Statement by the Managing Director on the Independent Evaluation Office Report on the IMF and Aid to Sub-Saharan Africa

Executive Board Meeting
March 5, 2007

We welcome the IEO report on the IMF and Aid to Sub-Saharan Africa (SSA) as an important contribution to making the Fund's engagement with low-income countries more effective. The report's candid assessments and useful recommendations will help management and the Board clarify further the institution's mandate and policies to help SSA achieve growth and reduce poverty. The report should be considered in the context of the Fund's Medium-Term Strategy (MTS), which reiterates the Fund's commitment to low-income countries and sets out the framework for more focused engagement in those countries.

It is encouraging that the IEO report confirms the improvement in macroeconomic performance that has taken place in Sub-Saharan African (SSA) countries in recent years, and notes that this is due in part to the advice and actions of the Fund. The report acknowledges that Sub-Saharan Africa has experienced a period of unprecedented high growth and low inflation, which in turn contributed to a reduction in poverty. While several factors were at play, the Fund's policy advice was instrumental in promoting sound macroeconomic policies and in better accommodating the use of aid. In addition, the Heavily Indebted Poor Country (HIPC) Initiative and the Multilateral Debt Relief Initiative have greatly reduced debt-related vulnerabilities and the costs of debt servicing, thus enabling the more effective use of increased aid.

The report recognizes that through the Poverty Reduction and Growth Facility (PRGF), the Fund has delivered in those areas that are its primary responsibility—promoting macroeconomic stability and high-quality growth. There were many improvements in the Fund's assistance to low-income countries as the Fund moved from the Enhanced Structural Adjustment Facility (ESAF) to the PRGF. The report notes, for example, the promotion of higher domestic resource mobilization and higher social spending, including through the introduction of program floors on such spending. It highlights, in particular, the improvements in the Fund's efforts to support fiscal governance. The report also recognizes the continued evolution in the Fund's policy advice in the face of changing circumstances, including helping low-income countries to manage the macroeconomic challenges of using aid as effectively as possible. In light of these improvements, we would take issue with the report's assessment that practices under the PRGF have gravitated back to "business as usual."

The Fund's engagement in low-income countries has been and will continue to be focused on its core mandate of providing advice and support for sound macroeconomic policies as a prerequisite to sustained poverty reduction. We would have expected performance to be evaluated against the Fund's mandate in SSA, but in some instances, the report evaluates Fund performance in terms of the expectations of external stakeholders—thus complicating the interpretation of some of the findings. For example, the report finds limited progress in Fund-supported programs in incorporating distributional issues. However, distributional policies generally lie outside the Fund's core mandate. In fact, the Fund's role in this area is not direct action, but rather to be a cooperative partner with those whose expertise is in fighting poverty, most notably the World Bank. This is also consistent with the Fund's engagements under the Monterrey Consensus. It has always been expected, for example, that PSIA would be conducted by other agencies in the context of the Poverty Reduction Strategy Paper process (and then utilized by Fund staff in the design of programs). We accept the report's view, however, that there is scope for further clarifying this point, especially in our external communications.

The report also finds that the Fund has played a limited role in the international effort to mobilize more aid, in part because of mixed guidance from the Fund's Executive Board. This finding underscores the importance of further clarification by the Board regarding the Fund's mandate and policies on several aid-related issues.

We agree with the report's emphasis on the importance of accommodating higher aid flows through higher spending and net imports, while underscoring that this should not jeopardize macroeconomic stability. The report finds that, in line with Board approved policies, PRGF-supported programs have generally accommodated the use of new aid in countries with adequate reserves and moderate inflation. By contrast, the report finds that in countries with low foreign exchange reserves levels and high inflation a portion of the aid was saved. Resolving problems of macroeconomic instability, inadequate reserves, or unsustainable debt burdens, is at the heart of Fund work. In some cases, reserves were previously so low that they could not safeguard against shocks; in other cases, the buildup in reserves was of a more temporary nature and thus did not allow resources to be used effectively over time. The Fund's strategy will therefore continue to be implemented on a case-by-case basis—with the general objective being to bring all its low-income members to a situation in which aid can be fully absorbed and effectively spent.

The report's suggestion that institutional communications should be more consistent with Board-approved operational policies is well taken. Efforts are under way to strengthen this process significantly. For example, the African Department has developed a strengthened external communications strategy, comprising both country-specific and general policy messages. More generally, there has been a stepped-up internal communications effort across the Fund to better align staff understanding with institutional priorities.

Going forward, we will build on our commitment to support low-income countries as laid out in the Medium-Term Strategy. In particular, the 2006 report on implementing the MTS notes: "*the Fund's policy advice, capacity building, and financial assistance should focus on macro-critical issues, including institutions relevant to financial stability and economic growth. It is true that macroeconomic policies and institutions are only part of the story, and that these do not necessarily translate into growth and poverty reduction unless a more multi-disciplinary view of development is taken. But, equally, a relatively small international institution such as the Fund cannot be engaged in too many areas without compromising effectiveness—including in its core macroeconomic mandate*."

In this context, Fund management agrees with the thrust of the IEO's three specific recommendations.

- The first recommendation calls for further clarification by the Executive Board on several aid-related issues, including the mobilization of aid, alternative scenarios, PSIA, and pro-poor and pro-growth budget frameworks. We look forward to the Board's guidance on this in the context of the discussions of the IEO report and forthcoming staff papers on related topics.
- The second recommendation calls on management to establish transparent mechanisms for monitoring and evaluating the implementation of the clarified policy guidance. While there already exists a well-developed internal review process to ensure that Board directives are consistently implemented across countries, we agree that there is merit in strengthening mechanisms for follow up, such as ex post assessments of past Fund arrangements and broader stocktaking in the context of periodic Board reviews of the PRGF.
- The third recommendation calls for a clarification of expectations—and resource availabilities—for resident representatives' and missions chiefs' interactions with local donor groups and civil society. The generally positive assessment by the country authorities of their working relationship with the Fund is encouraging. However, the more mixed responses from donor groups indeed call for improved coordination and communication. We also need to engage better with other external stakeholders, including civil society organizations and parliamentarians. Given the constraints on staff time and budget, this needs to be done in a strategic way.

Following the Board discussion of this IEO report, and consistent with the new policies governing the work of staff in response to IEO reports, we will return to the Board with a detailed and costed work plan. Under the Fund's work program, the Board is already scheduled to discuss several staff papers over the next few months that will consider most of the issues raised in the IEO report—including the role of the Fund in the PRSP process, donor collaboration and management of aid flows, and issues relating to program design in low-income countries. We anticipate that these discussions, in addition to the lessons learned from the IEO report, will help improve the Fund's effectiveness in low-income countries. We will consider and report to the Board any needed modifications to our work program in order to address the issues raised by this report and in light of the Board's guidance.

Again, Fund management welcomes the IEO report and we look forward to building on its lessons learned. The accompanying staff comments provide some further detailed responses to the IEO's findings and recommendations.