

Lending Policies of the IMF: HIPC and Debt Relief in Africa

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As the issue of aid effectiveness takes centre stage in the context of the looming deadline of the Millennium Development Goals, a spotlight shines on the International Monetary Fund (IMF) lending practices to low-income countries; particularly those in Africa. The IMF's Poverty Reduction and Growth Strategy (PRGF) is a lending facility fraught with contestation regarding both the conditionalities embedded in the agreement and the technical expertise, which accompanies it. The relationship between the IMF and these countries has been further complicated by the Highly Indebted Poor Countries (HIPC) initiative, which is meant to make resources available to finance poverty reduction efforts. The supply side of the aid architecture becoming exceedingly horizontal, with emerging donors (e.g. foundations, civil society organisations, remittances), the IMF is being repeatedly challenged on its philosophy towards development and the accompanying mode of operations. What follows is a brief survey of Africa's indebtedness and the HIPC programme, an identification of the main conceptual points of disagreement with the PRGF programme, which is a requirement of HIPC, demonstrated with country examples, and recommendations.

1 Background

A survey of sub-Saharan Africa's indebtedness reveals an alarming state of affairs. Before extensive debt relief was implemented, sub-Saharan Africa's debt stock was estimated to be \$340 billion, circa 1995, and debt service had peaked at \$26 billion in the same year.¹ Africa's debt burden was twice that of any other region in the world; it carried 11% of the developing world's debt, with only 5% of its income. GNP in sub-Saharan Africa was \$308 per capita, while external debt stood at \$365 per capita.²

Discounting the oil-exporting and post-conflict countries from the analysis, the countries receiving the highest aid flows in SSA (Uganda, Tanzania, Mozambique, Madagascar, Ghana, Senegal, Zambia, Cameroon, Kenya, and Burkina Faso) are also the most indebted.³ With the exception of Kenya, these are all graduates of the HIPC initiative. Though even after taking the size of their economies into account, the potential leverage of the aid varies. The countries with the highest aid flows were not necessarily the countries whose revenue streams were the lowest (e.g. Tanzania and Zambia). Though the countries with the larger economies tend to have had the lowest aid flows (e.g. Cameroon, Kenya, and Burkina Faso).

Some attention is required to the net aid as a share of government expenditures as well. As expected, the highest aid recipient countries are also similarly ranked regarding the former. However, it is the percentage of the general budget that is aid-dependent, which is astounding. With the exception of Cameroon and Kenya, net aid as a share of central government expenditures is over 50%; for example in Ghana and Malawi, it is 57% and Mozambique, 84%.⁴ This dependency on financial resources for the general functioning

of the respective governments places emphasis on the need to analyze the effectiveness of the aid, with a specific enquiry into why it has not accomplished what was intended.

In 1996, the International Monetary Fund and the World Bank launched HIPC to address debt levels that had become unsustainable. In the IMF's own words, the HIPC initiative's main objectives were "to provide debt relief and strengthen the links between debt relief, poverty reduction and social policies".⁵ This was particularly relevant for sub-Saharan Africa, as of the 42 HIPCs, 34 are African. The fiscal resources were sorely needed; as Africa's total debt stock had reached \$300 billion,⁶ and debt service as a percentage of government budget allocations were extraordinary (e.g. 36% in Cameroon, 46% in Tanzania, and 40% in Zambia).⁷

With specific poverty reduction goals in focus (the Millennium Campaign), the G-8 proposed in 2005 an additional debt relief programme, the Multilateral Debt Relief initiative (MDRI). It entailed 100% debt cancellation from three International Financial Institutions (International Development Association, IMF, and the African Development Bank (AfDB), as of end 2004.

However, evidence in countries where MDG costing exercises have been done is that the estimated resource requirements for countries to meet the MDGs by 2015 are large and significantly surpass the volumes of resources that will be made available by MDRI. Research by AFRODAD (2007) reports that, based on preliminary estimates, the benefits of the MDRI to the 18 Completion Point HIPCs over the next 10 years (2006-2015) amounts to US\$8.5 billion, of which US\$7.2 billion are estimated to benefit the 14 African Completion Point HIPCs. Assuming that all African HIPCs would reach the HIPC Completion Point within the next 5 years [from 2006], the total debt service savings from the MDRI to Africa are estimated to add up to about US\$10 billion during 2006-2015. Comparing this US\$10 billion in MDRI debt relief over the next 10 years to the additional development expenditures needed to achieve the MDGs in Africa (which are estimated to amount to about US\$750 billion over the next ten years) shows that the direct financial contribution of the MDRI remains small (a little over one percent) to the actual financing needs of Africa.⁸ As such, there is a very weak empirical link between HIPC/MDRI debt relief and poverty reduction insofar as the volumes required for financing for development are concerned.

The implications of the last point are far-reaching when viewed in the context of the need for Financing For Development programmes. Discussions surrounding debt relief tend to address the declining volumes of debt, but the main focus should be the burden of current debt levels on the respective countries. Excluding grants and foreign direct investment, African countries have been transferring resources on a net basis to the developed countries since 1985; the figure going from a low of \$1.7 billion in 1985 to nearly \$7 billion in 1997. It should also be noted that a sizeable proportion is in the form of payments for technical expertise.⁹

Indebtedness has been a major obstacle to Africa's efforts towards stimulating economic growth and promoting social development. The resources directed to debt service are

done at the high opportunity costs of investments in human capital and infrastructure, which has had the ripple effect of dissuading private investment. The Paris Declaration (2005) was an agreement adopted within this context, with the intention of ensuring that all aid flows are absorbed efficiently and effectively so as to meet the MDGs.

The first phase of HIPC was launched in 1996. Central to the programme was the concept of debt sustainability, which is measured by debt-to-exports ratio. The range needed to be considered for debt relief under the earlier programme was 200 – 250%. The exact ratio within these two ranges was determined by using country-specific vulnerability factors. The key vulnerability factors were based on a country's GDP per capita level and export concentration.¹⁰

It became obvious that the HIPC programme was in need of refinement. The programme moved at a slow pace, with the average time between Decision and Completion Point was three years. Also, it became obvious that even countries that were receiving debt relief under the HIPC were spending much more on debt servicing than on public health and education. Finally, the vulnerability factors were not linked to poverty reduction, as they did not address the vital issues of export diversification, income distribution, and risk.

After being reviewed, the second phase of HIPC was launched in 1999. The debt sustainability target was lowered to 150%. Even after satisfying this requirement, there are other prerequisites like having undertaken a Poverty Reduction Strategy and implemented it for one year and also implementing a PRGF programme. Ultimately, reaching Completion Point is tied to a fulfilment of a set of reforms. Eighteen of the 22 post-Completion Point countries are African.

It should be noted that the IMF is not a major donor. Lending by the IMF declined from \$32 billion in 2001 to an average of \$5 billion in 2006. Outstanding credit to the IMF which was at a \$100 billion in 2003 has declined to just under \$18 billion as of March 2007.¹¹ The low share of IMF lending of total Official Development Assistance notwithstanding, the influence of the IMF on, not only its own clients, but also bilateral lending relationships is wide-reaching. This dependence implies a skew in the power relationships between countries, considering two-thirds of ODA is bilateral. This signalling relationship underscores its influence beyond its lending capacity and places it as the “head office” for development financing; a nod from the IMF opens doors from all corners.

2 The IMF, Poverty and Development

The context of the IMF coming into being was the need for financing institutions to assist countries, whose economies were devastated by world wars, with reconstruction. The IMF's mandate evolved into one in which its main area of expertise was in maintaining Balance of Payments and ensuring macroeconomic stability. But this was a direct result of the reigning school of thought in economics and development at the time, which entailed very little analysis of the micro-foundations of development and the theory that economic growth originated from government facilitation at national levels.

The IMF has attempted a number of development strategies for Africa ranging from export-led development to import substitution to “getting the fundamentals right” to the latest of programmes, which now entails a focus on governance and accountability. The link between poverty, aid and debt relief seems intuitive, but the gap in policy and programmes remains wide. The failure of these policies being self evident; as Africa’s mounting debt burden is also accompanied by the awareness that it remains the poorest region in the world.

The world is changing. The supply of donors has multiplied, along with a diversity of lending instruments. Economists and other academics have progressed with a variety of models regarding the interplay between growth and development. These and others present a number of challenges to the IMF, among which include compliance with international treaties regarding aid delivery and management and the opportunity costs of debt service in the face of severe poverty conditions.

2.1 Non-compliance with the Paris Declaration

Whereas other multilateral institutions and bilateral donors have begun to reshape their relationships with partner countries in accordance with the Paris Declaration on Aid Effectiveness (2005), and though it is a signatory, the IMF has not yet harmonized with other donors, and it still maintains conditions (in the form of benchmarks and targets) in its lending agreements. The Paris Declaration is fairly specific on the issues of donors increasing their alignment of aid with partner countries’ priorities, eliminating duplication of efforts. The IMF, in its interaction with African countries, needs to focus on its overall effectiveness of its aid and how it can be evaluated, and its technical assistance against the mandate of the global development agenda.

2.1.1 Non-alignment with partner countries national plans and prioritized activities

The commitment by donors in the Paris Declaration is that they would base their overall support on partner countries’ strategies and draw conditions from the national development strategy. The importance of fiscal discipline notwithstanding, the PRGF entails policies, which are not consistent with the development targets embedded in the PRSPs. PRGF policies tend to restrict themselves to macroeconomic stabilization, while poverty reduction strategy papers (PRSP) focus on social programmes; the former having very little in the way of sector-level analysis, the latter neglecting to address the implication and ramifications of utilizing central budgets.

For example, in Zambia in 2005, the PRGF belt-tightening measures included a six-month freeze of state employee wages. Additionally, 495,000 workers had to shoulder the burden of an income tax hike of 40%. The widening and deepening of the tax base is a common feature of the PRGF. A major strike against the higher taxes and wage cap saw 90% participation by public sector workers. In this way the PRGF fails to recognize the endemic, pervasive and multidimensional nature of poverty and the interplay of linkages throughout the sectors.¹²

In the case of Tanzania, its newest PRSP, the National Strategy for Growth and Reduction of Poverty, differentiates between income and non-income poverty. The country recognized the need to both expand livelihood opportunities for its citizens, but that the avenue is limited insofar as poverty reduction strategies require a multi-faceted approach. In recognition of such, Tanzania has planned parallel programmes targeting education, health services, water and environmental health, and vulnerable groups.¹³

Another key feature of the Tanzanian development plan is that it notes the macro-micro linkages of economic development. It seeks to link macroeconomic stability to the efficiency of public institutions at all levels of government, the efficient operation of input markets, and enactment policies to ensure that benefits in high growth sectors are transmitted to the poor. Moreover the plan explicitly identifies the major sources of economic growth on which it intends to concentrate; among which include investments in human capability like education and health, and the provision of infrastructure.¹⁴

However, the corresponding IMF review makes no mention of the two dimensions of poverty identified by Tanzania and entails a skewed interpretation of the nation's development priorities. Its review of the plan places emphasis on macroeconomic and structural reforms, which were indeed identified by Tanzania, but were imbedded in a chapter on the general framework of how to implement the development strategy.¹⁵ The Paris Declaration states that donors should support the capacity development of partner countries, and fiscal management is certainly a prominent feature of a country's capacity to absorb aid; however, the agreement also specifies that the technical assistance "should be responsive to the broader social, political, and economic environment, including the need to strengthen human resources".¹⁶

2.1.2 Lack of harmonization with other donors

Harmonisation refers to a more collectively effective aid delivery implementing where feasible common arrangements regarding disbursement, monitoring and evaluating, and reporting at country level. This was addressed in the Paris Declaration precisely because of the transaction costs associated with satisfying donor requirements independently. It has been observed that the IMF has failed to harmonize their administrative operations with other donors. An example of such is Cameroon, which has no less than 21 monthly, 7 quarterly and 5 annual report requirements as part of its PRGF agreement. The same with Malawi. Its PRGF arrangement has a large number of reporting requirements to the IMF alone. There are currently 3 daily reports, 3 weekly reports, 24 monthly reports, 10 quarterly reports, and 2 annual reports. This was one of the concerns addressed by the Government of Malawi that its donor partners had not harmonised the administrative, monitoring and evaluative aspects of delivering aid, which is one of the target indicators of the Paris Declaration.¹⁷

Another aspect of harmonisation entails aid delivery. One such example concerning the failure to harmonize with other donors was observed in the case of Malawi. Incorporated in its PRGF arrangement was the benchmark concerning a floor on net foreign assets of monetary authorities.¹⁸ The adjusted target floor on net foreign assets of monetary

authorities was 58.1 million Kwacha. Malawi successfully applied for a waiver of this target, as its net foreign assets amounted to 44.2 million Kwacha.

However, in order for the Government of Malawi to meet the required PRGF target, before the waiver had been granted, it directed its National Aids Committee (NAC) to transfer its Foreign Currency Denominated Accounts (FCDAs) in commercial banks to the Reserve Bank of Malawi in July 2005. This was in contravention with the Memorandum of Understanding (MOU) that the Government of Malawi and its other Funding Partners had signed in June 2003, which stipulated that the FCDAs would be maintained in the commercial banks. As a result of this, the other donors withheld funding to NAC for a period of 6 months. During this period the NAC grants facility was greatly under-resourced, and this affected the target communities that these resources were meant to service.

2.2 Spreading Vs. Front-loading of HIPC/MDRI Debt Relief

The main reason for the maximum release of funds as early as possible is that budgets must constrain the amount spent on poverty related activities.¹⁹ Ghana has received commitments of debt relief, since reaching HIPC status in July 2004. The amount is significant, US\$2.186 billion.²⁰ An additional \$4.2 billion under MDRI was also committed. However, Ghana's current debt stock is estimated to be \$US3.546 billion, with external debt service payments of approximately USD\$395 million in 2005 alone. The estimates of external debt service for the coming years may be found in the table below.

Table 2.1 Debt Indicators

Expenditures	2005	2006	2007	2008	2009
External debt service (billion cedis)	3610.0	4537.4	3404.5	3417.5	3898.6
HIPC assistance	1160.8	1205.4	1280.7	1249.2	1029.9

Source: Ghana Medium Term Expenditure Framework

In Table 2.1, it can be observed that HIPC relief accounts for only a third of external debt service, which increases after 2006. While the original intention of HIPC was to make more funds available for development programmes, the spreading out of the debt relief only increases the amounts that must be paid in servicing the current stock of debt because Ghana is unable to make a considerable dent into the principal. To give an idea of the opportunity cost of what that which is going to external debt service can cover in terms of development expenditures, the payments currently going to external debt service are greater than the total amounts going to pensions, social security, gratuities and the national health fund.²¹

Opportunity cost can also be measured in terms of risk. Mali, for example, is a HIPC beneficiary of CFA142.1 billion in debt relief. The relief had been spread out as follows:

Table 2.2 Mali, HIPC Relief, CFA billions

Year	2000	2001	2002	2003	2004	2005
HIPC Relief	2.6	23	27.2	30.1	28.6	20.5

Source: AFRODAD, 2007²²

In addition, the country will also benefit from MDRI relief totalling CFA 1, 085.2 billion, which is budgeted as FCA34 billion per year from 2007 to 2011. Most directly, HIPC is meant to free up resources by diverting them from debt service to poverty reduction/social expenditures. However, not only does the spreading out not create any additional fiscal space, should the country find itself in a position in which revenues were not what was expected, it merely serves the purpose of filling unexpected finance gaps. In the case of Mali, over the same time period, the variation in export earnings has been noted.

Table 2.3 Mali, Total Exports

Year	2000	2001	2002	2003	2004	2005
Total Exports, billions CFA	389	532	609	539	512.8	692

Source: ibid

All this is to say, that the spreading out of debt relief presupposes that all else being equal, the partner country will have funds available and that the relief only expands existing fiscal space. It doesn't take into consideration the uncertainty involved with economies that are tied to primary goods exports nor the annual costs of servicing existing levels of debt.

2.3 PRGF Structural Framework and Domestic Debt

Partner countries have turned to filling the resource gap of poverty reduction activities via borrowing. This is certainly the case for Ghana, whose domestic debt stock has increased from 186.7 billion Cedis to 22,013.6 billion in 2006. The IMF has repeatedly urged its clients to resist non-concessional borrowing, but has not curbed its own lending. IMF PRGF disbursements and HIPC relief are listed below for the corresponding years.

Table 2.4 Ghana Financial Relations with the IMF

	2002	2003	2004	2005	2006
IMF PRGF Disbursements (US\$ millions)	68	74	39	39	115
Total Enhanced HIPC relief (US\$ millions)	83.05	127.26	231.65	235.81	249.49

Source: IMF (2006)

Ironically, IMF staff cautioned Ghanaian authorities against contracting non-concessional debt given continuing vulnerabilities and that care would have to be taken to ensure that the public and external debt do not become unsustainable in the future, and that all resources—including foreign assistance—are used efficiently and transparently.

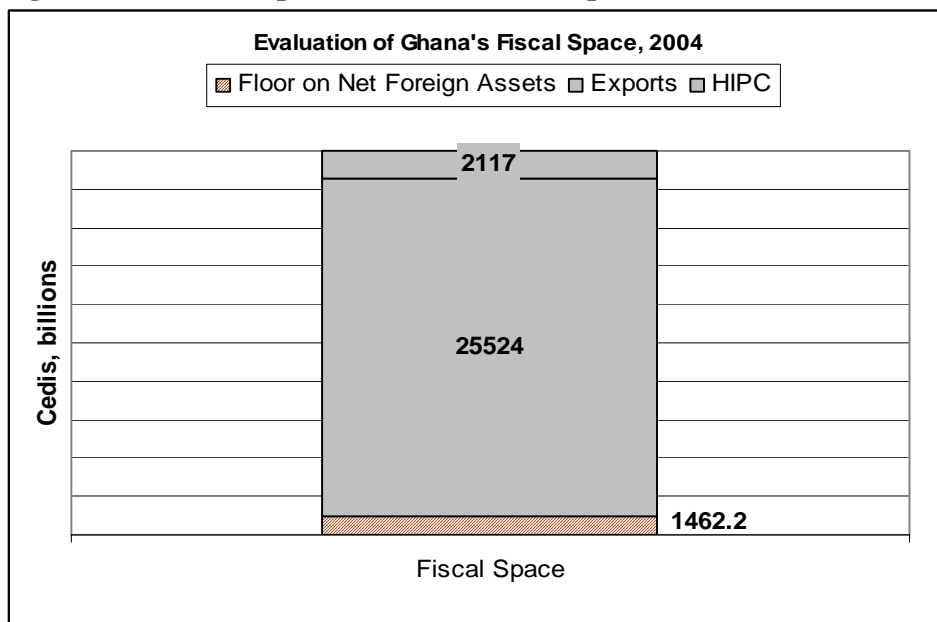
Furthermore, IMF staff observed that preliminary indications are that there is not much support from donors for accessing the international credit markets so soon after the MDRI relief and before a comprehensive set of guidelines to ensure long-term debt sustainability is established. Donor partners have also discouraged the growing domestic debt stock, but have not curbed their own lending to Ghana. New loans to Ghana are four times the amount of HIPC debt relief.²³

There is also evidence that the IMF is abusing the achievement of HIPC status to create a new market of countries that no longer have a significant amount of external debt and have increased export earnings to take on new loans. This is certainly indicative in Ghana as shown in the table above. In Malawi, while loan disbursements have increased at an average of 5% in recent years, the IMF loans have increased an average of 16.4%.²⁴

The need to access international commercial lending markets is based on countries' desires to meet their development targets. The Ghana Growth and Poverty Reduction Strategy II estimates that a resource envelope of US\$8.6 billion is required to do so; indicating an overall funding gap of \$1.79 billion. Accessing international markets will keep Ghana within the ceiling for net domestic financing and the floor for net international reserves; both of which are performance criteria of the PRGF.

This brings us to a crude quantification of fiscal space. Keeping with the example of Ghana, export earnings totaled 25,524 billion Cedis in 2004. Combined with the allotted HIPC debt relief for that year, which was 2,117 billion Cedis, we can conceptualise this as fiscal space.

Figure 2.1 Conceptualisation of Fiscal Space in Ghana



Source: IMF (2005)²⁵

Though the HIPC relief is meant to give Ghana the opportunity to channel those funds elsewhere, the PRGF criteria regarding the floor on net foreign assets nearly consumes that additional space created by debt relief. As would have been expected, the earnings proved to be insufficient, as total expenditures for that year were 26,584 billion Cedis.

Table 2.5 Another look at Fiscal Space, Ghana, 2004

Revenues, Cedis billions		Actual Expenditures
Total Revenue (tax and non-tax)	18,994	
Total Revenue, including Grants	24,073	26,548
Finance Gap	2,475	
Ceiling on Net Domestic Financing	1,167	

Source: *ibid*

An alternative perspective on fiscal space is from the viewpoint of expenditure from domestic resources rather than trade. Not surprisingly, expenditures exceeded revenue. The finance gap could only have been filled via borrowing. The PRGF ceiling on that was less than what was needed, and Ghana obviously did not meet the criterion.

2.4 A-historical, A-contextual Analysis

The PRGF reviews promote policies that are largely unsupported by empirical evidence or do not conform to the changing focus of the global agenda. Specifically, its emphasis on pro-growth policies, its insistence on inflation as an indication of macro-stability, and its reliance on export earnings as an indicator of debt sustainability diverges with the context and conditions in which African countries operate are discussed below.

The emphasis on pro-growth policies as opposed to those targeting poverty reduction is a dominant and consistent feature of PRGF review. An example of such may be found in Malawi. The Malawi Growth and Development Strategy specifies as part of its fight against HIV/AIDS projects such as improving infrastructure (roads, water, health buildings, water, communications and medical equipment), inferring that these planned activities are priorities. Malawi's utility companies are owned and controlled by government. They operate on a commercial basis but also have government mandated social obligations in providing these services to the poor. It was cited by the IMF review team that Malawi's public utilities were operating below the desired efficiency. IMF staff urged the Government of Malawi, as it does with other countries, to clarify the boundaries between utilities' commercial and government-mandated social functions and to ensure that the latter are adequately and transparently financed by the budget, which it knows is under-resourced and constrained by IMF expenditure ceilings.²⁶

Secondly, there are concerns with the persistent IMF links of fiscal spending to inflation. The IMF noted that in Ghana there was a risk that the bunching of large investment projects may create supply bottlenecks and wage pressures that could jeopardize macro-stability.²⁷ Though inflation is currently hovering around 10%, Ghana has indeed

experienced significant hyperinflation levels; its average inflation index has been over 20% for the last ten years.

However, not only is the link between fiscal spending and inflation unsubstantiated at less than full capacity levels (the funding gap for the Ghana Poverty and Reduction Strategy II is US\$1.79 billion), the IMF failed to identify historical and contextual reasons for Ghana's inflation, which includes external price shocks of export commodities, pressure from IMF officials to increase tariffs of essential social services like water and electricity, and large volumes of remittances which spur domestic consumption. The latter being no small matter in terms of financial flows, as remittances in 2003 were US\$1.4 billion and, according to the Government of Ghana, had escalated to \$4 billion in 2005. There is no discussion of this in the IMF's latest review of the country's performance.

Another issue that tends to be analyzed out of context is debt sustainability. There appears to be some confusion at the Fund regarding the relationships between debt sustainability, poverty reduction expenditures and fiscal space. External debt service as a proportion of export earnings is a commonly used ratio to ascertain a country's external debt sustainability. It is an important ratio because it gives some insight as to the country's capacity to repay foreign loans. However, the inference that debt sustainability has improved as a result of a declining debt-export ratio is ill-derived. That is, increased fiscal space does not immediately translate into financial solvency. A decline in external debt service, which is an immediate result of HIPC and MDRI, does not necessarily imply improved debt positions but does imply the increased potential to pay down existing levels of debt.

Cameroon is a case in which the external debt service-export ratio has indeed declined because of the HIPC relief. The ratio of domestic debt stock to exports may be found below.

Table 2.6 Ratio of Domestic Debt Stock to Exports in Cameroon

Year	Ratio
2000	0.847
2001	0.872
2002	0.862
2003	0.789
2004	1.088
2005	0.767
2006	0.533

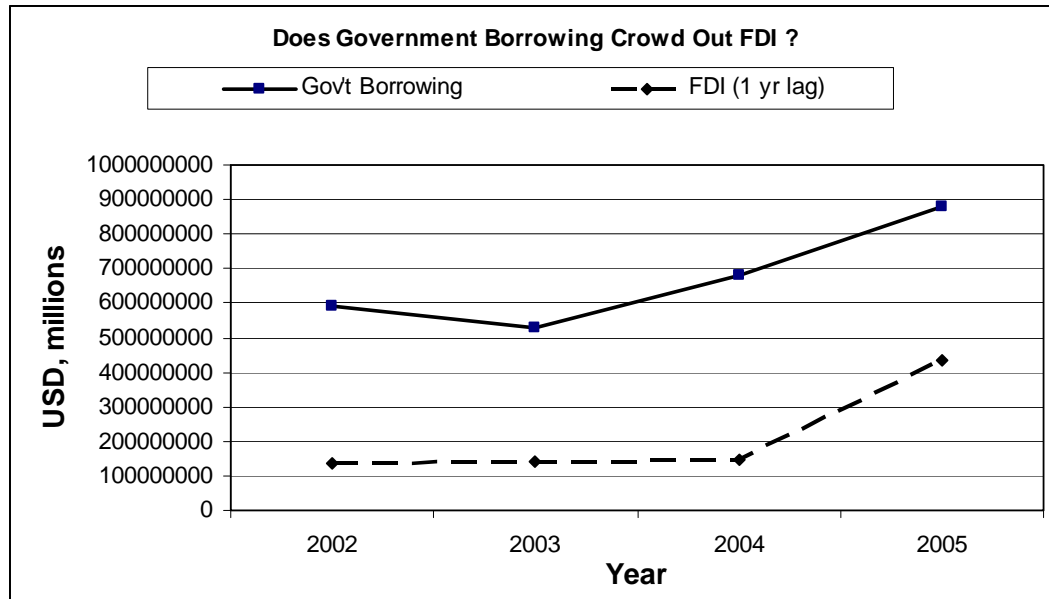
Source: Compiled by author from IMF data²⁸

However, what is not addressed is how far export earnings can be stretched if they are used as an assessment of debt sustainability and, at the same time, assumed to be the source of financing available to meet development expenditures. While concluding that Cameroon's debt sustainability had indeed improved, the PRGF review neglected to take

into consideration that the resource gap of the Programme Budget of Priority Expenditures for 2006 was 20,847 millions CFA.

Lastly, there is consistent emphasis in PRGF review on the relationship between domestic borrowing and foreign direct investment. Specifically, the assumption appears to be that government borrowing in domestic markets will crowd out domestic investors because the increased demand for capital will increase its price causing borrowing to become too expensive.

Chart 2.2 Government Borrowing and FDI in Ghana



Source: Author's compilation from IMF and UNCTAD dataset²⁹

The graph above plots four years of government borrowing and foreign direct investment (FDI) in Ghana. FDI was calculated with a one year lag with the presumption that the private sector would need time to react to the credit market squeeze. The two appear to be positively correlated.

2.5 Emphasis on Absorptive Capacity

This is a concept that has not been adequately clarified. If it is the human capacity to coordinate, manage, monitor and evaluate the effectiveness of aid, then it does not correlate with the pressure from IMF staff to trim government agencies. If it is the pressure that increased government consumption would put on domestic prices, then it has not been appropriately acknowledged that the bulk of development expenditures identified by partner countries would consist mainly of imported technical expertise and/or capital goods.

Consider again the case of Cameroon. IMF staff noted that, unless absorptive capacity can be expanded, a significant scaling up of spending may result in "Dutch disease."³⁰ Since aid will be spent mainly by the public sector, there are certainly implications

towards fiscal policy. The nature and composition of aid will determine its effects on the national economy, and the examination of the potential macroeconomic impacts of increased fiscal spending is a valid enquiry.

If ODA is spent on imports (assuming there are no substitutes locally available), economic theory states that the current account deficit widens, but there is no change in relative prices within the sector targeted and certainly no economy-wide inflationary effects experienced. Additionally, there is the possibility of experiencing long-term productivity gains as a result of the imports (e.g. the purchase of ARV's resulting in longer working lives and thus increased tax revenues to the GoM).

If the aid is spent on locally-procured goods and services, the initial effect is an increase in the money supply and then an increase in demand of the goods/services. Most African countries have identified education, health and infrastructure as the main sector which will receive additional financing. Cameroon, in particular, has identified, in its budget of priority expenditures, those concerned with fighting malaria, maternal health care, medicines and supplies, and human resource development. Governments being the main providers of these services implies that concerns about stifling local competition is unwarranted. Of course, if the increased consumption of goods/services has the longer-term effect of increasing supply capacity, allowing the main service provider to meet the increase demand, then the price increases, if any, are only temporary. All this is to say that the effects of increased volumes of aid essentially depend on the destination and composition of expenditure. A scaling up of aid does not necessarily translate into increased aggregate demand and thus inflation.

3 Recommendations and Conclusion

A fundamental shift in perspective is what is required in order to address the concepts noted above.

- The developing world is waiting for some recognition that economic growth and poverty reduction are not one and the same. They may coincide but are not necessary conditions for each to occur.
- The Fund should make an effort to be more transparent and, in doing so, clarify to their clients what their motivations are in providing loans and technical expertise and that it may not necessarily be in the interests of development.
- The IMF needs to take a more holistic view of macroeconomic stability, recognizing that it is the latter which needs to be mainstreamed into development planning; not vice-versa. Further, fiscal management and sustainability has micro-foundations. Proposals, having the goal of improved balance of payments positions, should not only entail but be derived from sector analysis.
- In addition to employing economic relationships, which have been demonstrated to be either unsubstantiated or outdated, there appears to be a lack of historical perspective and contextual analysis evident in the review documents. This may

be due to institutional memory loss as a result of personnel turnover or the lack of appropriate development economists, having expertise in the socio- cultural and geo-geographical context in which they are operating. Whatever the cause may be, there is a niche in providing technical assistance in the form of innovative solutions to development financing, and that is a potential avenue for the IMF to pursue.

- Finally, being a signatory, the IMF is obliged to adhere to the indicative targets in the Paris Declaration, which includes making a greater effort in harmonizing with other donors. Compliance entails dropping that from its lending instrument conditionalities, benchmarks and targets, which have no bearing on development plans for which partner countries seek funding, coordination, and harmonisation with other donors in order to reduce the transaction costs of developing countries, and an acknowledgement of the priorities and activities that have been identified by recipient countries.

The IMF is reminiscent of a company that has grown too large; its product quality declining along with its market share, and facing competition from new entrants. The uniqueness of short-term and emergency financing notwithstanding, the aid architecture has changed; most notably, the sheer number of lenders and variety of lending instruments. As much ado has been made about its service delivery, a renewal of vision and a re-orientation of personnel, who appear unable/unwilling to dispense with the outdated corporate culture, is advised. A re-evaluation of its strengths and weaknesses would assist the IMF in placing itself in a more strategic position within the value chain of development finance.

¹ UNCTAD (2004) “Economic Development in Africa: Debt Sustainability, Oasis or Mirage?”

² http://www.africaaction.org/action/debtpos_text.htm

³ World Bank (2006) African Development Indicators.

⁴ *ibid*

⁵ www.imf.org/external/np/exr/facts/hipc.htm

⁶ World Bank (2000) Global Development Finance

⁷ UNDP Poverty Report, 2000. <http://www.undp.org/povertyreport/chapters/chap4.html>

⁸ AFRODAD (2007). “Review of Millennium Development Goal No. 8, Global Partnership for Development: The Case of Zambia”.

⁹ Geda, Alemayehu. “Debt Issues in Africa”. United Nations University, WIDER, Discussion Paper no. 2002/35, March 2002.

¹⁰ UNCTAD (2004)

¹¹ World Bank (2007) Global Development Finance

¹² AFRODAD. (2006). “Assessing the Impact of the PRGF on Social Services: The Case of Zambia”.

¹³ Republic of Tanzania. “National Strategy for Growth and Reduction of Poverty”. June 2005.

¹⁴ *ibid*

¹⁵ IMF (2007). “United Republic of Tanzania: 2007 Article IV Consultation and First Review Under PSI” Country Report No. 07/246.

¹⁶ Paris Declaration on Aid Effectiveness, High Level Forum, February 2005.

¹⁷ AFRODAD (2007). “A Critical Assessment of Aid Management and Donor Harmonisation in Malawi”.

¹⁸ International Monetary Fund. “Malawi 2006 Article IV Consultation and Third Review Under the Three Year Arrangement Under the poverty Reduction and Growth Facility and Request for Waiver of non-Observance of performance Criteria”, IMF Country Report No. 07/147, May 2007.

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- ¹⁹ Discussion in this can be found in Foster, Mike et al. “Linking HIPCII Debt relief with Poverty Reduction and Wider Issues: Some Reflections and Suggestions” Overseas Development Institute, August 1999. <http://www.devstud.org.uk/publications/papers/conf99/dsaconf99foster.pdf>
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- ²¹ AFRODAD (2007). “Macroeconomic Policy Impacts on the Fight Against HIV/AIDS in Ghana”.
- ²² AFRODAD, 2007. “Mali: Suivi de la mise en oeuvre des OMD 8; Partenariat mondial pour le développement”
- ²³ AFRODAD (2007). “Macroeconomic Policy Impacts on the Fight Against HIV/AIDS in Ghana”.
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- ²⁵ Ghana: 2005 Article IV Consultation, Third Review Under the Poverty Reduction and Growth Facility, and Request for Waiver of Nonobservance of Performance Criteria and Extension of the Arrangement—Staff Report; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Ghana
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