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Oxfam Briefing Paper

The IMF and the Millennium Goals

Failing to deliver for low income countries

The IMF needs to radically change the way it works in low income countries. It must finally move on from an outdated focus on exclusively short-term macro-stability and pessimism about aid to one based on long-term poverty needs and the MDGs. If it does this it can play a vital, proactive and dynamic role as a key partner in poverty reduction. If it does not, the much hailed new poverty focus of IMF programmes in low income countries risks being largely discredited.

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Summary

The International Monetary Fund (IMF) plays a key role in defining how much governments can spend. The Fund's view of what defines the macro economic stability of a country is the authoritative one for all development partners. Given this, the Fund could and should be playing a dynamic, proactive role in establishing the financing conditions for achieving the Millennium Development Goals.

The (MDGs) have been endorsed by the UN, world leaders, the World Bank, regional development banks, developing country governments and the IMF. They set minimum standards to combat poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women. With aid at current levels however, many countries will not even meet these minimum standards. If present trends continue there will be 10 million child deaths in 2015, compared to half that if the target is met.[1] Countries have massive financial gaps standing between them and achieving the MDGs.[2] Women continue to bear the majority of the burden this lack of financing entails. At the Monterrey Financing for Development (FFD) conference in 2002, donors pledged an extra $16 billion dollars in aid. This falls far short of what is needed, but at least it does signal the willingness of donors to halt the drastic decline in aid flows that occurred in the 1990s.[3]

Against this background it is critical that poor countries have as much support as possible from the international community to absorb and manage rising aid flows as they increasingly become available. The IMF has a crucial role to play. Unfortunately, there are 3 main areas where the IMF is failing to play this role, and where a radically new approach is needed:

1 The Fund needs to show greater flexibility in its economic targets, demonstrating a longer-term focus on poverty reduction and analysing the trade-offs this entails for short-term economic policy.

2 The Fund needs to end its pessimism towards increasing aid flows to poor countries and stop designing economic policy around this view. Instead it should play a dynamic role, working with others to measure the financing needs to achieve the MDGS, and proactively mobilising higher aid flows. It should use its technical expertise working with Governments to design macroeconomic frameworks that can accommodate these increased resources.

3 The influence of the Fund as 'gatekeeper' for poverty focussed aid needs to be decreased. The IMF has a key role in achieving the MDGs, but as one partner in a broad alliance for poverty reduction, and not as the all powerful on/off switch for aid and debt relief.

A survey of IMF programmes in 20 countries by Oxfam and Eurodad shows that for the IMF financial inflexibility and aid pessimism are still the norm. For example, **The IMF requires Cameroon to achieve a fiscal surplus by 2005. At the same time the Cameroon Poverty Reduction Strategy Paper (PRSP) shows that under current expenditure ceilings infant mortality in 2015 will be 44% higher than required in the MDGs.[4] The**

targeted reduction in the deficit would be enough to double the health budget.[5]

In Mozambique the IMF is predicting declining aid flows despite rising donor support and evidence that more aid can be productively absorbed. These spending and aid projections became the basis of the PRSP, sending out negative signals to donors about the financing required to tackle poverty and deliver the MDGs. Instead of the poverty needs driving the macroeconomic framework, the opposite was the case.

The negative impact of this inflexibility and conservatism is compounded by the continued role of the IMF as gatekeeper for donor aid and debt relief. For example, **disputes with the IMF over teachers' salary increases have cost Honduras $194 million dollars in delayed debt relief and donor aid cuts**. Ironically this money could fill the financing gap in the programme to educate all children in Honduras three times over.

Over the next six months the IMF is seeking to review its role in poor countries. At the same time, the IMF's Independent Evaluation Office (IEO) is currently evaluating the role of the IMF in the PRSP process.

As such the time is ripe for the IMF to redouble its commitment to poverty reduction and the MDGs. The Fund needs to radically change its role and the way it works in poor countries and truly deliver on its previous commitments to poverty reduction made when introducing the Poverty Reduction and Growth Facility (PRGF). It must finally move on from an outdated focus on exclusively short-term macro-stability to one based on long-term poverty needs and the MDGs. If it does this it can play a vital, proactive and dynamic role in achieving poverty reduction. If it does not, the new poverty focus of IMF programmes in poor countries risks being largely discredited.

To ensure the IMF really contribute to the achievement of poverty reduction and the MDGs, Oxfam recommends the following:

1. A new approach to designing IMF programmes

- In designing their new programme in poor countries, the IMF should take 12 months to work with partners identifying the optimal financing package for achieving the MDGs, and the ideal level of aid. The IMF should actively engage with donors and support the Government in lobbying for optimum levels of donor assistance

- As part of this process the Fund should also open up the debate on what the optimal macroeconomic framework would be to enable rapid progress for a country towards the MDGs. This debate should be based on an independent poverty and social impact analysis (PSIA) of alternative macroeconomic scenarios and the different trade offs involved, how resources can be maximised, and what options are available. PSIA must be carried out on every IMF macroeconomic framework as a matter of due dilligence, in line with the key features of the PRGF

- At the end of the 12 month period the IMF and other PRSP stakeholders should seek broad agreement on an optimum macroeconomic framework. This scenario, rather than a conservative 'baseline' scenario, would then become the basis of the IMF programme, fully aligned with the PRSP and the country budget

- Any prediction of declining aid flows in IMF programme targets should be fully justified based on clear and transparent analysis and evidence from donors
- Fiscal deficit targets and inflation targets should be backed up by independent analysis and broad agreement that this is the best option for poverty reduction. No IMF programme should aim at inflation below 5% without an independent analysis and broad agreement that this is the best option for poverty reduction.

2. Limiting the IMF's gatekeeper role for aid and debt relief

- Aid and Debt relief should be de-linked from the IMF programme and should instead be based on the implementation of the PRSP and the PRSP progress report. The PRSP progress report should be discussed at the annual Consultative Group meeting of all donors in a country and this should be open to all stakeholders.

1. Reaching the Millennium Development Goals

1.1. Reaching the Millennium Development Goals

The Millennium Development Goals (MDGs) have been endorsed by the UN, world leaders, the World Bank, regional development banks and the IMF. They set minimum standards to combat poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women. With aid at current levels however, many countries will not even meet these minimum standards. If present trends continue there will be 10 million child deaths in 2015, compared to half that if the target is met.[6] At least an additional US $40-60 billion a year is needed.[7] Oxfam estimates this figure could be much higher.

More aid is of course not enough, and must be coupled with increasing the effectiveness of existing aid, and in tackling the problems countries have in spending aid efficiently. However, cost savings will only go so far and the MDGs cannot be reached without large increases in aid to poor countries.[8]

At the Monterrey Financing for Development (FFD) conference in 2002, all donors committed that countries would not fail to reach the MDGs through a lack of resources. Since then more resources have been pledged, with increases announced by the US and EU, and the establishment of global financing mechanisms such as the Global Fund for Health and the Education Fast Track Initiative (EFA-FTI). The increased debt relief available under the Highly Indebted Poor Countries Initiative (HIPC) also complements these increases. It is estimated that these increases in aid will make an additional $16 billion available to poor countries. This still falls far short of what is needed, but at least it does show the willingness of donors to halt the dramatic decline in aid flows that occurred in the 1990s.

Women pay the highest price

Women bear the heaviest burden of the under-financing of the MDGs, particularly where this impacts on public service provision. Women are the majority of the world's poor, often sacrificing their own health for the benefit of their families. The two MDGs that are least likely to be met are those for reducing maternal mortality and improving child health. Inadequate financing for the MDGs puts severe pressure on expenditure for decent public services. In the absence of publicly provided services, women increasingly have to bear the burden instead. A clear example of this is in Southern Africa, where the massive burden of care for HIV/AIDS victims is taken up primarily by women, in the face of woefully inadequate state resources. The net effect is to transfer the costs of human capacity development from the public sector- where it is accounted for – to the reproductive economy – where it is not. It is then apparent in the visible deterioration in the health and capacities of the population.

A second impact of under-financing is the pressure this puts on raising domestic tax collection. Where this occurs through the use of indirect or consumption taxes, the impact is often felt disproportionately by poor women, who are invariably responsible for the household economy and the purchase of food and goods. VAT[9] on basic household goods such as sugar or salt has this effect, as do increases in fuel tax, which have a direct impact on food prices.

This background of huge needs but scarce resources has a disproportionate impact on poor women. It is therefore all the more crucial that poor countries receive the necessary support to mobilise, absorb and manage rising aid flows as they become available. The IMF's role in helping poor countries do this is vital, but it is a role that the Fund is not yet fulfilling.

1.2. The critical role of the IMF in helping countries achieve the MDGs; a missed opportunity

The IMF has a crucial role to play in setting the finance framework to optimise the resources available to poor countries in reaching the MDGs. The IMF is the authority in defining how much governments can spend, based on their view of what constitutes the optimum set of macroeconomic policies for a poor country. All other donors rely on this view, and link a lot of the aid they give to a country meeting the conditions set by the IMF. This has led to a situation where both donors and government effectively defer to the macroeconomic targets set by the IMF. This is a source of concern, as achieving the MDGs involves making difficult assessments about the benefits and trade-offs of different economic policies. These assessments require much broader debate and discussion about macroeconomic policy than is currently the case. Given this, the Fund could and should be playing a dynamic, proactive role in working with others to open up the debate and to define the financing conditions for achieving the MDGs.

This entails a major change in the whole approach of the IMF. The IMF must move on from its traditional focus solely on short-term macro-stability to one based on long-term poverty reduction goals. It entails taking poverty reduction needs as a starting point. In response to criticism over the short-term, conservative basis of its approach in 1999 the IMF renamed its main lending instrument to poor countries the "Poverty Reduction and Growth Facility" (PRGF). The PRGF for the first time made poverty reduction a core objective of IMF programmes in poor countries[10] instead of a by-product of macro-stability.

Unfortunately, despite the positive rhetoric, the fund has yet to adequately deliver on this new and vital role. Instead it continues to target macro-stability and a reduction in aid-dependency at the cost of other priorities, including poverty reduction. This approach is premised on the belief that poor countries should graduate from being dependent on aid in the short to medium term:

> 'the overall objective of Fund policy advice and financial assistance should be to facilitate the transition to the point where low-income members can rely predominantly on private sources of funding'[11]

This belief is simply not realistic for many poor countries. They cannot achieve the MDGs without major increases in aid.

In pursuing their approach, the IMF imposes stringent macroeconomic targets on the governments of poor countries. These targets then send out negative signals, encouraging donors not to increase their aid despite clear poverty reduction needs. At the same time failure to comply with these targets leads to delays in aid and debt relief.

The short-term focus on stabilising economies was arguably more appropriate in the 1980s and 1990s when many poor countries had chronic high inflation, high public debt and aid was declining. However, even in these cases the approach of the IMF was heavily criticised as having an unacceptable impact on poor women and men.

Either way, the policy environment has now changed. Not only is more finance likely to be available, but also a growing number of poor countries have made substantial gains in economic stability, a point recognised by the IMF themselves:

> ‘ Real GDP growth is up, inflation is down, budget deficits have shrunk, and foreign exchange reserves are also up markedly’[12]

Against this background the continued focus of the IMF on further deflation and deficit reduction becomes harmful. Instead of helping the poor, this paper describes how the IMF inhibits the vital public investment needed to tackle persistent development problems and move onto paths of higher growth and poverty reduction.

There are three main areas where the IMF is failing to change its approach and its role needs to be radically reviewed if it is to assist poor countries to achieve the MDGs.

- The Fund needs to show greater flexibility in its economic targets, demonstrating a longer-term focus on poverty reduction and analysing the trade offs this entails for short-term economic policy
- The Fund needs to end its pessimism towards increasing aid flows to poor countries and stop designing economic policy around this view. Instead it should play a dynamic role, working with others to measure the financing needs to achieve the MDGS, and proactively mobilising higher aid flows. It should use its technical expertise working with Governments to design macroeconomic frameworks that can accommodate these increased resources
- The influence of the Fund as ‘gatekeeper’ for poverty focussed aid needs to be decreased. The IMF has a key role in achieving the MDGs, but as one partner in a broad alliance for poverty reduction, and not as the all powerful on / off switch for aid and debt relief.

Oxfam and Eurodad have carried out a survey of current IMF programmes in 20 poor countries, together with other background research.[13] The sample deliberately focused on countries that have achieved a good degree of macroeconomic stability, with half the countries being identified by the IMF as having achieved economic stability.[14] Unfortunately the evidence is that the IMF continues to be fiscally inflexible and pessimistic about aid, and that this is sending out the wrong signals to donors as well as holding up vital aid and debt relief.

2. Fiscal Inflexibility

Huge financing gaps stand between poor countries and the achievement of the MDGs. It follows that whilst maintaining acceptable macroeconomic stability, countries should be seeking to optimise spending on poverty reduction wherever possible. If the IMF is to fulfil its key role in helping to achieve the MDGs then it should clearly be designing financial frameworks with countries that seek to optimise spending on the MDGs. Unfortunately the evidence is that instead the IMF is programming further deflation, deficit reduction and aid graduation for poor countries.

2.1. Tilting at the inflation windmill

There is no doubt that high inflation can be harmful to the poor, by raising prices, eroding real wages and inhibiting growth. In Malawi for example, where the inflation rate is 20%, reducing inflation is clearly a priority in terms of achieving poverty reduction.

However, our findings show clearly that most poor countries in our sample have sustained low inflation over a number of years:

- 19 out of the 20 IMF programmes have inflation targets at the end of the three year programme of less than 10%
- 16 out of the 20 IMF programmes have inflation targets at the end of the three year programme of les than 5%

Certainly very low inflation may harm the poor if the policies implemented to achieve low inflation targets restrict pro-poor spending and growth and induce recession.[15] Our sample indicates that inflation levels in many poor countries are low enough to permit some flexibility over the fiscal deficit and the level of spending.[16]

2.2. Deficient deficits

The PRGF was specifically designed to demonstrate 'an emphasis on allowing greater flexibility in accommodating rising budget deficits, financed on suitably concessional terms for countries with sustainable macroeconomic and debt positions and scope for productive public spending'.[17] This is an explicit recognition that poverty reduction and growth are not possible without higher spending. The PRGF is also an attempt to change the lending practices of the IMF, which under the ESAF pursued short run stabilisation policies at the expense of long term growth and poverty reduction. As increasing numbers of poor countries became macro-economically stable this approach was criticised as being inappropriate and over-zealous:

> 'In [post stabilisation] economies the traditional Fund concern with fiscal deficits needs modification. The attempt to reduce aid-exclusive deficits further (or even to run a surplus) has no bearing upon the control of inflation, whilst being damaging for growth'[18]

Unfortunately, our research confirms that the IMF targets are almost uniformly pushing for stagnant or decreasing fiscal deficits[19] for poor countries. In our survey of IMF PRGF lending in 20 countries:

- 15 out of the 20 countries had declining fiscal deficit targets over the three years of the IMF programme. The average reduction was around 2% of GDP.
- 6 out of the 10 countries described by the IMF as being 'post-stabilisation' still had targets to further reduce their deficits over the three years of the IMF programme, by an average of 1%.
- The IMF requires Cameroon to achieve a fiscal surplus by 2005. At the same time the Cameroon PRSP shows that under current expenditure ceilings infant mortality in 2015 will be 44% higher than required in the MDGs.[20]

These figures indicate a broad IMF approach in favour of reducing fiscal deficits, even in post-stabilisation countries. It is not possible to tell from these figures alone whether the targets reflect expectations of lower aid receipts in each country, which would justify the reduction of the deficit. But it seems unlikely that these countries are all experiencing a consistent tail off in aid, especially in light of the increasing ODA commitments detailed in the previous section. Indeed, countries receiving budget support from the IMF and bilateral donors are increasingly benefiting from larger amounts and longer time commitments on aid – up to 10 year commitments in some cases. The alternative justification, that deficit reduction is necessary to maintain macroeconomic stability, seems questionable in light of the low inflation evident in all but two of our sample countries.

The trend of reducing fiscal deficit targets in IMF programmes suggests instead a push to reduce the dependency on aid in poor countries. Whilst this may be justified in individual cases, most poor countries will not be able to achieve the MDGs without increases in aid. Rising fiscal deficits cannot be automatically linked with poverty reduction, but with the increasing availability of concessional aid in many poor countries we would expect to see more flexibility over deficit targets than our sample suggests.

The cost of these deficit reductions on expenditures for poverty reduction of is clear, as the table below shows.

Table one: The financial trade off of deficit reduction

Country	Fiscal deficit targets over 3 years IMF programme	Reduction % GDP	What this could buy for one year
Cameroon[21]	-0.7 to 0.7	-1.4	Could have doubled health expenditure
Ghana	-9.7 to -5.7	-4.0	Could have doubled primary healthcare expenditure each year of the three year programme.
Mauritania[22]	-4.4 to -1.6	-2.8	Could have almost doubled health expenditure in any one programme year
Rwanda	-9.9 to -8.0	-1.9	Could double the health and education budget in each of three programme years
Senegal[23]	-4.0 to -3.5	-0.5	Could have doubled the total education and health expenditure in one year or doubled the health budget in each year of the three year programme.

Deficit reduction seems even more over-zealous because the debt element of concessional lending (for example from the World Bank) is over-valued in IMF calculations. The grant (i.e. 'free') component of loans from the World Bank and other concessional lenders is often over 40%. Our figures show that when the grant element of lending is included three countries actually reach a surplus[24]. The inclusion of the grant element of loans as another source of revenue in IMF financial programming calculations would give more realistic targets and give a fairer picture of a country's finances.

Ethiopia and the IMF: Minimal flexibility

Ethiopia is one of the poorest countries in the world. Almost half its population, 35 million people live in absolute poverty. Due to drought on average 5 million people each year require food aid, and the country has recently experienced its worse recorded drought which left 12.6 million people at risk of starvation.

There is therefore a very strong case for increased aid to Ethiopia. In addition several key donors believe that the country could absorb extra resources:

'Ethiopia could make use of significantly increased aid flows… A realistic target may be to double aid to $1.7bn p.a. over 5 years, which would permit a 50% increase in per capita spending[25]'

Extra finance in becoming available. DFID have recently signed a 10 year agreement with the Government of Ethiopia to provide budget support of $14 million extra a year[26], tripling their commitment. The World Bank in its country assistance strategy aims to scale up assistance to $1.5 billion dollars.

At the same time Ethiopia has been successful in registering continued positive growth of around 5% in the face of major commodity shocks and famine, has kept inflation low and in fact experienced deflation in the last year.

Despite these needs and this relative macro-stability, the IMF continues to be very hard on Ethiopia, for example delaying their programme for six months at the height of the current food crisis on the basis of a dispute with the government over financial sector reform. Minimal flexibility was again apparent in discussions over the fiscal deficit for in 2002/03. The Government presented a more ambitious scenario to finance higher poverty expenditures described in the PRSP, to be financed by World Bank funds. However, the IMF did not support this:

'A significant reduction of the fiscal deficit in 2003/4 and 2004/5 will be critical for macroeconomic stability in Ethiopia in the short and medium run…To avoid risking macroeconomic stability and debt sustainability, the macroeconomic framework described in the PRSP will need to be carefully assessed'[27]

The projected deficit is indeed large at 14.5% of GDP, but if grants are taken into account this figure comes down to 9.7%, and with the additional grant element of the WB lending this comes down further to 6.7%.[28] In the immediate term, the IMF did show some flexibility in raising their initial target from 8.8% to 9.7% after negotiations with the Ethiopian Government. This is indeed welcome. However, although the increase is said to be for bank restructuring and poverty targeted spending, a closer inspection shows that 90% of it will be spent restructuring the Commercial Bank of Ethiopia for privatisation leaving very little for poverty spending.[29] In the medium term the deficit is still targeted to fall by 6.3% of GDP by 2004/5.

Some countries in our sample were permitted to raise their fiscal deficit during the programme above the target in their original lending agreement.[30]

Whilst this flexibility is to be welcomed, adjustments which occur during the programme are reactionary, rather than the predictable response to planned spending needs. Flexibility in economic targets needs to be programmed from the outset in order to signal to donors the financing needs for long term development goals.

In summary, Oxfam is not advocating a uniform increase in fiscal deficits, and all deficit targets must be consistent with the level of available aid financing and the maintenance of macro-economic stability. But the IMF should not programme further deficit reduction in post-stabilisation countries where sufficient aid is available to 'cover' the deficit and there are substantial poverty needs. As the Ethiopian case study shows, the level of the fiscal deficit in all poor countries should be treated on a case by case basis, and the IMF should substantiate the need for deficit reductions - even where the deficit is large - where there are devastating poverty needs and sufficient aid finance available to address them.

Lastly predictions of insufficient aid should only be accepted where the IMF can show it has done all it can to mobilise and accommodate larger aid flows. The failure of the IMF to do this is the basis of the next sections.

2.3. Developing alternative scenarios

A first step in tackling fiscal inflexibility is for the IMF to support the development of alternative macroeconomic scenarios. Once again, the PRGF was intended to do this by presenting alternative scenarios for poverty reduction in each country.[31] These alternative macro-economic scenarios would enable the assessment of different policy choices, and would be the basis for PRSP financing frameworks. They would be used for signalling needs and mobilising higher aid commitments, and they would allow larger deficits and poverty reducing spending to be programmed from the outset.[32]

Unfortunately these scenarios are rare and where they do exist they are not impacting on programming. This inadequacy has been recognised in a recent IMF paper, which recommends that PRSPs should include both the usual 'baseline' scenario and a 'more ambitious' financial framework focused on the MDGS in order to 'examine difficult policy choices and trade offs'.[33] While this is a welcome move in the right direction, a lot more needs to be done. In particular there is no indication of how the more ambitious second scenario will actually be used, especially since the same paper goes on to recommend the use of the usual baseline scenario as the 'basis for budget management'. For example, in Cameroon the Joint Staff Assessment (JSA) of the PRSP recognises the value of a second scenario focusing on the MDGs, saying it is 'instructive for the current PRSP and for future analysis and debate'; however, despite this the JSA fully supports the more conservative scenario based on the PRGF targets, including as we have seen targeting a fiscal surplus.[34]

3. Aid pessimism

As was described earlier, in the context of the 'Monterrey Consensus', more aid is becoming available for poverty reduction. It is still far short of what is required, and far short of previous commitments made by rich countries to spend 0.7 of their GDP on aid. Nevertheless there are some more resources available, and ODA is increasing for the first time since the early nineties. At the same time HIPC debt relief, although also not nearly extensive enough, has released resources for poverty reduction.

This new cautious 'aid optimism' is reflected in recent papers by both the World Bank and DFID which seek to make the case for increased aid in a number of poor countries.[35]

Considerable advances can be made using domestic resources more efficiently, and under the IMF there has been some success in increasing social expenditures in this way.[36] However, the bottom line is that redirecting spending and raising taxes within the very limited resources available to poor countries will leave the MDGs far from reach. Meeting targets for poverty reduction will only be possible with sustained increases in donor aid, a fact the IMF seems reluctant to accept.

The IMF potentially has a pivotal role to play in working with others to signal the financing gaps a country is facing in reaching the MDGs, proactively working to mobilise finance to fill these gaps, and working to design a financing framework that will optimise resources available for poverty reduction plans.

Unfortunately the IMF is currently doing the opposite, and still remains firmly an 'aid pessimist'. It does this in two ways:

- Firstly it continues to predict declining aid flows in many countries, and sets targets in its programmes to reduce the amounts of aid used by poor countries. It develops financial frameworks around these declining resources, rather than showing what is needed to reach the MDGs.

- Secondly the IMF marshals a number of arguments in defence of its pessimism about increased aid, around the negative macroeconomic impact of increased aid, the unreliability of aid and lastly the inability of countries to absorb increased funding due to corruption and capacity constraints. They can all be important arguments, and need to be looked at on a country-by-country basis. However, they do not justify in themselves a need for all poor countries to reduce their aid dependency or to graduate from aid in the medium term.

These pessimistic frameworks then become the basis of country poverty reduction plans instead of poverty needs driving the financial framework.

3.1. Targeting decline

Our survey shows that the IMF is continuing to predict declining external financial flows and setting targets to reduce aid dependency:

- In 16 out of the 18 countries where figures were available, the targets for external financing either declined or stayed the same over the three years of the programme.
- On average the decline was 1% of GDP, which the previous section showed represents substantial resources for poverty reduction. This would more than double the spending on health in Senegal for example.[37]

This does not mean there are never strong reasons why a country should reduce aid dependency. However, as the Mozambique case below demonstrates, even in situations where there is no apparent evidence of declining aid, and also a clear case for aid increases, the fund is still programming for a reduction in external financing.

Signalling defeat: the IMF in Mozambique[38]

70% of people in Mozambique live in absolute poverty. War devastated the country, and this has been compounded by HIV/AIDs. In 2001 52,000 children were born HIV positive. Only 39% of girls are enrolled in primary school. On a positive note massive progress has been achieved with growth of 8% each year since the early 1990s. Maternal mortality for example has fallen from 200 to 150 per 100,000 of population. Nevertheless, without a massive scaling up of support Mozambique is unlikely to reach any of the MDGs given current trends.

However, there are real concerns that Mozambique may be missing out on development opportunities because of aid pessimism on the part of the IMF. The financial framework for the IMF's PRGF programme for Mozambique is based on the assumption that aid flows to both Mozambique and to Sub-Saharan Africa as a whole will decline. There is no basis for this assumption in the case of either Mozambique or SSA as a whole, and minimal justification is attempted in the PRGF. Nevertheless, these targets became the financial basis of the Mozambique Poverty Reduction Strategy Paper (PRSP), which make it extremely unlikely the MDGs will be met.

At the same time a recently commissioned report argues that Mozambique could make excellent use of increased aid:

‘a 50% increase in donor support by 2010 would enable Government to more rapidly address the low levels of human capital development. Overall aid dependence, assuming growth targets are met, would not increase in relative terms[39]’

Unfortunately the pessimistic targets of the IMF are instead sending out the opposite signal to donors:

‘The problem with the [current] approach is that no ‘high case’ scenario has been developed. Donors will react to the bids government develops for their support. The [PRSP] sends the message that donors are neither expected nor invited to even maintain existing levels of support in real terms, let alone increase them. The opportunity to develop an ambitious programme that would capture the imagination or a growing share of resources of the donor community is lost[40]’

3.2. Arguing against aid

The IMF marshals a number of arguments to counter increases in aid for poor countries. These typically list the negative macroeconomic impact of increased aid, the unreliability of aid flows and the inability of countries to absorb increased funding, due to corruption and capacity constraints. These arguments are discussed in box one. As the discussion shows, they all need to be considered and analysed on a case by case basis. However, they do not justify in themselves a need for all poor countries to reduce their aid dependency or to graduate from aid in the medium term. Furthermore, the judgements on the ability of a country to productively use aid should not be made by the Fund at all, but by the individual donor that is proposing to provide that aid.

The IMF’s over-emphasis on the negative effects of aid serve more as a justification for its own fiscal conservatism than as a reasoned argument against aid increases. If the IMF is to change its role to one that supports the realisation of the MDGs, the presumption should be in favour of aid increases. Any departure from this assumption should be clearly, explicitly and independently analysed.

3.3. Signalling defeat

The IMF pessimism about increasing Aid becomes a self-fulfilling prophecy in the financing frameworks it designs for poor countries. This is because these frameworks underpin the poverty reduction plans that donors then follow. The majority of poor countries have now developed Poverty Reduction Strategy Papers (PRSPs). These have been completed in 27 poor countries and are underway in at least 23 more.[41] Despite many flaws in both content and the process of their design[42], PRSPs represent the most concerted attempt to date to pool donor, government and civil society efforts behind a broad plan to achieve poverty reduction and the MDGs in a country.

Donors increasingly are basing their aid to a country on the poverty needs outlined in the PRSP, but for the IMF the process works in the opposite direction. The IMF programme is the basis of the PRSP financing framework. Of the 20 PRSPs completed by March 2003, 16 had IMF PRGF programmes agreed *before* the PRSP was completed.[43] The IMF found in their review of the PRGF that virtually all PRSP financial frameworks were identical to those in the programme previously agreed with the IMF.[44] For example, the PRSP for the Kyrgyz republic, completed in December 2002, is quite explicit that this is the case: 'the financial support to the [PRSP] will be adjusted each year within the budget framework, reflecting the ...implementation of the PRGF'.[45]

If IMF targets based on aid reduction are clearly the basis for the PRSP macroeconomic framework, this signals to donors that increasing their financial support is unnecessary. The Mozambique case study clearly illustrates this, and the missed opportunity this represents in terms of developing ambitious plans to meet the MDGs and mobilising the finance to meet them.

Box 1. In defence of Aid pessimism? The arguments of the IMF.

There are four main arguments often used by the IMF to defend aid pessimism. All of them are potentially valid in some cases, but are subject to considerable debate and certainly do not justify being pessimistic about aid overall.

1. Negative macroeconomic effects of Aid and "Dutch Disease"

The IMF often expresses concerns that large inflows could cause appreciation of a country's exchange rate and increase inflation. In turn this can negatively effect the competitiveness of exports- a phenomenon known as 'Dutch Disease'. The evidence that Dutch Disease might occur in poor countries is extremely weak, but this does not stop the IMF raising it consistently to question the volume of Aid inflows. For example in an important recent paper on aligning the PRGF with the PRSP[46] the only mention given to the Education Fast Track Initiative and Global Health Fund was in terms of their potential negative macroeconomic effects. However as we have seen inflation is at a low level in most poor countries, especially those with good policy frameworks that are attracting increased aid, meaning a slight increase in inflation to allow substantially more aid would often be acceptable. In addition, many of the purported negative effects can be mitigated by the appropriate use of monetary and exchange rate policy. In short this indicates a need for careful management of aid flows rather than a reason for excluding them.

2. The Unpredictability of Aid

One of the most legitimate reasons given by the IMF for aid pessimism is the unpredictability of aid . Aid flows are indeed very unreliable, and this can be very harmful. Aid is given late and is rarely equal to the amounts that are commited, which is unacceptable. Donors have a responsibility to make sure aid disbursement is sustained and predictable. PRSPs are a step in the right direction, with more donor co-ordination and longer commitments in many cases, but a lot more can be done. An important part of the IMF role is to push for greater reliability of aid, and to design financial frameworks that can mitigate this unreliability as much as possible. Unreliablity of aid flows remains a serious issue, but at the same time increased aid is vital to the MDGs.The IMF must seek to do all it can to mitigate unreliability. Targeting a reduction in aid should be a last resort only when it is clearly the best option for poverty reduction.

3. Inability of countries to absorb increased aid due to capacity constraints and corruption

Another major reason repeatedly given for aid pessimism by the IMF is that countries cannot absorb the increased flows dues to problems of capacity and corruption. As with the unreliability of aid this problem is undeniable and very real in a large number of poor countries. However, any decision to reduce aid on the strength of these implementation issues should be carefully weighed up against targets for poverty reduction. In the vast majority of cases a policy of engagement, development of accountability mechanisms[47] and capacity building to complement increased expenditure is the optimal one in the context of MDG needs. Indeed inefficiency and corruption can be the product of insufficient resources. Civil servants can become demoralised and in some cases corrupt as a result of being paid unacceptably low wages, which do not allow them to survive let alone do their job. Lastly greater commitment by the IMF to generating ownership of macroeconomic decisions through aligning its PRGF with the PRSP process will in itself help to build political accountability in poor countries.

4. Standing in the way of poverty reduction[48]

The damaging effect of fiscal inflexibility and aid pessimism in IMF programmes is not just felt in the negative signals it sends to donors about what is achievable under PRSPs. Debt relief and increasing amounts of donor aid are conditional on a country having an IMF programme in place. This means the failure of the fund to develop a role focused more on long-term poverty needs is compounded. Failure to have a fund programme spells disaster for a country, with substantial resources for poverty reduction withheld as a result in a way that is hard to justify.

4.1. Impact on debt relief

Under HIPC, all resources are dependent on a set of conditions, both for interim and full debt relief.[49] Of prime importance in this list of conditions is that a country is on track with the IMF's PRGF programme. If they are not, debt relief may be suspended, and this can mean substantial resources. Of the nineteen countries currently in the interim period before full debt relief, at least 10 have gone off track with their IMF programme at some point, leading to delays in vital debt relief in many cases.[50] In Malawi this has meant the suspension of $97.2 million in debt relief since going off track in 2001. The table below gives further examples.

Table two: The financial implications of falling out with the IMF

Country	Time off track[51]	Source of dispute with IMF	External Context	Finance forfeited	What this would buy
Guyana	12 months	Fiscal slippages, Sugar sector reform	Fall in world Bauxite Prices Market access for sugar	**$41[52] million**	Could double the Health Budget
Rwanda	6 months	Deficit targets	Genocide reconstruction, massive poverty	**$66[53] million**	Half the whole country budget
Malawi	2 years approx.	Government spending, corruption	Famine HIV/AIDs	**$172.2[54] million**	Could double the annual education budget.
Honduras	18 months	Increases in teachers' salaries	Massive coffee crisis- chronic malnutrition and increased poverty Falling exports, rising unemployment due to US	**$194[55] million**	Would fill Education Fast Track financing gap three times over.

			recession		

A good example of the devastating impact of IMF conditionality on the delivery of debt relief is Honduras- see box below:

Fast track off track- IMF and Honduras

Half of the population of Honduras live in extreme poverty. Recent years have seen Honduras crushed by first Hurricane Mitch in 1998 and then the coffee crisis, as prices for coffee have collapsed. One million women and men rely on coffee for income, and the impact has been catastrophic. As one female farmer interviewed by Oxfam commented, '*I feel insecure about what may happen in the next crop; if things continue as they are now, I really don't know if I will have enough food for my family; this is worrying*'[56] and another: *'two of my children had to abandon school to help me in the farm. My other children only studied until the 6th grade. I am not sure if I can send them to school next year, I have no money for that* (Ibid)*'.*

In particular, education needs in Honduras are acute. A third of children do not complete primary school, and 25% of women are illiterate. Because of this Honduras was chosen as one of the first 7 countries to access the Education For All Fast Track Initiative (EFA-FTI) to support its strategic plan to achieve the MDGs in Education. The FTI is a new compact by key donors to mobilise extra resources to achieve Education for All. The cost for the first three years for EFA in Honduras is $80 million. To date only $30 million has been committed by donors, leaving a financing gap of $50 million dollars over three years.

Honduras is currently off track with the IMF. Their previous PRGF expired in December 2001, and the new PRGF has yet to be finalised. Our calculations suggest that during this 18 month period Honduras has foregone $194 million dollars in interim debt relief and budget support as a direct result of being off track with the IMF. This would fill the remaining financing gap for EFA three times over.

This untenable situation is even more shocking as the major reason Honduras is off track is not high inflation or macro-stability- Honduras is relatively stable. Instead it is because the IMF believes too much money has been spent increasing teacher's salaries.[57]

The government has already negotiated reductions in increases in teachers' salaries agreed by the previous government. By pushing for further dramatic scaling back of increases in teachers' salaries the IMF is essentially asking the government to commit political suicide.

Given the desperate poverty needs of Honduras it is unjustifiable for these resources to have been held up by the IMF, and it is hard to see how withholding these resources over this issue is contributing to Honduras achieving the MDGs. In fact it looks very much like the opposite is the case.

4.2. Impact on Aid

Among donors, there is an increasing perception that direct budget support to governments to implement one unified plan for poverty reduction is the most effective use of aid. This has meant that bilateral and multilateral donors are putting increasing amounts of money directly through the budget, and this support is conditional on a PRGF being in place. As with HIPC, failure to stay on track with the IMF can mean forfeiting substantial resources; certainly all direct support to the budget by bilateral and multilateral donors. In Malawi this has amounted to around $75 million dollars since the country went off track in early 2002. Donors usually take their lead on issues of macroeconomic stability from the IMF, and often do not have in-house capacity to make their own assessments.

Paradoxically the increase in donor aid given as direct budget support means that the role of the IMF is becoming *more* and not less important even when countries have achieved macro-stability. This leads to the perverse situation where countries such as Uganda (see below) keep an IMF programme in place not because they need the resources but purely as a signal to other donors.

Defunct but inescapable? The IMF and Uganda

Uganda has pioneered the new poverty reduction approach, and has also had macroeconomic stability for a decade. As a result it was one of the first countries to receive HIPC resources and has attracted massive increases in donor aid, the majority of this being direct budget support. The PRSC from the World Bank for example is delivered directly into the budget, and this alone is $150 million dollars a year. The continued role of the IMF given this context is increasingly unclear, particularly as the resources lent by the fund under the PRGF are comparatively expensive[58], and kept to a minimum (the loan is for $20 million). Yet Uganda has to maintain a fund programme purely because it is the condition for so many other resources.

The argument is that macro-stability is essential for effective poverty reduction, the IMF programme will deliver macro stability, and so it makes sense for HIPC and donor aid to be linked. However, as previous sections have shown there is a question mark over how appropriate IMF programmes really are to long-term poverty reduction objectives. At the same time macro-stability has been achieved by many poor countries, and the objectives of donors in giving debt relief and increasing finance are now more long term, based around poverty reduction, PRSP goals and the MDGs.

This means situations are arising where substantial finance for poverty reduction is being held up in a way that is hard to justify as the table above illustrates. First, the IMF's reasons for halting a programme are often of questionable importance in terms of overall poverty reduction goals.

Secondly not only is this the case on poverty reduction grounds, but also ironically on macro-stability grounds as it increases aid volatility. As more and more finance is tied to the IMF programme, when a country loses that money it experiences a massive macroeconomic shock which can in itself lead to instability. A number of studies have highlighted this problem.[59] In Rwanda, a six month delay in agreeing the new PRGF programme resulted in substantial inflation rises. In Honduras for example this problem is recognised by the World Bank in their new Country Assistance Strategy[60]:

> 'Since most of the interim debt relief contemplated under the HIPC initiative has been delivered, agreement on the new PRGF is vital to avert a significant increase in Honduras' debt servicing obligations, with obvious implications for further pressure on the country's fiscal position' (pg 3) and 'debt relief associated with the HIPC Completion point and significant external financing from the IFIs and many bilateral partners is contingent on this' (pg 38).

Given this, steps must be taken to end the role of the IMF as the all powerful on/off switch for aid and debt relief and to instead make the Fund one partner in a broad alliance for poverty reduction in a country.

5. The way forward: the IMF as a key partner in poverty reduction

If the IMF is to change its role in poor countries to one that supports poverty reduction and the MDGs, two things need to happen. Firstly it needs to clearly demonstrate fiscal flexibility and optimism about the role of aid. Secondly its role as the sole gatekeeper for debt relief and aid needs to end, and instead it should become one of a number of key partners working towards poverty reduction and the MDGs in poor countries.

5.1. Fiscal flexibility and a presumption in favour of aid

At all times the presumption of the IMF should be towards maximising expenditure on poverty reduction and maximising aid inflows where capacity exists to utilise the resources to reach the MDGs, and macro-stability has been achieved.

As we have already described, Fiscal flexibility has been a commitment of the IMF since the introduction of the PRGF in 1999 but is still not happening, so further clear targets are also required to make sure this situation becomes a reality. Any target to lower inflation to less than 5% should be clearly based on an independent analysis that this is the best option for poverty reduction. Equally any target to lower government spending and shrink the fiscal deficit should also be based on independent[61] analysis showing it is the best option for reducing poverty.

The IMF must work with governments, civil society and donors to design a macroeconomic framework that can in turn be used as the basis for signalling, mobilising and accommodating greater aid flows.

This should be partly based on developing alternative macroeconomic scenarios for each country as described previously. Developing these scenarios will open up the macroeconomic debate to enable the discussion of different options. However, although commendable, the development of scenarios will only work as one element of a broader change required in the role of the IMF.

Specifically, to fully address this issue of fiscal inflexibility and aid pessimism, the IMF needs to first go through a process of systematically opening up the debate, and the alternative scenarios are a means to achieve this. In designing a new programme, the IMF should be mandated to first work with governments and other donors to identify what the financial gaps are for a country to achieve the MDGs and to implement its PRSP. This should happen at least 12 months in advance of a government agreeing a programme with the IMF. That year should then be spent by the fund in mobilising as much finance as possible and in opening up the debate with donors, Government and civil society on what the optimal financial framework would be to achieve the MDGs and to implement the PRSP. As the box below shows, Poverty and Social Impact Analysis (PSIA) can be used here to develop alternative scenarios and to calculate the trade-offs involved and to bring analytic depth to the debate. They also offer a clear opportunity to analyse the gendered impact of different macroeconomic policies.[62] PSIA was another commitment made by the IMF in 1999 that they have failed to implement. A recent study by the IMF found that although macroeconomic reforms were undertaken in 94% of all PRGFs, 'none of the PRGF supported program documents present a rigorous study assessing poverty and social impact'[63]

Using analysis to question the IMF and open the debate- the Rwanda experience.

In Rwanda a pilot Poverty and Social Impact Analysis (PSIA) was carried out that analysed the trade off between increased public expenditure and macroeconomic stability. The Rwanda PSIA is an improtant illustration of a) how important macroeconomic parameters are for achieving long term development goals b) the need to examine and debate how the IMF sets these parameters.

The PSIA examines the tradeoff between increased public expenditure and macroeconomic stability. It looks in particular at how far the Rwanda government can rely on grants and loans from donors before developing an unsustainable debt burden, inflation and other macroeconomic effects that have a negative impact on growth and poverty reduction and nullify the benefits of increased poverty reducing expenditure.

The PSIA argues that the IMF's macroeconomic arguments are not strong enough for the government to reject grants and concessional loans. In particular the PRGF framework:

a) puts too much emphasis on how loans affect inflation and too little on how increased expenditure will affect growth;

b) does not take into account how different types of public expenditure have different macroeconomic consequences;

c) is too pessimistic about the government's ability to manage and implement aid.

Instead it recomends that the government accepts more grant financing and loans, provided they are at low interest rates. This additional finance could reduce the number of people below the poverty line and increase GDP growth at a much faster rate than possible under the current PRGF conditions.

The PSIA shows how crucial it is that donors examine closely the reasons behind IMF decisions rather than abdicating this responsibility for macroeconomic policy to the IMF. It affects other countries because the issues are similar in Sub Saharan Africa and other low income countries. It shows how a proper examination and debate around macroeconomic parameters can affect the development path available to poor countries.

Ideally this debate would be synonymous with PRSP revision. At the end of the year broad agreement would then be sought on the financial framework required given the economic policy choices agreed and the finance that has been mobilised. If necessary, a further more negative scenario could also be prepared to plan for shocks. However, it would be the 'medium case' agreed scenario that would be the basis for the PRGF, PRSP and the country budget. Any subsequent change by the IMF to a lower case scenario would have to be agreed by the IMF board.

5.2. From gatekeeper to partner in poverty reduction

The current situation, whereby the IMF is the sole gatekeeper to substantial and increasing flows of aid and debt relief is clearly counterproductive in terms of poverty reduction. Improvements to the role of the fund to focus more on poverty reduction will help, but the IMF will continue to have elements of its programme that are critical to its core mandate but at the same time not critical to the poverty focussed aid of other donors or of debt relief. Given this it makes sense for the IMF to move from being the all-powerful gatekeeper for aid and debt relief to being one of a number of key partners aiming at poverty reduction in poor countries.

The logical mechanism for achieving this is the PRSP for a country. Unlike the PRGF, the PRSP focuses on the overall set of activities that are required for poverty reduction and the MDGs, of which macroeconomic stability is one aspect. It therefore follows that PRSP implementation is a better measure of progress towards poverty reduction and the MDGs. Qualification for funds from the Education Fast Track Initiative for example only requires that a country have a PRSP in place that contains a sector wide plan for education that has been agreed with donors.

Given this, we propose de-.linking HIPC from the PRGF, and the effective channelling of debt relief resources to poverty reducing expenditure. Instead, it should be conditional on the implementation of the PRSP. At the same time poverty focussed donor aid should also be conditional on broad progress in implementing the PRSP and reaching poverty reduction rather than on the narrow targets of the PRGF alone.

Each PRSP has an annual progress report that is assessed by the IMF and the WB staff. Discussion of this progress report is increasingly being aligned with the annual Consultative Group (CG) where donors and increasingly Civil Society Organisations gather to review a country's progress towards poverty reduction and to pledge further resources. This would mean decisions of donors whether to fund would be based more on poverty reduction.[64] At the same time the decision to give HIPC relief would be based more on poverty reduction concerns too.

Conclusion

Over the next six months the IMF is seeking to review its role in poor countries. At the same time, the IMF's Independent Evaluation Office (IEO) is currently evaluating the role of the IMF in the PRSP / PRGF process.

As such the time is ripe for the IMF to redouble its commitment to poverty reduction and the MDGs. The Fund needs to radically change its role and the way it works in poor countries and truly deliver on its previous commitments to poverty reduction made when introducing the Poverty Reduction and Growth Facility (PRGF). It must finally move on from an outdated focus on exclusively short-term macro-stability to one based on long-term poverty needs and the MDGs. If it does this it can play a vital, proactive and dynamic role in achieving poverty reduction. If it does not, the much hailed new poverty focus of IMF programmes in poor countries risks being largely discredited, with poor countries remaining macro-economically stable- but chronically poor.

To ensure the IMF really contribute to the achievement of poverty reduction and the MDGs, Oxfam recommends the following:

1. A new approach to designing IMF programmes

- In designing their new PRGF programme in poor countries, the IMF should take 12 months to work with partners identifying the optimal financing package for achieving the MDGs, and the ideal level of aid. The IMF should actively engage with donors and support the Government in lobbying for optimum levels of donor assistance
- As part of this process the Fund should also open up the debate on what the optimal macroeconomic framework would be to enable rapid progress for a country towards the MDGs. This debate should be based on an independent poverty and social impact analysis (PSIA) of alternative macroeconomic scenarios and the different trade offs involved, how resources can be maximised, and what options are available. PSIA must be carried out on every IMF macroeconomic framework as a matter of due dilligence, in line with the key features of the PRGF.
- At the end of the 12 month period the IMF and other PRSP stakeholders should seek broad agreement on an optimum macroeconomic framework. This scenario, rather than a conservative 'baseline' scenario, would then become the basis of

the IMF programme, fully aligned with the PRSP and the country budget.

- Any prediction of declining aid flows in IMF programme targets should be fully justified based on clear and transparent analysis and evidence from donors.
- Fiscal deficit targets and inflation targets should be backed up by independent analysis and broad agreement that this is the best option for poverty reduction. No IMF programme should aim at inflation below 5% without an independent analysis and broad agreement that this is the best option for poverty reduction.

2. Limiting the IMF's gatekeeper role for aid and debt relief

- Aid and Debt relief should be de-linked from the IMF programme and should instead be based on the implementation of the PRSP and the PRSP progress report. The PRSP progress report should be discussed at the annual Consultative Group meeting of all donors in a country and this should be open to all stakeholders.

Notes

[1] Last Chance at Monterrey *Oxfam International* March 2002

[2] While this paper focuses on the amount of spending available to developing country governments, Oxfam also acknowledges that increased aid levels alone will not achieve the MDGs. Also necessary will be more accountable use of aid, greater efficiency of development programs, greater coherence of donor programs and an increased role for civil society in ensuring accountability. Oxfam is engaged actively in supporting work around accountability of donors and governments with partners in large numbers of countries around the world, particularly on work around PRSPs and country budgets. For further information see www.oxfam.org

[3] An upcoming paper prepared by the World Bank for the Development Committee for the September 2003 Annual Meetings estimates that aid levels would have to double in order for the MDGs to be achieved.

[4] See the Cameroon PRSP August 2003 Chapter 4, Macroeconomic and Sectoral Framework http://www.imf.org/external/pubs/ft/scr/2003/cr03249.pdf

[5] The reduction targeted is from –0.7 to 0.7% of GDP, a total of 1.4%. The health budget in 2003 will be 1.1% of GDP. Figures from the IMF PRGF and from the Cameroon PRSP.

[6] 'Last Chance at Monterrey' Oxfam International March 2002

[7] Estimates from UNDP and the World Bank.

[8] Oxfam is engaged actively in supporting work around accountability of donors and governments with partners in large numbers of countries around the world, particularly on work around PRSPs and country budgets, looking at maximising the effectiveness of spending on poverty reduction. For further information see www.oxfam.org

[9] Value Added Tax

[10] The predecessor of the PRGF was the Enhanced Structural Adjustment Facility (ESAF) which assumed poverty reduction as a by product of macro-stability and growth and was heavily criticised for this.

[11] 'Role of the Fund in Low-Income Member Countries over the Medium Term- Issues Paper for Discussion' IMF Policy Development and Review Department July 2003 page 2.

[12] 'Role of the Fund in Low-Income Member Countries over the Medium Term- Issues Paper for Discussion' IMF Policy Development and Review Department July 2003 page 4.

[13] This joint research with Eurodad is the latest phase in a research programme focusing on the IMF and particularly on the implementation of the PRGF, which began in early 2003. This includes a matrix analysing PRGF arrangements which looks at the broad range of fiscal and structural

conditions, together with three papers looking at macroeconomic modelling, structural conditionality and the signalling role of the IMF. For more information see www.eurodad.org. The sample used for this specific survey included the following countries: Rwanda, Albania, Benin, Bolivia, Burkina Faso, Cambodia, Cameroon, Ethiopia, Ghana, Honduras, Malawi, Mauritania, Mozambique, Nicaragua, Niger, Senegal, Tanzania, Uganda, Vietnam and Zambia.

[14]In the 2002 review of the Poverty Reduction and Growth Facility (PRGF), the IMF defines a post stabilisation country as one that has positive GDP growth, inflation of less than 10% and a cash deficit of less than 2% after grants. Our definition was not as stringent on the deficit target, but retained the criteria for inflation and growth, meaning more countries could be included.

[15] Robb, Caroline Poverty and Social Impact Analysis- Linking Macroeconomic Policies to Poverty Outcomes: Summary of Early Experiences IMF Working Paper WP/03/43 February 2003

[16] This would also require a sufficient level of grant or concessional financing to 'cover' the fiscal deficit. Oxfam does not advocate the use of domestic financing of the fiscal deficit, which could cause rising inflation.

[17]'Key Features of IMF Poverty Reduction and Growth Facility' September 1999

[18] Collier, P and Gunning, External Review of the Enhanced Structural Adjustment Facility 1998

[19] Figures and analysis based on the aid exclusive deficit, overall balance excluding grants.

[20] See the Cameroon PRSP Chapter 4, Macroeconomic and Sectoral Framework see http://www.imf.org/external/pubs/ft/scr/2003/cr03249.pdf

[21] Fiscal targets in francophone countries are also subject to agreements reached on the convergance of countries within the franc zone. However, the IMF has a lot of influence over these targets, and could have done a lot more to ensure that they were fully compatible with the MDGs.'

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[24] This is compounded by the fact that when calculating a country's debt sustainability, the IMF *does* deduct the grant element of lending, which

reduces the total debt stock, and as a result the total amount of debt relief required.

[25] Short term problems do exist in Ethiopia in terms of absorption, but this is viewed largely as a temporary phenomenon while key reforms such as decentralisation take shape (Alison Evans pers. comm.). However, in the interim finance could be spent on alleviating the massive burden of domestic debt, and in the long term there is no doubt that the capacity of Ethiopia to use substantial increases in aid is apparent.

[26] See www.dfid.gov.uk/Pubs/files/ethiopia_cap.pdf. Actual figures £10 million in budget support between 2002-2006 confirmed with the same amount in technical support/ project aid.

[27] Ethiopia PRGF Article IV review 2002, Staff Appraisal paragraph 44.

[28] World bank lending is envisioned at $1.5 billion over three years, of which 40% is grant, or $200 million dollars a year. This is the equivalent of 3% of GDP (2003 Rev. Prog.- taken from Table 3 Article IV report 2002) at current exchange rates ($1= 8.55 Ethiopian Birr)

[29] Page 14, 15 and 32 of the Article IV PRGF review 2002.

[30] Rwanda, Tanzania and Uganda's deficits were allowed to rise above the original programme target.

[31]'Key Features of IMF Poverty Reduction and Growth Facility' September 1999

[32] Ibid.

[33] IMF Aligning the IMF's Poverty Reduction and Growth Facility (PRGF) and the Poverty Reduction Strategy Approach April 25 2003

[34] Joint Staff Assessment of the Cameroon PRSP World Bank/ IMF August 2003

[35] Foster, Mick The Case for Increase Aid DFID Draft July 2003

[36] As detailed in the IMF review of the PRGF. See Review of the Key Features of the Poverty Reduction and Growth Facility Staff Analyses -- March 15, 2002.

[37] See figures in table one above.

[38] This case study is based on information taken from Foster, Mick, The Case for Increased Aid: Final report to the Department for International Development Volume 2: Country Case Studies Draft August 2003.

[39] Ibid.

[40] Ibid.

[41] Figures on numbers of PRSPs in preparation or completed taken from the IMF website August 2003.

[42] For more detail on critiques of the PRSP approach see summary of comments made to the PRSP review by Civil Society and others in January 2002 *http://www.worldbank.org/poverty/strategies/review/index.htm*

[43] IMF Aligning the IMF's Poverty Reduction and Growth Facility (PRGF) and the Poverty Reduction Strategy Approach April 25 2003

[44] Review of the Key Features of the IMF Poverty Reduction and Growth Facility IMF March 15th 2002

[45] Kyrgyz Republic PRSP, page 25

[46] IMF Aligning the IMF's Poverty Reduction and Growth Facility (PRGF) and the Poverty Reduction Strategy Approach April 25 2003

[47] Civil society can play a key role in this. In Malawi Civil Society scrutiny of education expenditures since the corruption scandals of the late nineties has ensured greater accountability and that the resources actually reach schools.

[48] The authors would like to acknowledge the assistance of Francis Lemoine of Eurodad in preparing this section. Please also refer to *http://www.eurodad.org/articles/default.aspx?id=460*

[49] Interim debt relief is given while a full PRSP is being prepared. Following the successful implementation of a PRSP for at least one year and the meeting of a number of other detailed conditions, countries can then progress to 'completion point' at which point the receive full debt relief.

[50] Figures taken from Jubilee Plus The Real HIPC report, draft September 2003.

[51] 'Off track' here taken to also mean delays in negotiation of a new PRGF following the expiration or completion of a previous programme. Transparency over whether an country is on or off track is sorely lacking in IMF documentation.

[52] Figures from Guyana Ministry of Finance

[53] Figures from Rwandan Ministry of Finance

[54] $75 million budget support from donors, Interim debt relief $97.2 million. Figures from Decision Point Document and Donor sources in Malawi.

[55] Interim debt relief foregone $26 million, debt relief for 2003 if completion point had been reached $139.2 million and bilateral budget support $55 million dollars. Figures are from Central Bank of Honduras and Decision Point Document.

[56] Casasbuenas, Constantino *Honduras Coffee Crisis* 2002)

[57] Reform of Civil Service pay was a structural benchmark for the PRGF, as was a ceiling of 9.1% of GDP on the public sector wage bill. Honduras has been off track with the IMF since December 2001, due to 'deteriorating fiscal situation and the public sector wage bill' (World Bank CAS page 3).

[58] The IMF defines concessional lending as that which has a grant element of 35% or more. Ironically under this definition finance from the IMF under the PRGF does not qualify.

[59] See for example Adam, C and Bevan, D PRGF Stocktake November 2001

[60] World Bank Honduras Country Assistance Strategy July 2003.

[61] Analyses could be carried out by a range of actors including UN agencies, bilaterals, Civil Society and Academics.

[62] A commitment to systematically carry out PSIA was another key commitment made by the fund in the PRGF. To date they have failed to implement this commitment, a fact the IMF themselves fully accept: 'none of the PRGF- supported program documents present a rigorous study assessing poverty and social impact impact' IMF 2002 Poverty and Social Impact Analysis in PRGF-Supported Programs December

[63] Inchauste, G *Poverty and Social Impact Analysis in PRGF Supported Programs* IMF December 2002

[64] At the same time if the PRGF is properly implemented and fully aligned with the PRSP priorities then a focus by the donors on PRSP implementation will by default be a focus on PRGF implementation

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