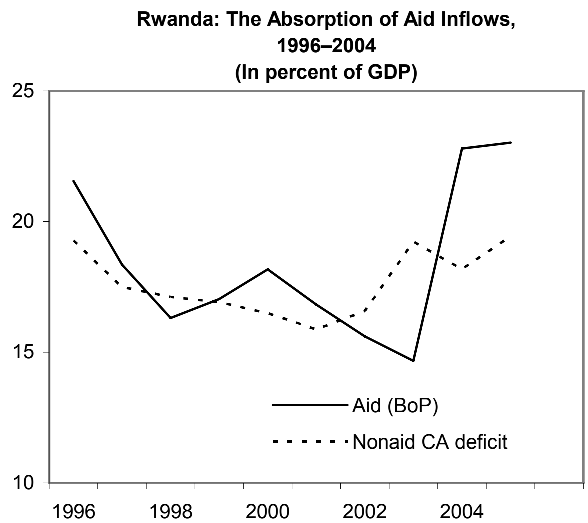
(In percent of GDP)

	2000	2001	2002	2003	2004	2005
Actual aid	11.3	13.4	12.2	10.4	16.5	16.5
Projected aid	7.6	6.0	6.2	16.9	16.2	13.8

Fiscal Policy and the Spending of Aid: Until 2004, program design aimed at the partial spending of aid, through three features that helped secure a gradual reduction in domestic debt. First, in level terms, programmed aid was not to be fully spent, as most programs included some repayment of domestic debt (and arrears). Second, aid projections were cautious (see above). Finally, the adjusters implied that (the essentially built-in) positive aid "surprises" were to be saved.

Actual fiscal policy was, however, not always in line with this prudent approach. The program for 2003 anticipated an increase in fiscal aid by more than 4 percent of GDP. However, in view of large aid uncertainty, only about half of this increase was to be spent. When the program went offtrack, aid plummeted and spending ultimately exceeded the program projection, financed through domestic borrowing.





The programs for 2004 and 2005 essentially applied a spend-and-absorb approach to the projected increases in donor financing—supported by the improving outlook for debt sustainability and reduced aid uncertainty. A large World Bank disbursement was received at end-2004, and the associated spending therefore largely occurred in 2005. Similarly, large project inflows occurred at end-2005—explaining why (as shown in the figure) spending remained below fiscal aid.

Monetary and Exchange Rate Policies and Aid Absorption: Given the limited variation in projected and actual aid inflows before 2003, it is hard to assess the extent of programmed aid absorption. However, with reserves already at a comfortable level (about five months of imports, or more) since 1998, programs generally did not aim for a further increase in reserve coverage.[13]

Managing the absorption and monetary impact of higher aid has become a serious concern since the increase in aid inflows in 2004. Although Dutch disease was identified as a risk in several staff reports since 2004, programs have not sought to limit the spending and absorption of aid to stem such risk. Rather, this concern (together with that on debt sustainability) underpinned the emphasis and conditionality on an export promotion strategy. However, actual monetary policy has not been fully in line with this approach. The monetary authorities have been reluctant to step up foreign exchange sales, on the grounds that nominal

[13] Except in 2003, when aid uncertainty motivated not only the partial spending of the programmed increase in fiscal aid, but also a matching increase in reserve coverage (even though balance of payments aid was not projected to increase, as the increase in fiscal aid reflected a change in aid distribution toward the public sector).

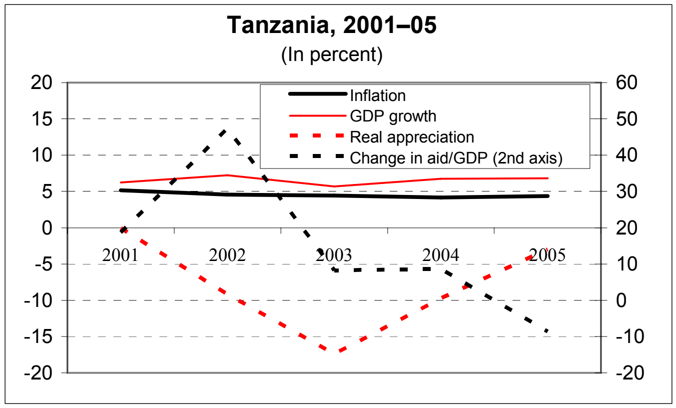
and real exchange rate appreciation would adversely affect competitiveness and, in particular, exporters' ability to repay their bank loans. At the same time, extensive domestic sterilization was deemed too costly. This has resulted in higher-than-programmed reserve accumulation (and limited aid absorption) and faster reserve and broad money growth. In response, the staff and the Board have called on the monetary authorities to step up foreign exchange sales, and in 2005 spending based on program support was made contingent on compliance with the monetary program (through an adjuster on contingent spending equal to 2 percent of GDP).

Debt sustainability: Risks of debt distress have been an overriding concern. Delays in improving exports were reflected in a continuous deterioration in debt sustainability until the attainment of the HIPC Initiative Completion Point in April 2005. Program design has promoted external debt sustainability through: (i) a zero limit on contracting nonconcessional debt; (ii) with a required grant element of at least 50 percent (above the common 35 percent threshold); (iii) a call for a shift in financing to more concessional loans and grants (in this respect, the World Bank increased the proportion of grants in its financing starting in 2004); and (iv) structural conditionality in support of the formulation and execution of an export promotion strategy.

H. Tanzania

Summary and Key Issues: Successive Fund-supported programs in Tanzania put considerable emphasis on managing aid flows and generally supported a spend-and-absorb strategy. Fund-supported programs were designed to fully spend aid by accommodating larger budget deficits to be financed by aid and also programmed widening current account deficits to encourage aid absorption. Aid was actually fully spent under successive PRGF-supported programs. However, aid absorption lagged behind. Initially, the authorities were reluctant to use the foreign exchange resources to sterilize the impact of increased capital inflows, which resulted in accumulating foreign reserves well in excess of program targets and also contributed to the slow pace of aid absorption. In later years (2003–05), both programmed and actual aid absorption increased. Tanzania launched its first three-year PRGF in 2000 (PRGF1), followed by a second three-year PRGF in 2003 (PRGF2), and a three-year PSI in February 2007.

Under the successive Fund-supported programs, macroeconomic stability was successfully preserved, with increased aid inflows. Inflation remained stable—initially through the sale of treasury bills to sterilize the impact of higher aid, and later the sale of foreign exchange was stepped-up. GDP growth averaged 6 percent from 2001 to 2005, despite slow growth of the ratio of aid to GDP after 2003.



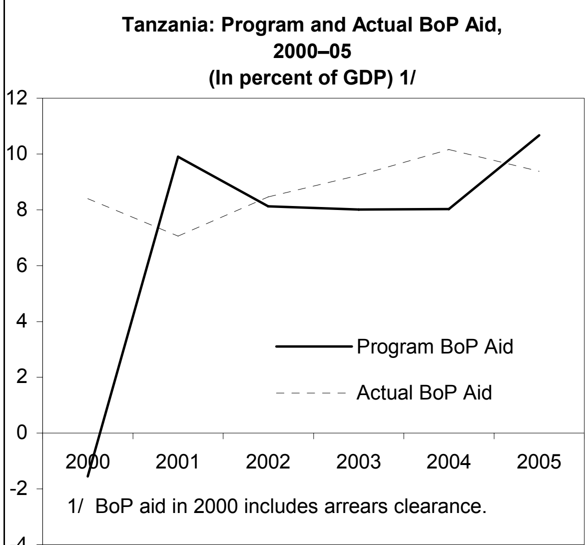
Program Design: Quantitative conditionality and adjusters were sufficiently flexible to accommodate changes in macroeconomic conditions and volatility of aid flows. Program conditionality specified ceilings on net domestic financing of the government and on net domestic assets of the central bank (BoT), and a floor on the net international reserves of the BoT. In addition, the programs specified zero ceilings on accumulating budgetary arrears, external payments arrears, and contracting foreign nonconcessional lending. In the second review of the PRGF2 in July 2004, a ceiling on reserve money was introduced.

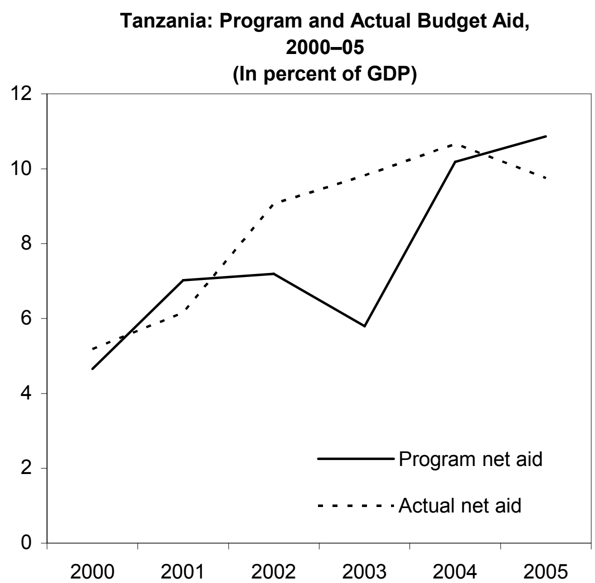
Program adjusters specified no adjustment in case of excess aid flows, while allowing for larger NDF of the budget, NDA of the BoT, and lower NIR targets if program aid fell short of expected amounts.[14] This asymmetric adjustment was intended to allow for *aid spending*. Also, shifting the nominal anchor of monetary policy from NDA of the BoT to reserve money under the PRGF2 encouraged greater use of foreign exchange sales to sterilize the impact of aid flows on liquidity. This in turn encouraged greater *aid absorption*.[15]

[14] Initially, program adjusters specified a staggered response to aid shocks and specified revising the floor for NIR and the ceiling on NDF by the sum of (i) 50 percent of the cumulative excess/shortfall in net foreign financing from July 1999 to the end of the previous quarter; and (ii) 100 percent of the excess/shortfall during the present quarter. In 2001, the program allowed for a 100-percent adjustment of NIR and NDA of the BoT and net domestic financing of the budget. There was no adjustment specified in case of excess aid flows. The same one-sided adjusters were specified in the successive PRGF1 reviews and throughout the second PRGF, which allowed for greater spending and absorption of aid flows.

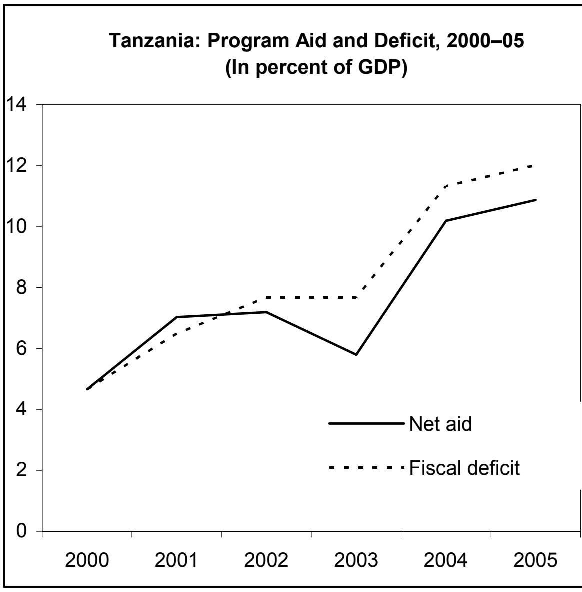
[15] Moreover, the program moved to average rather than end-of-period reserve money targets under the PSI, to avoid domestic money market volatility at the end of the test period.

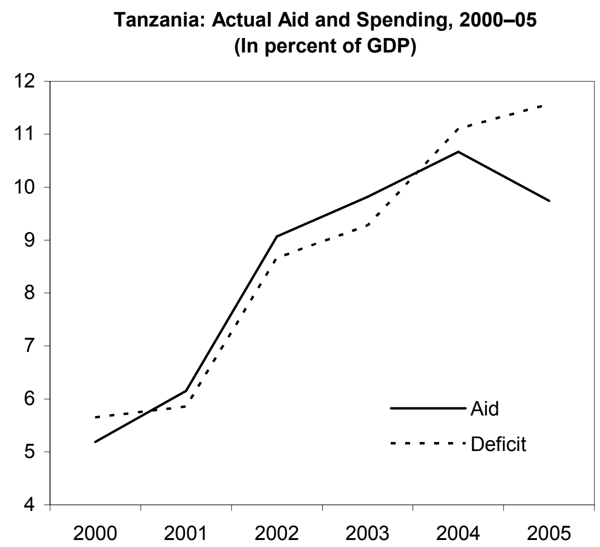
Projected and Actual Aid: Program projections underestimated both budget aid and balance of payments aid flows. For most of the program years, actual aid flows were greater than expected ones. In 2000, the program anticipated large repayment of arrears and thus expected negative balance of payments aid flows. However, this did not materialize and the arrear repayment was much smaller than programmed. Balance of payments aid was fairly stable over the program years, while budget aid doubled over the PRGF period exceeding 10 percent of GDP in 2004/05.





Fiscal Policy, the Spending of Aid, and Debt Sustainability: Program design was accommodating of aid spending and program adjusters allowed for full spending of unprogrammed aid flows. Larger budget deficits were programmed and were expected to be fully financed through aid inflows. In 2004, the program envisaged a substantial increase in the fiscal deficit which was to be fully financed by the increased expected aid. It also allowed for an increase in NDF to the government in light of the large built-up of government deposits in the banking system over the previous two program years. Debt sustainability was not a concern in the case of Tanzania because of extensive debt relief. Tanzania reached the HIPC Initiative Completion Point in 2001 and received additional MDRI debt relief in January 2006. The following graphs shows programmed and actual deficits.



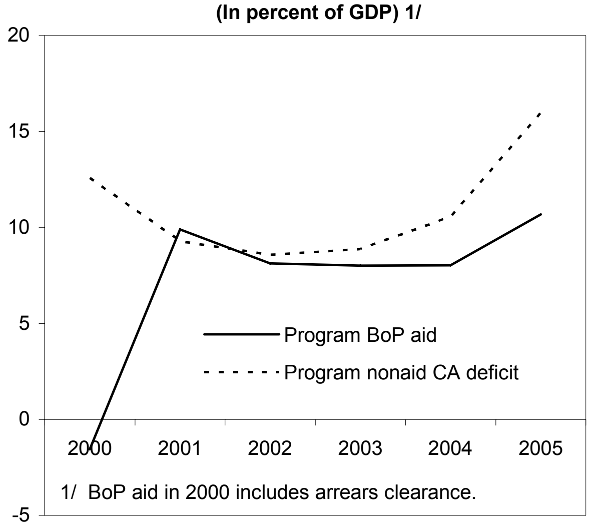


Monetary and Exchange Rate Policies and Aid Absorption: The authorities managed the tradeoff between the various costs of sterilization successfully, albeit differently over time. Initially, the authorities were reluctant to sell foreign exchange to sterilize the impact of aid flows on domestic inflation. As a result of high aid inflows, the program ceilings on the NDA of the BoT and the floor on NIR were met by large margins. The policy response to excess capital inflows early in PRGF1 (2000) involved sterilization using the sale of treasury bills because lowering inflation was considered a priority and international reserves were relatively low. This policy led to an increase in interest rates and crowing-out of private sector investment. Later under PRGF1, the policy response shifted toward unsterilized foreign reserves accumulation. Although, this policy contributed to loose monetary conditions, it was not inflationary. Subsequently under PRGF2, Fund staff pushed for a change of monetary policy anchor toward targeting reserve money rather than NDA of BoT. As a result, the authorities increased the sale of foreign exchange to meet the reserve money target.[16] Although the authorities were concerned with the impact this might have on currency appreciation, the Dutch disease effect was deemed to be small considering the cumulative 40 percent depreciation of the real effective exchange rate from the period 2001 to 2004.

[16] Furthermore, the staff and MFD TA reports encouraged the BoT to rely more on foreign exchange sales rather than T-bill sales in mopping excess liquidity from the domestic money market; the NIR targets (ceilings) under most of the PRGF2 were set at levels that were below the levels projected under the monetary program; and no upward adjustments in the ceilings were envisaged in case of higher-than-programmed aid inflows.

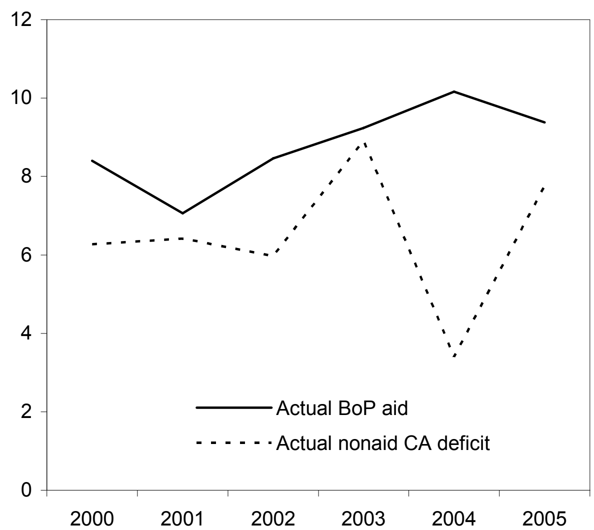
Successive programs expected widening of the current account deficit which was to be financed by aid inflows. However, the authorities were concerned about currency appreciation and opted for accumulating reserves in response to excess capital flows. Exchange rate management was a challenging area for policy. The staff acknowledged the challenge involved in designing macroeconomic policy given the large aid flows and the tradeoff involved in sterilizing their impact on domestic liquidity whether through the sale of foreign exchange or through issuing government papers. Although, the authorities were mindful of the impact of foreign exchange sales on currency appreciation, the staff put forward a preference for absorbing excess liquidity through these sales. Staff's recommendation was presented in light of supporting empirical evidence suggesting that the Tanzanian shilling was in line with equilibrium rate. In support of maintaining the flexibility of the exchange rate regime while controlling inflation, PRGF2 included a benchmark on reserve money, which was not in the first PRGF.

Tanzania: Program BoP Aid and CA Deficit, 2000–05
(In percent of GDP) 1/



1/ BoP aid in 2000 includes arrears clearance.

Tanzania: Actual BoP Aid and CA Deficit, 2000–05
(In percent of GDP)



I. Uganda

Summary and Key Issues: Donor support for Uganda's poverty reduction and economic reform efforts increased substantially over the last 10 years. Net donor inflows rose from 8 percent of GDP a year in 1997/98 to a peak of 12 percent in 2003/04.[17] Poverty Action Fund (PAF) expenditures, which only include public expenditures directly related to poverty-oriented outlays, tripled to about 6 percent of GDP during the same period. These expenditures have been protected by conditionality under the third year of the ESAF arrangement (July 1999–June 2000), the PRGF arrangement (September 2002–January 2006), and the PSI (since January 2006).[18] The fiscal deficit (excluding grants) increased markedly as a result of the surge in donor support, from 6½ percent to 10 percent of GDP. Most of the aid was not absorbed as the authorities sterilized the liquidity impact of growing aid inflows. Uganda continues to rely heavily on foreign assistance to promote its development objectives, but aid inflows, excluding MDRI debt relief, are projected to decline as a share of GDP.

Background: Uganda's economy underwent a significant restructuring process over the past two decades. Services sector output now exceeds agriculture production, even if the bulk of the population still works in subsistence farming. Growing external assistance helped restart the economy when the Museveni administration embarked on a stabilization and liberalization program upon taking office in 1986. Following dictatorship and civil war, political stability contributed to the success of these policies in a volatile part of Africa.

Program design: The PRGF-supported program included quantitative performance criteria and benchmarks on (i) the increase in base money liabilities of the Bank of Uganda (BoU) (ceiling); (ii) the increase in net claims on the central government by the banking system (ceiling); (iii) minimum expenditures under the PAF (floor); (iv) public administration expenditure (ceiling); and (v) a minimum increase in net international reserves of the BoU (floor). The ceiling on the cumulative increase in NCG is adjusted downward (upward) and the floor on the cumulative increase in NIR of the BoU is adjusted upward (downward) by the amount by which import support, grants and loans, plus HIPC Initiative assistance, exceeds (falls short of) the projected amounts. The ceiling on the increase in NCG is adjusted upward (downward) by the amount by which debt service payments inclusive of debt service financed with HIPC Initiative assistance falls short of (exceeds) the projections of debt service due before assistance under the HIPC Initiative, excluding debt service owed to creditors that have not yet reached agreement on the delivery of HIPC Initiative assistance.

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[17] The fiscal year begins in July.

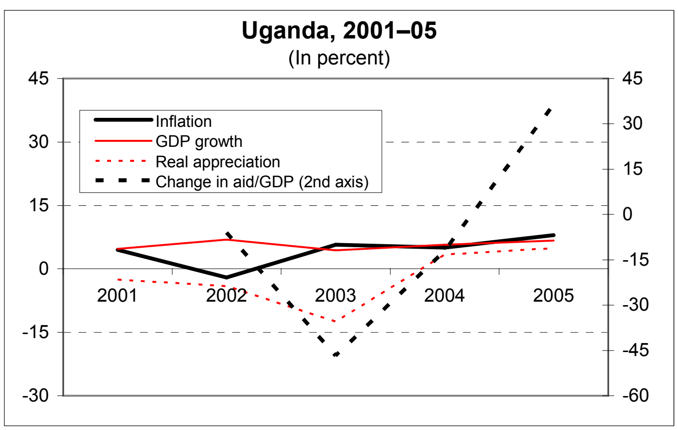
[18] By a floor on PAF spending in all three programs and an additional ceiling on public administrative spending in the PRGF- and PSI-supported programs.

Projected and Actual Aid: Net donor inflows began to exceed expectations under the PRGF-supported program. At the time of the request, donor support was projected to diminish in relation to GDP. However, actual disbursements topped estimates by several percentage points of GDP in the course of the program.[19] Uganda's track record in priority spending areas improved markedly as a result of HIPC Initiative assistance, which attracted even further donor support.

Uganda: Programmed and actual net donor inflows, 2001/02–2007/08
(In percent of GDP)

	2001/02	2002/03		2003/04		2004/05		2005/06		2006/07	2007/08
	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Prel.	Prog.	Prog.
Request	5.0	...	...	...	...	...	...	...	...	...	...
1st review	...	3.4	4.7	...	...	...	...	...	...	...	...
3rd review	...	...	...	1.3	2.5	...	...	...	...	...	...
5th review	...	...	...	...	...	1.9	2.2	...	...	...	...
6th review	...	...	...	...	...	...	...	2.8	3.0	2.7	2.4

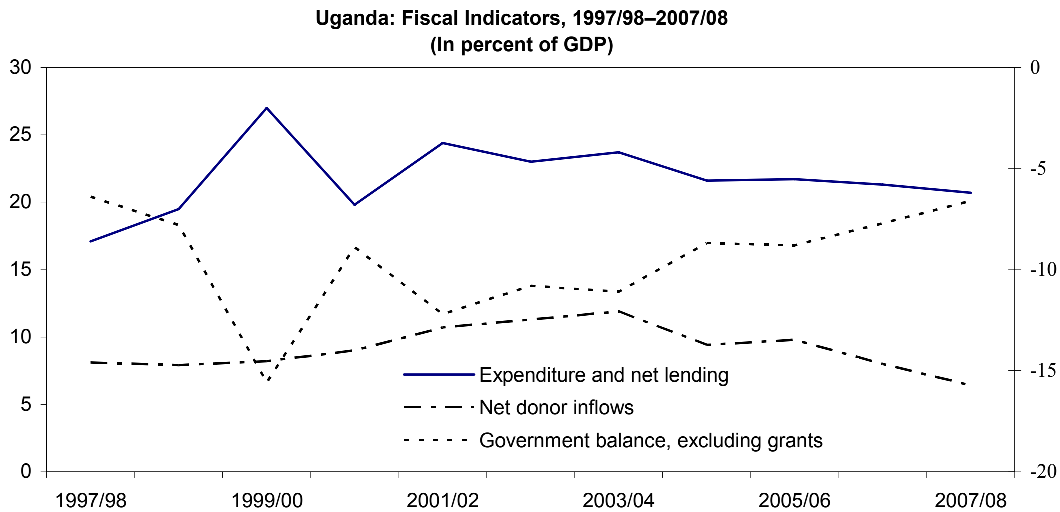
Fiscal Policy and the Spending of Aid: The macroeconomic challenges associated with growing aid inflows are a constant theme in all Board documents on the PRGF-supported program and were aggravated by the volatility of donor support. Developments in aid and key macroeconomic indicators are summarized below, highlighting the effect of the aid surge on the exchange rate (see the discussion on monetary and exchange rate policies below).



Aid was spent. Actual grant and net foreign financing of public expenditures mostly exceeded net donor inflows both in the programmed and executed budgets. Upward revisions in expected aid inflows were largely incorporated into updated fiscal projections during each

[19] A significant shortfall in fiscal year 1999/2000 was the result of a disbursement delay and offset one year later.

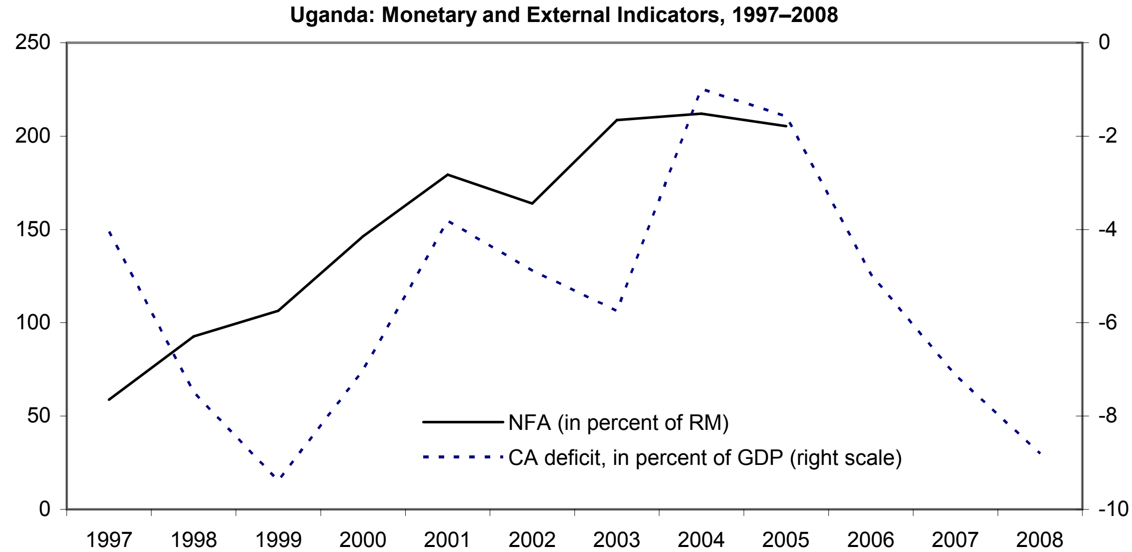
program review. The ESAF-supported program included a capped upward adjuster to the floor on PFA expenditures for import support in excess of programmed amounts.[20] However, spending overruns on defense and public administration and temporary shortfalls in donor support under the PRGF necessitated at times sharp cuts in nonstatutory spending not protected under the PAF.



The key adjusters were designed to protect the integrity of the budget process from unexpected shocks. The targets on net international reserves and credit to the government by the banking sector were symmetrically adjusted for deviations from programmed amounts for import support, grants and loans (including HIPC assistance), and debt service (including financed with HIPC assistance). In addition, the net credit to the government target was adjusted downward for the amount by which expenditures under the PAF fell short of 95 percent of the budgeted amounts.

Monetary and Exchange Rate Policies and Aid Absorption: Several indicators suggest that aid inflows were absorbed more slowly than they were spent. The current account balance improved during most of the years and international reserves coverage improved by about one month of imports, equivalent to about 100 percent of reserve money.

[20] This adjuster was dropped under the PRGF.



In light of this, monetary and exchange rate policies focused on sterilizing the large injection of liquidity arising from the accumulation of large aid inflows into central bank reserves. Episodes of substantial net issues of treasury bills took turns with episodes of large foreign exchange sales to keep reserve money growth under control. Yields on treasury bills remained at high levels throughout the PRGF-supported program period. Conditionality on net international reserves was repeatedly relaxed to allow for larger foreign exchange sales for stabilization purposes, especially in the second half of the PRGF arrangement.

A flexible exchange rate regime allowed the use of interventions for monetary policy purposes. The nominal rate of the shilling fluctuated significantly under all programs. The PRGF-supported program extended further support to the authorities' price level-anchored stabilization strategy. It switched from a net domestic asset to a reserve money target. Otherwise, a symmetric adjuster to the targets on net international reserves, net domestic assets, and credit to the government for all deviations from programmed aid could have undermined price stabilization.[21] Instead, the reserve money target was automatically relaxed under the PRGF, up to a maximum amount, if inflation and commercial banks' excess reserves remained below a certain threshold.

[21] For adjustment purposes, aid was defined as import support, grants and loans (including HIPC Initiative assistance), and debt service (including with HIPC Initiative assistance).

Debt sustainability: Uganda reached the completion point under the Enhanced HIPC Initiative in May 2000. Debt sustainability concerns have not played a prominent role in designing Fund-supported programs thereafter. Uganda is eligible for MDRI debt relief. If delivered, the 2007 PPG external debt-to-GDP (exports) ratio could fall from an estimated 50 percent of GDP (170 percent of exports) to about 10 percent (50 percent).

J. Zambia

Summary and Key Issues: Two three-year PRGF arrangements (1999–2003; and 2004–present) have focused on bolstering growth and reducing inflation through monetary tightening supported by fiscal restraint. However, aid shortfalls repeatedly prompted above-program domestic financing and money growth. Performance was subject to serious slippage in 1999 and 2001, and again in 2003, with large spending overruns after the expiry of the first PRGF arrangement, under a staff monitored program (SMP).[22] Under a 2004 extension of the SMP, performance improved strongly, setting the scene for a new PRGF arrangement program by mid-year, and attainment of the HIPC completion point in 2005. Performance under the second PRGF arrangement through mid-2006 was broadly satisfactory.

Notwithstanding high inflation and low reserves, the baseline program projections have generally accommodated the use of aid through a spend-and-absorb strategy.

Programs were part of a strategy for reaching the HIPC Initiative completion point, which was attained in 2005 (after the decision point had been reached in 2000). During the interim period, programs were designed to avoid additional debt accumulation. Further relief was provided in 2006 under the MDRI relief.

Background: Since the mid 1990s, Zambia's mining-based economy has been recovering from a prolonged decline. Annual GDP growth has been relatively stable since 2003, at 5–6 percent. Inflation came down from more than 40 percent in 1994 and 1995, to 20–30 percent in 1997–2002, and 15–20 percent during 2003–05, before falling below 10 percent in 2006. Fiscal slippage (in part due to quasi-fiscal losses in the copper sector and sharp increases in wage costs, as well as shortfalls in aid—see below) repeatedly triggered above-program fiscal and monetary expansion.

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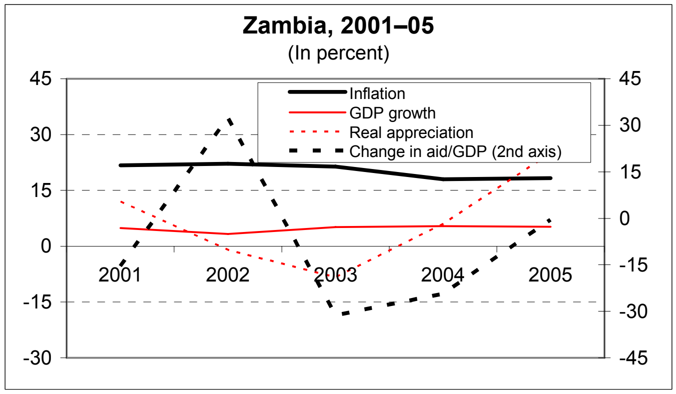
[22] Zambia—Ex Post Assessment of Performance under Fund-Supported Programs, March 2004.



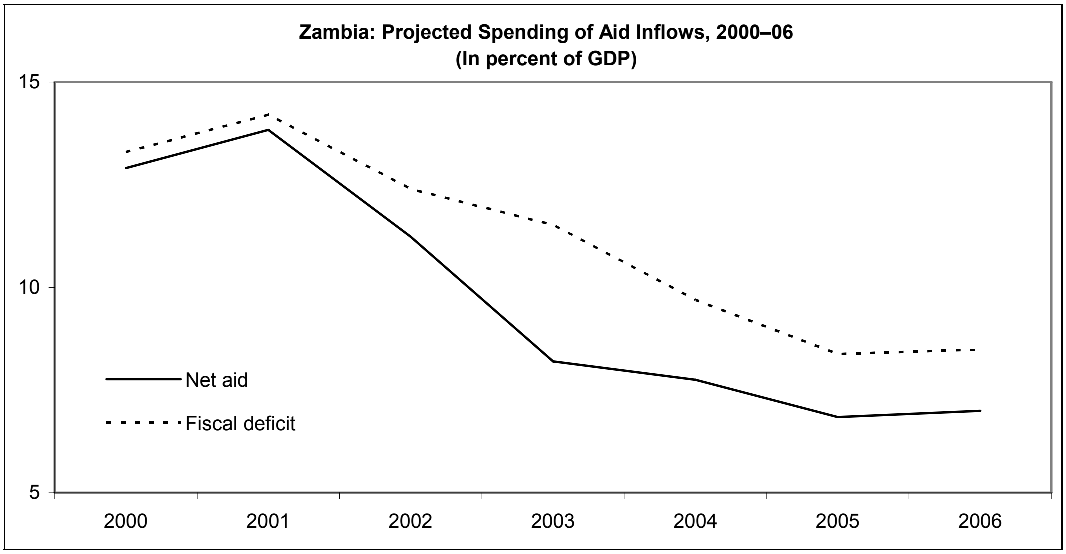
Program Design: The PRGF-supported programs have placed ceilings on central bank NDA and a floor on NIR; a ceiling on net domestic financing (NDF) of the government, and zero ceilings on external payment arrears, nonconcessional external borrowing, and domestic arrears.[23] The 2004 PRGF also included an indicative ceiling on the central government wage bill and a zero indicative ceiling on wage arrears. The limits on NDA, NIR, and NDF have been subject to an adjuster (up to a cap) for shortfalls in program support. Since 2002, the programs have also included a full adjuster for higher-than-programmed support. Structural conditionality has had a strong focus on public expenditure management.

Projected and Actual Aid: Repeated shortfalls in external budget support—with the largest shortfalls in 2001 and 2004—contributed to higher government borrowing. The projection errors for foreign aid (budgetary grants and loans) do not reveal a clear decline over time (see table below), and the shortfalls were typically due to failure to observe policy objectives set by bilateral and multilateral donors. Aid has trended downward since the beginning of the decade.

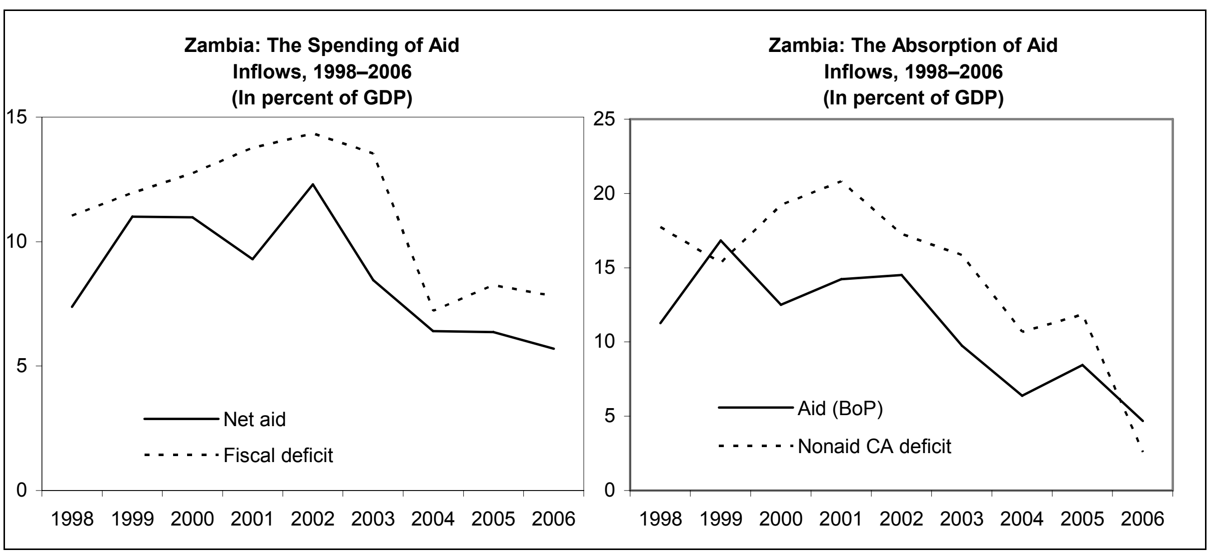
Fiscal Policy and the Spending of Aid: The program strategy of containing domestic financing of the budget to support disinflation was reflected in a close alignment between projected aid and the programmed overall deficit before grant (see figure below), with a gradual decline in both over 2001–06.[24] In terms of the spend-and-absorb framework, aid was thus, in general, allowed to be spent. The larger gap between aid and deficit in 2003 reflects a financing gap rather than projected domestic financing.

[23] The limit on domestic arrears was a benchmark during 2002–03. Until end-2006, programs have also set zero limits on guaranteed or collateralized loans for selected public enterprises. Nonconcessional external loans have been defined as loans with a grant element of less than 40 percent—above the standard 35 percent benchmark.

[24] The projections were taken from the first program setting targets for the (next) program year. Except for 2003, for which, in the absence of a program until the October 2003 SMP, projections were taken from the November 2002 staff report.



Actual developments were more erratic, reflecting the aid shortfalls and variation in fiscal discipline (see figure below). The large aid shortfall in 2001 was offset by higher domestic financing (well beyond the amount allowed under the capped adjuster), and in 2003, large increases in wages and other unbudgeted outlays led to a sharp increase in domestic financing. By contrast, the 2004 aid shortfall was more than matched by spending restraint.



Monetary and Exchange Rate Policies and Aid Absorption: Until 2004, in the context of fiscal dominance, budgetary overruns were covered by higher lending to the government and higher money creation. As a result, inflation targets were typically missed and revised upward during the course of the arrangement.[25] Furthermore, rising domestic government debt raised real interest rates, crowding out private sector borrowing. The fiscal consolidation in 2004 relaxed pressures on inflation and interest rates.

Aid has been absorbed, as the nonaid current account has broadly tracked changes in aid (see figure above).[26] Zambia's exchange rate regime is classified as a managed float with no pre-announced path, and have mainly been aimed at smoothing exchange rate developments and meeting reserve targets. Zambia's external reserve position has been weak, with reserves dropping to 1.3 month of imports in 2003. The intervention strategy has targeted a gradual increase in reserve coverage, to a program target of 1.7 months by end-2006, rather than a more aggressive strategy of neither spending nor absorbing aid.

The real exchange rate has fluctuated strongly, driven by changes in the terms of trade more than by changes in aid. In 2005, a strong real appreciation due the combined effects of higher copper prices and private capital inflows—triggered in part by the positive effects on confidence of debt relief—put pressure on nontraditional exports. In response, the program emphasized the importance of accelerated structural reforms (including conditionality to promote financial intermediation) and improvements in infrastructure. In addition, the staff supported the use of sterilized interventions to smooth exchange rate changes while building up higher international reserves.

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[25] This experience contrasts with several other country cases, where inflationary pressures were the result of larger-than-programmed reserve build up.

[26] Balance of payments aid includes program and project grants, net official loan disbursements, and debt relief (excluding HIPC and MDRI stock-of-debt operations).

Annex II. Tables on Conditionality in Fund-Supported Programs

Table 1a. PRGF Programs: Latest Design (Stylized), by Country

Country	Fiscal conditionality				Monetary conditionality		
	Deficit	Net domestic credit	Tax revenue	Expenditure items	RM	NIR/NFA	NDA
Afghanistan	Ceiling 1/ 2/	Ceiling	Floor 3/	...	Ceiling	Floor	...
Albania	...	Ceiling	Floor 1/	...	...	Floor	Ceiling
Armenia	Ceiling	Ceiling	Floor	Social Fund contributions	Band	...	Ceiling
Bangladesh	...	Ceiling	Floor 3/	...	...	Floor	Ceiling
Benin	Ceiling 2/	Ceiling	...	...	...	...	...
Burkina Faso	...	Ceiling	...	...	...	...	...
Burundi	Ceiling 1/	Ceiling	...	Wages 1/	...	Floor	Ceiling
Cambodia	...	Ceiling	...	...	...	Floor	Ceiling
Cameroon	Ceiling	Ceiling	...	Replenishment of HIPC account	...	...	...
Chad	Ceiling	...	...	Wages	...	...	...
Congo, Rep. of	Ceiling	Ceiling	...	...	...	...	...
Dominica	Ceiling	Ceiling	Floor 1/ 3/	Wages	...	...	...
Ethiopia	...	Ceiling	...	...	...	Floor	Ceiling
Georgia	Ceiling	Ceiling	...	...	Ceiling	Floor	...
Ghana	...	Ceiling	...	...	...	Floor	Ceiling
Grenada	Ceiling 2/	Ceiling 1/	...	...	...	...	...
Guyana	...	Ceiling	...	Wages	...	Floor	Ceiling
Honduras	Ceiling	Ceiling	...	Wages	...	Floor	Ceiling
Kenya	...	Ceiling	...	Wages	Ceiling	Floor	...
Kyrgyz Rep.	Ceiling 2/	...	Floor	...	Ceiling 1/	Floor	Ceiling
Malawi	...	Ceiling	...	Wages and health spending	Ceiling 1/	Floor	Ceiling
Mali	...	Ceiling	...	...	...	...	...
Moldova	Ceiling	...	...	...	Ceiling 1/	Floor	Ceiling
Mozambique	...	Ceiling	...	...	Ceiling	Floor	...
Nepal	...	Ceiling	Floor	...	Ceiling 1/	Floor	Ceiling
Nicaragua	Ceiling 2/	Ceiling	...	Wages	...	Floor	Ceiling
Niger	...	Ceiling	...	...	...	...	...
Rwanda	Ceiling	Ceiling	...	Priority spending	Ceiling	Floor	...
Sao Tome & Principe	Ceiling	Ceiling	...	Domestic primary spending	...	Floor	Ceiling
Sierra Leone	Ceiling	Ceiling	Floor	Wage and poverty spending	...	Floor	Ceiling
Tajikistan	Ceiling 4/	Ceiling	...	Wages	...	Floor	Ceiling
Tanzania	...	Ceiling	...	...	Ceiling	Floor	...
Uganda	...	Ceiling	...	...	Ceiling	Floor	...
Zambia	...	Ceiling	...	...	...	Floor	Ceiling

Source: IMF country documents.

1/ Indicative target. 2/ Excluding grants. 3/Total revenue. 4/ Excluding foreign-financed investment. 5/ Monetary targets are adjusted for program loans as well. 6/ Monetary targets only. 7/ Not adjusted for capital spending. 8/Social spending only. 9/ Some to be used for external arrears clearance.

Table 1b. PRGF Programs: Latest Design (Stylized), by Country

Country	Adjustors				
	Type of aid		Symmetric	Cap for aid	
				above program	below program
Afghanistan	All		Yes	No	No
Albania	Program support loans (excluding EU)		Yes	No	No
Armenia	...		...	...	...
Bangladesh	...		...	...	...
Benin	Program support and debt relief		Yes	No	Yes
Burkina Faso	Program support and external debt service		Yes	No	Yes
Burundi	Program support		Yes	No	No
Cambodia	Program support		Yes	No	Yes
Cameroon	Program support and debt relief		Yes	...	Yes
Chad	...		...	...	...
Congo, Rep. of	Program support		Yes	No	Yes
Dominica	Program support grants		Yes	No	No
Ethiopia	Program support		Yes	No	Yes
Georgia	...		...	...	...
Ghana	...		...	...	...
Grenada	Grants		Yes	No	Yes
Guyana	Project loans, program grants, and debt relief	5/	Yes	No	No
Honduras	Net foreign borrowing		No	...	Yes
Kenya	Program support		Yes	No	Yes
Kyrgyz Rep.	All	6/	Yes	No	Yes
Malawi	Program support		Yes	No	No
Mali	Program support and debt relief		Yes	Yes	Yes
Moldova	Foreign borrowing		Yes	Yes	No
Mozambique	Program support and debt service		No	Yes	...
Nepal	Program support		Yes	No	Yes
Nicaragua	Program support (WB, IDB) and MDRI debt relief	6/	Yes	No	...
Niger	Program support and external debt service		Yes	No	Yes
Rwanda	Grants		No	Yes	...
Sao Tome & Principe	Program support	7/	No	...	No
Sierra Leone	Program support		Yes	No	No
Tajikistan	Program support		Yes	No	No
Tanzania	Program support		No	...	No
Uganda	Program support and debt relief		Yes	No	No
Zambia	Program support		Yes	No	Yes

Table 1c. PRGF Programs: Latest Design (Stylized), by Country

Country	Effect on nonprogrammed aid							
	Additional				Shortfall			
	Grants, incl. debt relief		Net lending		Grants, incl. debt relief		Net lending	
	Project	Program	Project	Program	Project	Program	Project	Program
Afghanistan	Spend zero	Spend zero	Spend zero	Spend zero	Cut zero	Cut zero	Cut zero	Cut zero
Albania	Spend all	Spend all	Spend all	Spend zero	Cut all	Cut all	Cut all	Cut zero
Armenia	Spend all	Spend all	Spend zero	Spend zero	Cut all	Cut all	Cut all	Cut all
Bangladesh	Spend all	Spend all	Spend all	Spend all	Cut all	Cut all	Cut all	Cut all
Benin	Spend zero	Spend zero	Spend zero	Spend zero	Cut all	Cut above cap	Cut all	Cut above cap
Burkina Faso	Spend all	Spend up to cap 8/	Spend all	Spend up to cap	Cut all	Cut above cap	Cut all	Cut above cap
Burundi	Spend all	Spend zero	Spend all	Spend zero	Cut all	Cut zero	Cut all	Cut zero
Cambodia	Spend all	Spend zero	Spend all	Spend zero	Cut all	Cut above cap	Cut all	Cut above cap
Cameroon	Spend all	Spend all	Spend zero	Spend zero	Cut all	Cut zero	Cut all	Cut above cap
Chad	Spend all	Spend all	Spend zero	Spend zero	Cut all	Cut all	Cut all	Cut all
Congo, Rep. of	Spend all	Spend all 9/	Spend zero	Spend zero	Cut all	Cut above cap	Cut all	Cut above cap
Dominica	Spend all	Spend zero	Spend zero	Spend zero	Cut all	Cut zero	Cut all	Cut all
Ethiopia	Spend all	Spend zero	Spend all	Spend zero	Cut all	Cut above cap	Cut all	Cut above cap
Georgia	Spend all	Spend all	Spend zero	Spend zero	Cut all	Cut all	Cut all	Cut all
Ghana	Spend all	Spend all	Spend all	Spend all	Cut all	Cut all	Cut all	Cut all
Grenada	Spend up to cap 8/	Spend up to cap 8/	Spend zero	Spend zero	Cut above cap	Cut above cap	Cut all	Cut all
Guyana	Spend all	Spend zero	Spend zero	Spend all	Cut all	Cut zero	Cut zero	Cut all
Honduras	Spend all	Spend all	Spend zero	Spend zero	Cut all	Cut all	Cut above cap	Cut above cap
Kenya	Spend all	Spend zero	Spend all	Spend zero	Cut all	Cut above cap	Cut all	Cut above cap
Kyrgyz Rep.	Spend all	Spend all	Spend zero	Spend zero	Cut all	Cut all	Cut zero	Cut zero
Malawi	Spend all	Spend zero	Spend zero	Spend zero	Cut all	Cut zero	Cut all	Cut zero
Mali	Spend all	Spend up to cap	Spend all	Spend up to cap	Cut all	Cut above cap	Cut all	Cut above cap
Moldova	Spend all	Spend all	Spend up to cap	Spend up to cap	Cut all	Cut all	Cut all	Cut all
Mozambique	Spend all	Spend up to cap	Spend all	Spend up to cap	Cut all	Cut all	Cut all	Cut all
Nepal	Spend all	Spend zero	Spend zero	Spend zero	Cut all	Cut above cap	Cut all	Cut above cap
Nicaragua	Spend all	Spend all	Spend zero	Spend zero	Cut all	Cut all	Cut all	Cut all
Niger	Spend all	Spend zero	Spend all	Spend zero	Cut all	Cut above cap	Cut all	Cut above cap
Rwanda	Spend zero	Spend zero	Spend all	Spend all	Cut all	Cut above cap	Cut all	Cut all
Sao Tome & Principe	Spend all	Spend up to cap	Spend all	Spend up to cap	Cut all	Cut zero	Cut all	Cut zero
Sierra Leone	Spend all	Spend zero	Spend all	Spend zero	Cut all	Cut zero	Cut all	Cut zero
Tajikistan	Spend all	Spend zero	Spend all	Spend zero	Cut all	Cut zero	Cut all	Cut zero
Tanzania	Spend all	Spend all	Spend all	Spend all	Cut all	Cut zero	Cut all	Cut zero
Uganda	Spend all	Spend zero	Spend all	Spend zero	Cut all	Cut zero	Cut all	Cut zero
Zambia	Spend all	Spend zero	Spend all	Spend zero	Cut all	Cut above cap	Cut all	Cut above cap

Table 2a. PRGF Programs: First Design (Stylized), by Country

Country	Fiscal conditionality				Monetary conditionality		
	Deficit	Net domestic credit	Tax revenue	Expenditure items	RM	NIR/NFA	NDA
Albania	...	Ceiling	Floor	...	...	Floor	Ceiling
Armenia	Ceiling	Ceiling	...	Social Fund arrears	...	Floor	Ceiling
Bangladesh	...	Ceiling	...	...	...	Floor	Ceiling
Benin	...	Ceiling	...	...	...	...	...
Burkina Faso	...	Ceiling	...	...	...	...	...
Burundi	...	Ceiling	...	Wages 1/	...	Floor	Ceiling
Cambodia	...	Ceiling	...	...	...	...	Ceiling
Cameroon	Ceiling	Ceiling	...	...	...	...	...
Chad	Ceiling 2/	Ceiling	...	...	...	...	...
Congo, Rep. of	Ceiling 2/	Ceiling	...	...	...	...	...
Ethiopia	...	Ceiling	...	...	...	Floor	Ceiling
Georgia	Ceiling	Ceiling	Floor	...	...	Floor	Ceiling
Ghana	Ceiling 2/	Ceiling	Floor	...	Ceiling	...	Ceiling
Honduras	...	Ceiling	...	...	Ceiling	Floor	...
Kenya	Ceiling	...	...	...	...	Floor	Ceiling
Kyrgyz Rep.	Ceiling	...	Floor	...	...	Floor	Ceiling
Malawi	...	Ceiling	...	...	Ceiling	Floor	...
Moldova	Ceiling	Ceiling	...	...	Ceiling	Floor	Ceiling
Niger	...	Ceiling	...	...	...	...	...
Rwanda	Ceiling 2/	Ceiling	...	...	Ceiling	Floor	...
Sao Tome & Principe	Ceiling	Ceiling	...	...	...	Floor	Ceiling
Sierra Leone	Ceiling 3/	Ceiling	Floor	Wages 1/	...	Floor	Ceiling
Tajikistan	Ceiling	Ceiling	Floor	...	Ceiling 1/	Floor	Ceiling
Tanzania	...	Ceiling	...	...	...	Floor	Ceiling
Uganda	...	Ceiling	...	Poverty Action Fund 1/	Ceiling	Floor	...
Zambia	Ceiling 3/	Ceiling	...	...	...	Floor	Ceiling

Source: IMF country documents.

1/ Indicative target. 2/ Excluding grants. 3/ Domestic balance. 4/ Domestic financing only. 5/ Monetary targets only.

Table 2b. PRGF Programs: First Design (Stylized), by Country

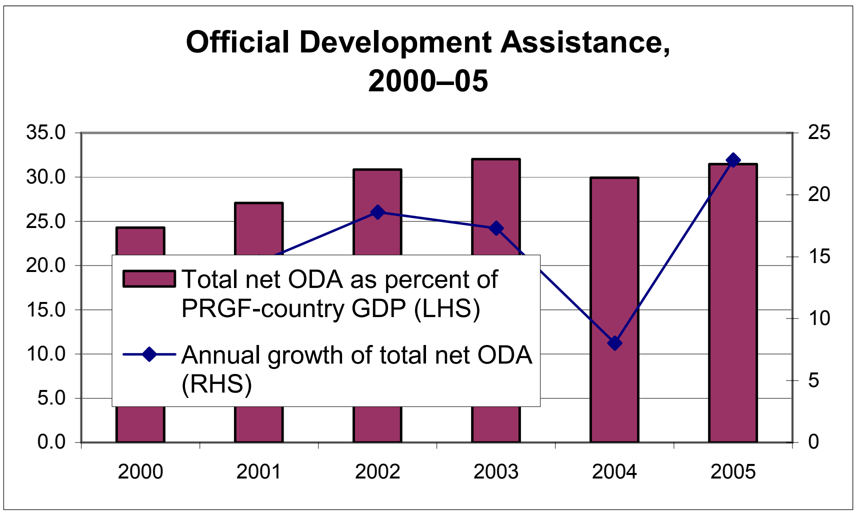
Country	Adjustors			
	Type of aid	Symmetric	Cap for aid	
			above program	below program
Albania	Program support	Yes	No	Yes
Armenia	Project loans	Yes	No	No
Bangladesh	...	...	...	...
Benin	Program support	Yes	No	Yes
Burkina Faso	Program support	Yes	No	Yes
Burundi	Program support loans	Yes	No	No
Cambodia	Program support loans	Yes	No	Yes
Cameroon	Program loans and debt relief	Yes	No	Yes
Chad	Program support	Yes	No	Yes
Cong, Rep. of	Program support	Yes	No	Yes
Ethiopia	Program support	Yes	No	Yes
Georgia	Project loans and program loans for NCG	Yes	No	Yes
Ghana	Program support 4/	Yes	No	No
Honduras	Net foreign borrowing	Yes	No	Yes
Kenya	Program support	Yes	No	Yes
Kyrgyz Rep.	... 5/	Yes	No	Yes
Malawi	Program support	Yes	Yes	Yes
Moldova	Program support	No	Yes	...
Niger	Program support	Yes	No	Yes
Rwanda	Program support 4/	No	No	...
Sao Tome & Principe	Program support	Yes	No	No
Sierra Leone	Program support and debt relief	No	...	Yes
Tajikistan	Program support and rescheduled interest	Yes	No	No
Tanzania	Net foreign borrowing	Yes	No	No
Uganda	Program support and HIPC debt relief	Yes	No	No
Zambia	Program support	No	...	Yes

Table 2c. PRGF Programs: First Design (Stylized), by Country

Country	Effect on nonprogrammed aid							
	Additional				Shortfall			
	Grants, incl. debt relief		Net lending		Grants, incl. debt relief		Net lending	
	Project	Program	Project	Program	Project	Program	Project	Program
Albania	Spend all	Spend zero	Spend all	Spend zero	Cut all	Cut above cap	Cut all	Cut above cap
Armenia	Spend all	Spend all	Spend all	Spend zero	Cut zero	Cut all	Cut all	Cut all
Bangladesh	Spend all	Spend all	Spend all	Spend all	Cut all	Cut all	Cut all	Cut all
Benin	Spend all	Spend zero	Spend all	Spend zero	Cut all	Cut above cap	Cut all	Cut above cap
Burkina Faso	Spend all	Spend zero	Spend all	Spend zero	Cut all	Cut above cap	Cut all	Cut above cap
Burundi	Spend all	Spend all	Spend all	Spend zero	Cut all	Cut all	Cut all	Cut zero
Cambodia	Spend all	Spend all	Spend all	Spend zero	Cut all	Cut all	Cut all	Cut above cap
Cameroon	Spend all	Spend all	Spend zero	Spend zero	Cut all	Cut all	Cut all	Cut above cap
Chad	Spend zero	Spend zero	Spend zero	Spend zero	Cut all	Cut above cap	Cut all	Cut above cap
Congo, Rep. of	Spend zero	Spend zero	Spend zero	Spend zero	Cut all	Cut above cap	Cut all	Cut above cap
Ethiopia	Spend all	Spend zero	Spend all	Spend zero	Cur all	Cut above cap	Cut all	Cut above cap
Georgia	Spend all	Spend all	Spend all	Spend zero	Cut all	Cut all	Cut above cap	Cut above cap
Ghana	Spend zero	Spend zero	Spend zero	Spend zero	Cut all	Cut above cap	Cut all	Cut above cap
Honduras	Spend all	Spend all	Spend zero	Spend zero	Cut all	Cut all	Cut above cap	Cut above cap
Kenya	Spend all	Spend up to cap	Spend zero	Spend up to cap	Cut zero	Cut above cap	Cut zero	Cut above cap
Kyrgyz Rep.	Spend all	Spend all	Spend zero	Spend zero	Cut all	Cut all	Cut zero	Cut zero
Malawi	Spend all	Spend zero	Spend all	Spend zero	Cut all	Cut above cap	Cut all	Cut above cap
Moldova	Spend all	Spend all	Spend zero	Spend zero	Cut all	Cut zero	Cut all	Cut all
Niger	Spend all	Spend zero	Spend all	Spend zero	Cut all	Cut above cap	Cut all	Cut above cap
Rwanda	Spend zero	Spend zero	Spend zero	Spend zero	Cut all	Cut all	Cut all	Cut all
Sao Tome & Principe	Spend all	Spend all	Spend zero	Spend zero	Cut all	Cut all	Cut zero	Cut zero
Sierra Leone	Spend all	Spend zero	Spend all	Spend zero	Cut all	Cut above cap 2/	Cut all	Cut above cap 2/
Tajikistan	Spend all	Spend zero	Spend zero	Spend zero	Cut all	Cut all	Cut all	Cut all
Tanzania	Spend all	Spend all	Spend zero	Spend zero	Cut all	Cut all	Cut zero	Cut zero
Uganda	Spend all	Spend zero	Spend all	Spend zero	Cut all	Cut zero	Cut all	Cut zero
Zambia	Spend all	Spend all	Spend all	Spend all	Cut all	Cut above cap	Cut all	Cut above cap

Annex III. Recent Developments in Official Development Assistance and Meeting the Millennium Development Goals

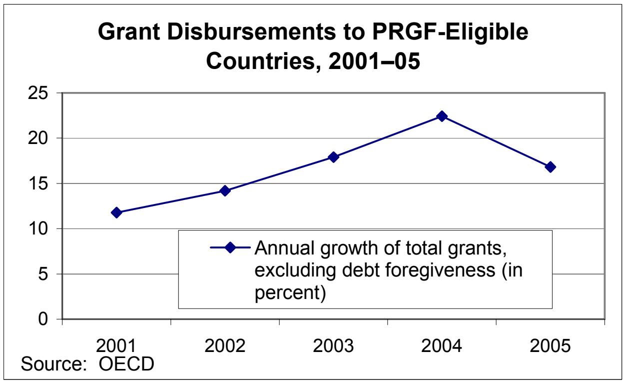
OECD statistics show little evidence of scaling up in recent years. Total official development assistance to all PRGF-eligible countries more than doubled from $22.6 billion in 2000 to $47.7 billion in 2005 (Table 1).[27] But it has remained below 32 percent of PRGF-country GDP since 2002. Annual growth slowed from a peak of about 19 percent in 2002 to about 8 percent in 2004. Excluding Afghanistan, Nigeria, and Tsunami aid—equivalent to $2.2 billion—net ODA flows to PRGF-eligible countries fell by more than 6 percent in 2005.

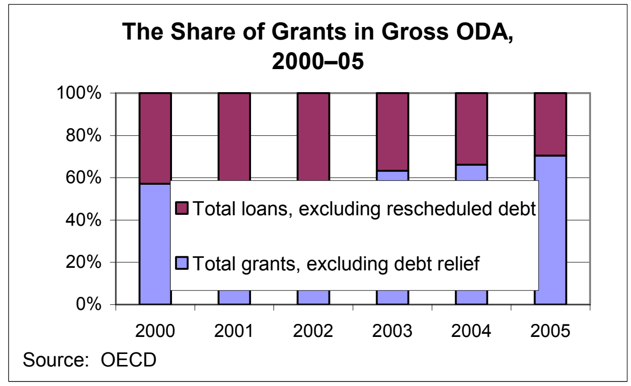


Sizeable debt forgiveness since 2003 was targeted to a few countries. Almost 40 percent of the 2004 debt relief grants went to seven countries (Bolivia, Cameroon, Democratic Republic of Congo, Ghana, Madagascar, Nicaragua, and Senegal). Almost 40 percent of the 2005 debt relief benefited Nigeria. The Republic of Congo received another 10 percent of the 2005 debt relief grants.

Net of debt forgiveness, grant disbursements to PRGF-eligible countries grew by 17 percent in 2005, the slowest rate since 2002. The share of grant financing in total gross ODA financing excluding debt forgiveness increased from 57 percent in 2000 to 70 percent in 2005.

[27] ODA consists of concessional funds provided by OECD-DAC members and multilateral institutions to developing countries, including grants (project, program, technical cooperation, food aid, emergency relief, and debt forgiveness grants) and nongrant financing with a grant element of at least 25 percent.





Increases in net ODA flows varied widely across countries (Table 2a). Twelve countries (16 percent of all PRGF-eligible countries) received less aid in US$-terms in 2005 than in 2000 (Armenia, Côte d'Ivoire, Dominica, Guinea-Bissau, Mauritania, Mongolia, Papua New Guinea, São Tomé and Príncipe, Saint Vincent, Timor Leste, Uzbekistan, and Vanuatu). Aid flows more than doubled during the same period in 20 countries or one quarter of all PRGF-eligible countries (Afghanistan, Burundi, Chad, Democratic Republic of Congo, Republic of Congo, Eritrea, Ethiopia, Grenada, Haiti, Liberia, Madagascar, Maldives, Niger, Nigeria, Pakistan, Solomon Islands, Somalia, Sri Lanka, Sudan, and Zimbabwe).

Scaling-up is even less evident when measuring movements in aid relative to the recipient countries' GDP (Table 2b).[28] Aid flows as a share of GDP were smaller in 2005 than in 2000 in 36 countries (almost 50 percent of all PRGF-eligible countries). Fifteen countries (less than 20 percent) saw a scaling up of aid during the same period (Burundi, Democratic Republic of Congo, Republic of Congo, Eritrea, Ethiopia, Grenada, Haiti, Kiribati, Madagascar, Maldives, Nigeria, Rwanda, Solomon Islands, Sudan, and Zimbabwe).

For many of these countries, the observed scaling-up or lack thereof may be driven by recipient country needs. Surging inflows of remittances, FDI, portfolio investment, and other private capital may have weakened the case for scaled-up aid. Many LICs that suffered sharp declines in aid between 2000 and 2005 also stand out for large resource revenue windfalls, often used for fiscal consolidation. By contrast, some countries for which aid more than doubled faced extraordinary needs as a result of debt overhang, democracy building efforts, or natural disasters.

[28] Scaling-up is defined as an increase in aid by more than 5 percent of GDP or more. At this level, additional aid inflows are assumed to affect macroeconomic and institutional capacity.

The volatility of aid inflows has been significant with standard deviations of several percent of GDP for many countries (Table 3). Fluctuations in aid flows have generally been around 1–3 percent of GDP. Volatility tends to be higher in smaller countries. Afghanistan, Burundi, and the Democratic Republic of Congo are the outliers as a result of a surge in aid flows.

The prospects for aid flows to low-income countries in the coming years will depend importantly on the implementation and the support by donor countries of two international initiatives. The first relates to HIPC Initiative and multilateral debt relief (MDRI). The second concerns the commitment to help low-income countries achieve the MDGs. The HIPC and MDRI Initiatives have already had an impact on the allocation of aid. Bilateral donors and the IFIs have so far delivered $31 billion in HIPC assistance (in end-2005 NPV terms) and $38 billion for MDRI debt relief (in nominal terms). Additional resources will be required to ensure that all identified HIPC countries could benefit from MDRI and HIPC Initiative debt relief in due course.

Regarding the MDGs, there has been uneven progress in meeting the poverty targets established in 2000. Strong aggregate growth in low-income countries has made a substantial dent in poverty, with the proportion of people living on under $1 a day falling by an estimated 10 percent since the turn of the millennium. However, although all regions, in different degrees, have shared in the favorable growth, poverty reduction has differed greatly between regions. The best record of poverty reduction has been in East and South Asia. In Latin America, despite a recent upturn, growth remains too low for rapid poverty reduction. Africa has performed the worst in aggregate, with little change in the poverty headcount since 1990, and few countries projected to meet the poverty-MDG target on current trends. However, there has been considerable variation within Africa, with several countries performing well over the previous decade, due to a combination of better policies and foreign aid, thus demonstrating the potential for more rapid progress.

Progress toward meeting the human development MDGs is also uneven. All regions are offtrack in meeting some of the goals, and South Asia and sub-Saharan Africa are offtrack on all of the goals. However, there are some recent encouraging trends. The number of countries ontrack to meet the goal of universal primary education has increased significantly since 2000, with gender disparities narrowing. Rates of progress in meeting the child mortality target are accelerating in some countries. Women's access to trained birth attendants show strong improvement in East Asia, and more modest improvement in Latin America. There are signs of a decline in HIV/AIDS infection rates in high-prevalence countries such as Haiti, Uganda, and Zimbabwe, and global efforts to combat malaria are resulting in better prevention and treatment.

Satisfactory progress toward the MDGs would imply substantial net increases in ODA, according to several recent studies. Estimates by the World Bank and the UN suggest that extra ODA on the order of $40–60 billion a year is needed to meet the MDGs. Based on the G-8 commitment in Gleneagles in 2005 to double aid to Africa, the OECD estimates that ODA from the OECD DAC countries would rise by $50 billion in real terms between 2004 and 2010.[29]

[29] See Devarajan, Miller, and Swanson (2002), United Nations (2001), and OECD (2005).

Table 1. Composition of ODA Disbursements by Type of Assistance, 2000–05

	2000	2001	2002	2003	2004	2005
			(In U.S.$ millions)			
PRGF-eligible countries, net	22,569	25,858	30,671	35,982	38,867	47,737
Grants	16,238	18,493	22,359	29,956	33,727	42,019
Of which : Debt forgiveness	1,807	2,362	3,939	8,237	7,138	10,961
Loans and other long-term capital, net	6,331	7,364	8,312	6,026	5,140	5,717
Extended	10,994	11,988	14,332	13,702	14,579	13,805
Of which : Rescheduled debt	175	174	614	1,057	963	794
Received (excluding debt relief)	-3,982	-4,241	-5,021	-5,932	-6,297	-5,417
Debt relief	-682	-406	-999	-1,745	-3,141	-2,670
			(In percent of total net ODA)			
PRGF-eligible countries, net	100	100	100	100	100	100
Grants	72	72	73	83	87	88
Of which : Debt forgiveness	8	9	13	23	18	23
Loans and other long-term capital, net	28	28	27	17	13	12
Extended	49	46	47	38	38	29
Of which : Rescheduled debt	1	1	2	3	2	2
Received (excluding debt relief)	-18	-16	-16	-16	-16	-11
Debt relief	-3	-2	-3	-5	-8	-6

Source: OECD-DAC.

Table 2a. Net ODA Disbursements by Country, 2000–05 (in U.S.$ millions)

	2000	2001	2002	2003	2004	2005
Afghanistan	135.97	404.64	1300.49	1590.7	2188.28	2775.34
Albania	317.46	269.61	307.98	348.75	299.07	318.67
Angola	302.21	282.72	414.03	493.37	1144.65	441.82
Armenia	215.89	198.39	293.46	248.75	253.79	193.27
Azerbaijan	139.12	231.96	349.31	300.57	175.96	223.43
Bangladesh	1167.76	1024.73	908.88	1393.97	1412.79	1320.54
Benin	238.43	272.25	215.91	294.95	384.97	349.05
Bhutan	53.09	60.48	73.31	76.55	77.93	90.02
Bolivia	472.04	734.16	679.84	929.27	769.67	582.87
Burkina Faso	334.92	389.84	470.92	507.47	614.28	659.56
Burundi	92.6	137.16	171.54	227.36	361.54	365
Cambodia	395.88	417.9	484.25	514.31	483.19	537.82
Cameroon	379.33	485.64	656.43	899.33	772.04	413.79
Cape Verde	93.91	77.19	91.75	143.29	139.65	160.6
Central African Rep.	75.28	65.94	59.76	51.22	109.94	95.29
Chad	130.16	184.92	228.14	246.62	321.34	379.83
Comoros	18.71	27.4	32.4	24.44	25.48	25.23
Congo, Dem. Rep.	177.12	243.11	1174.95	5416.03	1824.31	1827.57
Congo, Rep.	33.18	74.36	56.87	68.91	115.49	1448.85
Côte d'Ivoire	350.75	168.59	1067.9	254.09	160.17	119.06
Djibouti	71.37	57.63	77.67	78.8	64.11	78.6
Dominica	15.19	19.85	29.92	10.94	29.21	15.17
Eritrea	175.84	280.58	230.05	316.08	263.19	355.15
Ethiopia	686.14	1103.67	1297.39	1593.97	1819.11	1937.32
Gambia	48.98	53.48	60.45	62.71	65.47	58.15
Georgia	169.37	299.99	312.51	225.62	314.49	309.77
Ghana	599.69	640.87	649.48	956.95	1362.29	1119.93
Grenada	16.5	11.51	9.72	10.38	15.36	44.87
Guinea	152.85	280.83	248.5	239.5	280.24	182.11
Guinea-Bissau	80.29	59.23	59.37	145.18	77.04	79.12
Guyana	107.25	97.43	64.67	86.6	134.01	136.78
Haiti	208.24	170.74	155.63	212.35	259.64	514.97
Honduras	448.96	678.61	470.87	394.69	650.23	680.84
India	1462.66	1701.37	1440.63	899.71	693.9	1724.11
Kenya	509.94	461.55	391.04	521.45	664.42	768.33
Kiribati	17.87	12.43	20.88	18.37	16.71	27.84
Kyrgyz Rep.	214.72	188.91	185.62	199.84	261.09	268.45
Lao P.D.R.	281.61	244.52	277.98	300.88	271.53	295.73
Lesotho	36.67	56.26	76.3	79.31	105.97	68.82
Liberia	67.42	38.41	51.77	106.56	213.01	236.18
Madagascar	321.68	373.62	369.43	538.96	1247.83	929.15
Malawi	446.18	403.73	376.31	517.44	501.4	575.34
Maldives	19.15	24.77	27.46	20.51	27.84	66.83
Mali	359.21	351.42	465.96	542.97	567.64	691.46
Mauritania	211.41	267.33	344.35	238.25	180.62	190.37
Moldova	122.57	122.36	141.68	117.94	119.5	191.75
Mongolia	217.42	211.36	208.18	249.14	262.48	211.85
Mozambique	876.06	931.11	2200.71	1036.74	1245.82	1285.9
Myanmar	105.64	125.65	119.03	125.02	123.62	144.69
Nepal	387.26	390.6	361.05	462.98	427.52	427.92
Nicaragua	561.2	929.83	517.08	833.22	1234.65	740.07
Niger	208.45	255.5	297.19	456.7	541.21	515.43
Nigeria	173.7	167.82	294.03	308.06	578.16	6437.31
Pakistan	692.43	1942.05	2128.07	1061.7	1423.87	1666.48
Papua New Guinea	275.4	202.84	203.07	220.22	268.19	266.14
Rwanda	321.46	298.95	353.93	334.91	488.15	575.99
Samoa	27.37	43.07	37.28	33.04	30.76	43.95
Sao Tome & Principe	34.89	38.22	25.98	37.65	33.42	31.9
Senegal	423.17	412.5	444.64	446.73	1054.9	689.25
Sierra Leone	180.63	343.28	352.53	303.78	360.07	343.4
Solomon Islands	68.25	58.77	26.18	60.14	121.32	198.24
Somalia	101.01	147.73	190.97	173.69	200.39	236.4
Sri Lanka	275.74	312.57	343.62	676.94	519.89	1189.25
St. Lucia	10.97	16.21	33.52	14.89	-21.57	11.06
St. Vincent And Gr.	6.17	8.64	4.79	5.66	10.46	4.89
Sudan	220.39	180.53	343.3	612.67	991.79	1828.58
Tajikistan	123.51	169.27	168.32	147.84	243.15	241.37
Tanzania	1019.35	1268.5	1229.84	1704.37	1761.32	1505.11
Timor-Leste	231.27	194.17	219.05	154.96	153.27	184.74
Togo	69.59	43.19	51	49.99	68.77	86.71
Tonga	18.82	20.27	22.27	27.45	19.26	31.75
Uganda	817.09	790.35	709.65	976.14	1197.58	1198.04
Uzbekistan	185.75	153.13	189.25	194.55	245.63	172.33
Vanuatu	45.8	31.58	27.48	32.42	37.74	39.48
Viet Nam	1681.36	1449.48	1274.47	1765.28	1840.18	1904.87
Yemen	262.76	458.02	582.5	233.72	253.2	335.93
Zambia	794.65	348.7	639.12	589.36	1125.18	945.03
Zimbabwe	175.83	161.78	198.74	186.33	186.62	367.71

Source: OECD-DAC.

Table 2b. Net ODA Disbursements by Country, 2000–05 (in percent of GDP)

	2000	2001	2002	2003	2004	2005
Afghanistan	...	...	32	35	37	38
Albania	9	7	7	6	4	4
Angola	3	3	4	4	6	1
Armenia	11	9	12	9	8	5
Azerbaijan	3	4	6	4	2	2
Bangladesh	2	2	2	3	2	2
Benin	10	11	8	8	9	8
Bhutan	12	12	14	13	10	10
Bolivia	6	9	9	11	9	6
Burkina Faso	13	14	14	12	12	12
Burundi	13	21	27	38	54	46
Cambodia	11	11	11	11	9	9
Cameroon	4	5	6	7	5	2
Cape Verde	17	14	15	18	15	16
Central African Rep.	8	7	6	4	8	7
Chad	9	11	11	9	7	6
Comoros	9	12	13	8	7	7
Congo, Dem. Rep.	4	5	21	95	28	26
Congo, Rep.	1	3	2	2	3	24
Côte d'Ivoire	3	2	9	2	1	1
Djibouti	13	10	13	13	10	11
Dominica	6	8	12	4	11	5
Eritrea	27	42	36	54	41	37
Ethiopia	9	14	18	20	19	17
Gambia	12	13	16	18	16	13
Georgia	6	9	9	6	6	5
Ghana	12	12	10	13	15	10
Grenada	4	3	2	2	4	9
Guinea	5	9	8	7	7	6
Guinea-Bissau	37	30	29	61	29	26
Guyana	15	14	9	12	17	17
Haiti	6	5	5	8	7	13
Honduras	8	11	7	6	9	8
India	0	0	0	0	0	0
Kenya	4	4	3	3	4	4
Kiribati	35	25	38	29	26	44
Kyrgyz Rep.	16	12	12	10	12	11
Lao P.D.R.	16	14	15	14	11	10
Lesotho	4	8	10	7	7	5
Liberia	...	...	...	...	...	...
Madagascar	8	8	8	10	29	18
Malawi	26	24	19	29	26	28
Maldives	3	4	4	3	3	8
Mali	13	12	14	12	11	13
Mauritania	20	24	30	19	12	10
Moldova	10	8	9	6	5	7
Mongolia	23	21	19	20	16	11
Mozambique	24	25	54	22	21	20
Myanmar	1	2	2	1	1	1
Nepal	7	7	6	8	6	6
Nicaragua	14	23	13	20	27	15
Niger	12	13	14	17	18	15
Nigeria	0	0	1	1	1	6
Pakistan	1	3	3	1	1	2
Papua New Guinea	8	7	7	6	7	7
Rwanda	18	18	20	20	27	27
Samoa	12	19	15	12	10	13
Sao Tome & Principe	75	80	49	64	52	45
Senegal	9	8	8	7	13	8
Sierra Leone	28	43	38	31	34	28
Solomon Islands	23	21	11	26	46	67
Somalia	...	...	...	...	...	...
Sri Lanka	2	2	2	4	3	5
St. Lucia	2	2	5	2	-3	1
St. Vincent And Gr.	2	3	1	2	3	1
Sudan	2	1	2	3	5	7
Tajikistan	12	16	14	10	12	10
Tanzania	11	13	13	17	16	12
Timor-Leste	...	...	...	...	...	...
Togo	5	3	3	3	3	4
Tonga	12	14	16	17	11	15
Uganda	14	14	12	16	18	14
Uzbekistan	1	1	2	2	2	1
Vanuatu	19	13	12	12	12	12
Viet Nam	5	4	4	4	4	4
Yemen	3	5	6	2	2	2
Zambia	25	10	17	14	21	13
Zimbabwe	2	1	1	2	4	8

Source: OECD-DAC and WEO.

Table 3. Volatility of ODA Disbursements by Country, 2000–05

	Mean	Average	STD	Mean	Average	STD
	(In U.S.$ millions)			(In percent of 2005 GDP)		
Afghanistan	940	1,399	1,015	13	19	14
Albania	309	310	26	4	4	0
Angola	455	513	320	1	2	1
Armenia	231	234	38	6	6	1
Azerbaijan	226	237	78	2	2	1
Bangladesh	1,189	1,205	207	2	2	0
Benin	287	293	65	7	7	1
Bhutan	71	72	13	8	8	2
Bolivia	679	695	158	7	7	2
Burkina Faso	483	496	125	9	9	2
Burundi	201	226	115	25	28	14
Cambodia	469	472	55	8	8	1
Cameroon	571	601	209	3	4	1
Cape Verde	113	118	34	12	12	3
Central African Rep.	74	76	22	5	6	2
Chad	234	249	91	4	4	2
Comoros	25	26	4	7	7	1
Congo, Dem. Rep.	985	1,777	1,925	14	25	27
Congo, Rep.	108	300	564	2	5	9
Côte d'Ivoire	260	353	360	2	2	2
Djibouti	71	71	9	10	10	1
Dominica	19	20	8	7	7	3
Eritrea	264	270	63	27	28	7
Ethiopia	1,329	1,406	471	12	13	4
Gambia	58	58	6	13	13	1
Georgia	265	272	61	4	4	1
Ghana	845	888	311	8	8	3
Grenada	15	18	13	3	4	3
Guinea	225	231	53	7	7	2
Guinea-Bissau	79	83	32	26	28	11
Guyana	101	104	28	13	13	4
Haiti	232	254	133	6	6	3
Honduras	541	554	130	7	7	2
India	1,252	1,320	427	0	0	0
Kenya	539	553	139	3	3	1
Kiribati	18	19	5	29	30	8
Kyrgyz Rep.	217	220	36	9	9	1
Lao P.D.R.	278	279	20	10	10	1
Lesotho	67	71	23	5	5	2
Liberia	95	119	85	...	...	...
Madagascar	550	630	376	11	13	7
Malawi	465	470	75	22	23	4
Maldives	28	31	18	4	4	2
Mali	482	496	131	9	9	2
Mauritania	233	239	61	12	13	3
Moldova	134	136	29	5	5	1
Mongolia	226	227	23	12	12	1
Mozambique	1,200	1,263	488	18	19	8
Myanmar	123	124	13	1	1	0
Nepal	408	410	37	5	5	0
Nicaragua	768	803	264	16	16	5
Niger	355	379	143	10	11	4
Nigeria	463	1,327	2,508	0	1	3
Pakistan	1,390	1,486	542	1	1	0
Papua New Guinea	237	239	34	6	6	1
Rwanda	384	396	111	18	19	5
Samoa	35	36	7	11	11	2
Sao Tome & Principe	33	34	4	48	48	6
Senegal	541	579	255	6	7	3
Sierra Leone	306	314	68	25	26	6
Solomon Islands	73	89	62	25	30	21
Somalia	169	175	47	...	...	...
Sri Lanka	481	553	346	2	2	1
St. Lucia	...	11	18	...	1	2
St. Vincent And Gr.	6	7	2	2	2	1
Sudan	498	696	631	2	3	2
Tajikistan	177	182	49	8	8	2
Tanzania	1,389	1,415	291	11	11	2
Timor-Leste	187	190	32	...	...	...
Togo	60	62	16	3	3	1
Tonga	23	23	5	11	11	2
Uganda	929	948	212	11	11	2
Uzbekistan	188	190	31	2	2	0
Vanuatu	35	36	7	11	11	2
Viet Nam	1,637	1,653	244	3	3	0
Yemen	334	354	139	2	2	1
Zambia	693	740	275	10	10	4
Zimbabwe	204	213	77	5	5	2

Source: OECD-DAC, WEO, and IMF staff estimates.

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