

African Experiences with the PRGF and Fiscal Space



African Forum and Network
on Debt and Development

A Synthesis Report

About AFRODAD

AFRODAD Vision

AFRODAD aspires for an equitable and sustainable development process leading to a prosperous Africa.

AFRODAD Mission

To secure policies that will redress the African debt crisis based on a human rights value system.

AFRODAD Objectives include the following:

- 1 To enhance efficient and effective management and use of resources by African governments;
- 2 To secure a paradigm shift in the international socio-economic and political world order to a development process that addresses the needs and aspirations of the majority of the people in the world.
- 3 To facilitate dialogue between civil society and governments on issues related to Debt and development in Africa and elsewhere.

From the vision and the mission statements and from our objectives, it is clear that the Debt crisis, apart from being a political, economic and structural issue, has an intrinsic link to human rights. This forms the guiding philosophy for our work on Debt and the need to have African external debts cancelled for poverty eradication and attainment of social and economic justice. Furthermore, the principle of equity must of necessity apply and in this regard, responsibility of creditors and debtors in the debt crisis should be acknowledged and assumed by the parties. When this is not done, it is a reflection of failure of governance mechanisms at the global level that protect the interests of the weaker nations. The Transparent Arbitration mechanism proposed by AFRODAD as one way of dealing with the debt crisis finds a fundamental basis in this respect.

AFRODAD aspires for an African and global society that is just (equal access to and fair distribution of resources), respects human rights and promotes popular participation as a fundamental right of citizens (Arusha Declaration of 1980). In this light, African society should have the space in the global development arena to generate its own solutions, uphold good values that ensure that its development process is owned and driven by its people and not dominated by markets/profits and international financial institutions.

AFRODAD is governed by a Board of seven people from the five regions of Africa, namely East, Central, West, Southern and the North. The Board meets twice a year. The Secretariat, based in Harare, Zimbabwe, has a staff compliment of Seven programme and five support staff.

African Experiences with the PRGF and Fiscal Space

A Synthesis Report

© 2008

All rights reserved to AFRODAD

African Forum and Network on Debt and Development

31 Atkinson Drive, Hillside,

PO Box CY1517, Causeway, Harare, Zimbabwe

Telephone 263 4 778531, 778536 Telefax 263 4 747878

E-Mail afrodad@afrodad.co.zw


Website: www.afrodad.org

Preface

The impact of fiscal space on growth and achievement of the internationally agreed development goals has featured prominently on the research agenda of government development agencies, international financial institutions, and civil society organizations. The Poverty Reduction Growth Facility (PRGF) has remained topical in the discussions around the quest by countries in the South to regain control of their own fiscal space from the International financial institutions. The controversy over IMF polices especially the PRGF boils down to a difference of opinion over how and when governments should be allowed to invest in both infrastructure and basic services. The IFIs, CSOs and the UN Development Programme (UNDP) have contrasting views on how to increase fiscal space, that is, on how to enable governments to spend and invest more. In their definition of fiscal space, the UNDP stresses the quality of public expenditure since productive expenditures will foster growth and human development, a larger 'budget pie', and more fiscal space in the long-term. On the other hand, Scholars, policy-makers and activists have focused on how to mobilize resources, or create the 'space' in national budgets, to invest in achieving the internationally agreed development goals, including the MDGs.

In efforts to recover from economic crises, most countries in sub-Saharan Africa began implementing IMF- and World Bank-led structural adjustment programmes during the 1980s. Those programmes promoted policies to expand the role of the market and reduce that of the state in economic affairs. They curtailed public spending for education and health care, privatized state-owned enterprises and liberalized trade. African governments had to cede control over their economic decision-making in order to qualify for World Bank and IMF loans. The PRGF and the succeeding Policy Support Instrument (PSI, introduced in 2005) have been nothing less than a continuation of such policies but under the guise of a new framework. The policies contained in both PRGF and PSI remains consistent with the standard IMF austerity programmes that have proved deeply controversial over the last 25 years. The only difference is that the IMF through such instruments is seeking to polish up its appalling image of being a tough lender and disciplinarian in Sub-Saharan Africa. This study constitutes one of the several PRGF researches that AFRODAD commissioned as part of its contribution to the civic call for the IMF to free policy space and enable African governments to pursue economic resuscitation of their battered economies after many years of the ill-conceived structural adjustment programs.

This study discusses the PRGF and the question of fiscal space as perceived by the citizens who are affected by IMF policy instruments. Conditions are one of the most controversial aspects of IMF and World Bank lending. Critics often claim that the institutions do not pay adequate attention to how the conditions affect people's lives or the contradictory ways in which multiple conditions interact with each other. Many governments also say that the conditions prevent them from making decisions which should rightly be made by elected leaders and that they also fail to address the basic problems that hinder economic development. The study concludes by giving recommendations to both the Fund and the government(s) on how to deal with the question of fiscal space.



Charles Mutasa
Executive Director
AFRODAD

Acknowledgements

AFRODAD wishes to acknowledge their great debt of gratitude to Mr. Chinyamata Chipeta, Ms Marta Cumbi and Warren Nyamugasira for investing considerable time and effort in the research process of this report. We also remain indebted to Messrs. Opa Kapijimpanga, Michael Nyirenda and Vitalice Meja for helping in the final edit and synthesis of the country reports.

The central support of Norwegian Church Aid's staff was invaluable to the project. The report benefited greatly from the facilitation of Ms Gwen Berge at the South African Norwegian Church Aid offices and Mr Tirivangani Mutazu at the AFRODAD Secretariat. Many thanks to many of our colleagues whom we cannot all name but whose input into the national research validation workshops remains vital to this output.

Table of Contents

SUMMARY	7
1.0 INTRODUCTION	9
1.1 HIPC, Debt Relief and Financing for Development	10
1.2 Statement of the Problem	12
2 THE PRGF AND FISCAL SPACE	13
2.1 Fiscal Space: The Concept	13
2.2 How PRGF Conditions Impact Fiscal Space	15
2.3 PRGF Impacts on National Budgets And MTEF	19
3 THE PRGF AND INDEBTEDNESS	22
3.1 Country Experiences With HIPC Debt Relief	22
3.2 Did Debt Relief Increase Fiscal Space?	25
3.3 Domestic Debt	28
4.0 FISCAL SPACE: HAS IT INCREASED OR DECREASED?	29
REFERENCES	32

List of Acronyms and Abbreviations

AfDB	African Development Bank
AFRODAD	African Forum and Network on Debt and Development
CG	Conditionality Guideline
DAC	Development Assistance Committee
EDPRS	Economic Development and Poverty Reduction Strategy
ESAF	Enhanced Structural Adjustment Facility
EURODAD	European Network on Debt and Development
FY	Fiscal Year
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Country
IMF	International Monetary Fund
LIC	Low Income Country
MDG	Millennium Development Goal
MGDS	Malawi Growth and Development Strategy
NPV	Net Present Value
ODA	Official Development Assistance
OECD	Organisation of Economic Cooperation and Development
PARPA	Plan of Action for the Reduction of Absolute Poverty
PEAP	Poverty Eradication Action Plan
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
SADC	Southern Africa Development Cooperation
SBA	Stand By Agreement
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USD	United States Dollar
WB	World Bank

Summary

The Poverty Reduction and Growth Facility (PRGF) and Highly Indebted Poor Countries (HIPC) Initiative promised a new era of reduced conditionality; broad participation in the formulation of poverty reduction strategies; more pro-poor growth; greater flexibility in fiscal targets and social impact analysis of major macroeconomic adjustments and structural reforms. The facility was timely, as the debt burdens of developing countries had become unsustainable.

The ultimate objectives of these developments was to reduce the annual budget provision for servicing its debt, hence to create fiscal space that would allow it to spend more money on education, health and other sectors that are critical for reducing poverty and achieving the Millennium Development Goals (MDGs). With universal development targets having been set by the international community (the MDGs), countries have turned their attentions to the means by which they are going to be attained. The long term benefits of securing human development outcomes are the primary considerations, which need to be weighed against fiscal sustainability considerations.

The PRGF is replete with structural reforms and quantitative conditions intended to improve the fiscal position of borrower governments. However, there is substantial opposition to the embedded conditions of the agreement. Conspicuously pre-Paris Declaration, AFRODAD takes note that HIPC and the PRGF and its CG, as well as the Millennium Declaration, lacked international consensus on aid delivery, coordination, and management. Now in the context of the Paris Declaration, which espouses the principle of national ownership of development strategies and alignment of donors to the same, AFRODAD commissioned this research¹ to make an assessment as to whether the fiscal space of countries under the PRGF had indeed improved and contributed to the country's development strategy.

Fiscal space refers to the ability of a government to make budgetary resources available for desired purposes. Civil society organisations have put emphasis on the government's *capacity* to fund economic and social infrastructure necessary to aid growth and development, without restricting it to the aggregate resource envelop. In other words, additional resources, particularly grants that are extra-budgetary, would qualify as fiscal space that could be applied to priority activities to aid development. As governments try to create that additional budgetary space so they can allocate it towards spending priorities, they may not have the choice of spending and, most importantly, how to manage the trade-offs. That is, the economic policy conditions tied to the PRGF and PSI affect the fiscal space that partner countries actually have to develop the policy framework surrounding development expenditures; calling into question the sovereignty of the country over its development programme.

Among the main findings of the research,

- The common conditions running across countries are those relating to ceilings on new borrowings, both internally and externally and the payment of arrears on those borrowings.
- What comes out very strongly in the research papers, is that fiscal space, as a concept, has become synonymous with spending; that is, a widening of the fiscal deficits. That fiscal balances widened in 2007 does not automatically imply an increase in fiscal space.

¹ The research was commissioned in Cameroon, Malawi, Mozambique, Rwanda and Uganda

Running a deficit does not speak to the basket of policy options available to the partner country. It does not speak to the space, albeit political in nature, to decide how much and where to allocate financial resources.

- A far lower threshold of how PRGF conditions affect a country's fiscal space is whether they prevent countries from absorbing their aid flows. The difference between the spending and absorption of aid relates to how the aid is used. Aid that is spent is merely re-allocated within the economy and does not increase resources. Aid that is spent is used to pay down existing debts or is "saved" in order to increase the level of international reserves. The *spending* of aid will register in the fiscal balance, primarily as a deficit. However, the *absorption* of aid will register as imports, which require the use of foreign reserves. Cameroon, for example, recorded a fiscal surplus in both 2006 and 2007, the positive balance had declined by approximately \$5.2 billion; clearly the country is spending much more than it is absorbing, as the increase in imports was \$245 million in comparison. That the increase in net foreign assets is nearly equal to that of net ODA received is also an indication of the absence of absorption. Cameroon, for its part, had a ceiling on government expenditures on goods and services.
- There were indications that the PRGF conditions impaired the planned activities of the partner country's development strategy. For example, in Mozambique, although the wage bill cap was raised from 6.5% to 7.5% of GDP in 2007, the recruitment of public servants as specified in the PARPA was constrained. The Government actually intended to hire 12,000 extra teachers to reduce the pupil/teacher ratio but it was only allowed to hire 9,000 and 1,000 administrative staff, given the cap. Therefore, although expenditure in education rose in this year, it was not enough to meet government needs but rather to comply with the PRGF development model.
- Reprioritisation of expenditures can create fiscal space. In Mozambique, between 2005 and 2007, Education went from 19.2, 19.5, to 19.7% of GDP; Health went from 12.2 to 14.2 to 12.6% of GDP, Infrastructure went from 18 to 15.9 to 18% of GDP. There was a marked increase to the rural sector, from 3.8 in 2005 to 5.9% in 2007; the main donor of this allocation was government Security and Judicial Systems, which fluctuated from 8.6 to 12.1 to 6.3%.
- In the cases under analysis here, the economies quickly come up against two tensions: debt sustainability and macroeconomic pressures. Thus, policies geared to create fiscal space should also ensure solvency for future generations by allowing more productive and growth-enhancing public spending and by reducing distortions that hamper growth.

1.0 Introduction

The International Monetary Fund (IMF) introduced the Poverty Reduction and Growth Facility (PRGF) to replace the Enhanced Structural Adjustment Facility (ESAF) as a lending instrument window for poor countries. The stated objective was to achieve significant reductions in poverty-related indicators in poor and indebted countries. The facility promised a new era of reduced conditionality; broad participation in the formulation of poverty reduction strategies; more pro-poor growth; greater flexibility in fiscal targets and social impact analysis of major macroeconomic adjustments and structural reforms. It was instituted under the assumption that there would be far reaching changes in the way that the IMF worked to support low-income member countries. In particular, there would be:

- A change in the content of the IMF-supported programmes in these countries, which would be more pro-poor;
- An increase in emphasis on country ownership of PRGF-supported programmes; and
- A clearer definition of the IMF's role and relationship with other agencies supporting development efforts of low-income countries.

PRGF-supported programmes are essentially the macroeconomic policy frameworks for achieving economic growth and poverty reduction. They are supposed to be based on Poverty Reduction Strategy Papers (PRSPs), which the World Bank and the IMF introduced in 1999, so that targets and policy conditions in PRGF-supported programmes are drawn from them.

Sub-saharan African (SSA) countries participating in the PRGF were both poor and high-indebted. A few statistics adequately describe the state of Africa's indebtedness and the hindrance it imposed on growth and development initiatives.

- From just over \$11 billion in 1970, Africa had accumulated over \$120 billion of external debt in the midst of the external shocks during the early 1980s.²
- Total external debt then worsened significantly during the period of structural adjustment in the 1980s and early 1990s, reaching a peak of about \$340 billion in 1995, the year immediately preceding the launch of the original Highly Indebted Poor Countries (HIPC) Initiative.³
- Between 1970 and 2002, Africa received some \$540 billion in loans, but paid back close to \$550 billion in principal and interest.⁴
- The continent still had a debt stock of \$295 billion as at the end of 2002. And the figures are even more disconcerting for sub-Saharan Africa (SSA), which received \$294 billion in disbursements, paid out \$268 billion in debt service, and yet remained straddled with a debt stock of some \$210 billion.⁵
- As of 2004, low-income countries were indebted to the tune of US\$380bn and middle-income countries to the tune of US\$1.66 trillion.⁶

² UNCTAD (2004) Debt Sustainability: Oasis or Mirage? <http://www.unctad.org/Templates/WebFlyer.asp?intItemID=3246>].

Accessed on 09 July 2008

³ *ibid*

⁴ UNCTAD (2004) New UNCTAD Study Makes Case for African Debt Write-off, UNCTAD Press Release, 30 September 2004.

⁵ *ibid*

⁶ EURODAD (2006) G8 Debt Deal One Year On: What Happened and What Next?, June 2006

The amount of official development assistance (ODA) provided by the 22 members of the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD) declined by almost \$3 billion in 2006, following a large \$27 billion increase in 2005.

In addition to receiving less aid, several SSA countries drew upon their foreign exchange reserves to pay off debt owed to official creditors and to access financing from private sources on favourable terms.

Principal repayments to the Paris Club and multilateral institutions (particularly the IMF) exceeded disbursements by some \$146 billion in 2005–06, as net private debt flows reached \$432 billion.⁷

1.1 HIPC, Debt Relief and Financing for Development

Since neither economic growth nor poverty reduction can be achieved if a country is heavily indebted, the IMF and the World Bank launched the Highly Indebted Poor Countries (HIPC) Initiative in 1996 as the first comprehensive effort to eliminate unsustainable debt in the world's poorest, most heavily indebted countries. In October 1999, the international community agreed to broaden the Initiative, lowering the thresholds of the number of eligible countries, raising the amount of debt relief each eligible country would receive, and speeding up its delivery.

A country would start receiving debt relief from the time that it reached the decision point.⁸ After reaching the completion point, when the debt owing to multilateral institutions would be cancelled, it would receive additional debt relief. The effect of these developments would be to reduce the annual budget provision for servicing its debt, hence to create fiscal space that would allow it to spend more money on education, health and other sectors that are critical for reducing poverty and achieving the Millennium Development Goals (MDGs). The HIPC 2 initiative coincided with the Millennium Campaign, which set universal development targets. Attainment of the MDGs will surely not be met without substantial debt relief, particularly for low-income countries.

As already intimated, PRGF-supported programs are meant to be framed around comprehensive, country-owned Poverty Reduction Strategy Papers (PRSPs). PRSPs are supposed to be prepared by governments with the active participation of civil society and other development actors. They are then considered by the Executive Boards of the IMF and World Bank as the basis for concessional lending from each institution and debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative.

After successful implementation of PRGF some countries made significant progress in economic stability and no longer needed IMF funding but needed ongoing advice, monitoring and endorsement of their economic policies. Thus, in October 2006 the IMF introduced the Policy Support Instrument (PSI), which helps countries design effective economic programmes that, once approved by the IMF executive Board, signal to donors, multilateral development banks and market the Fund's endorsement of the strength of a country's macro-economic framework. The PSI aims to promote a close dialogue between the IMF and member country, provide more frequent assessment of economic and financial policies and deliver clear signals on the strength of these policies. Among the countries under study, Malawi, Cameroon, and Rwanda remain under the PRGF. Both Mozambique and Uganda have graduated to the PSI.

The PRGF is replete with structural reforms and quantitative conditions intended to improve the fiscal position of borrower governments. However, there is substantial opposition to the embedded conditions of the agreement.

⁷ World Bank (2007) Global Development Finance

⁸ Requirements include signing on to a PRGF and adoption of a PRSP.

Its now infamous inflation targets have little basis in academic literature, and, in fact, studies measuring the growth of developing countries have discovered that this is accompanied by higher inflation rates.⁹

Another controversial condition is the ceiling on public expenditures. It was initially feared that public investment would crowd out private investment. Now, even the IMF has reversed its position on this, as there is now evidence available that investment in infrastructure has sustainable and long-run impacts on human development and a balance should be struck between spending on the former and spending on education and health.

Eventually, public spending creates public capital.¹⁰ Finally, conditions related to limiting the fiscal deficit have been given the justification that they were necessary to maintaining macroeconomic stability. While the condition has a role in limiting aid dependency, it also has opportunity costs in terms of what otherwise could have been spent on MDG-related activities.¹¹

Faced with strong criticism for its expansive, arbitrary, and erroneous use of conditionality, and in the wake of a broader and deeper legitimacy and financial crisis, the IMF approved a set of guidelines to inform their use of structural conditionality. The 2002 Conditionality Guidelines committed the Fund to respect five principles:

- Ownership: acknowledgement of recipient countries' responsibility and respect for national policies.
- Parsimony and criticality: conditions should be limited to the minimum necessary to achieve the goals and should concentrate on the Fund's core areas of expertise.
- Tailoring policies to recipient countries' circumstances.
- Coordination with other multilateral institutions.
- Clarity: conditions should be clearly distinguishable from those of other programmes.¹²

Beyond the numbers, the principles of ownership and tailoring to national circumstances should entail refraining from placing controversial conditions which may be highly sensitive for some national constituencies and may lead to domestic tensions and social unrest. On this front, the Conditionality Guidelines (CG) are too limited. The CG defines the principle of ownership as the "willing assumption of responsibility for a program of policies, by country officials who have the responsibility to formulate and carry out those policies." The Fund considers ownership as sufficient when there is enough "buy-in" by country officials of policy reforms designed by Fund economists. This deviates from the concept of genuine ownership as understood by civil society groups and recipient governments, which would require recipient governments and their citizens to take the lead in designing and prioritising policy reforms.¹³

1.2 Statement of the Problem

Conspicuously pre-Paris Declaration, AFRODAD takes note that HIPC and the PRGF and its CG, as well as the Millennium Declaration, lacked international consensus on aid delivery, coordination, and management.

⁹ See UNDP (2005) MDG-Based PRSPs Need More Ambitious Economic Policies

¹⁰ Roy, Rathin et al (2006) Fiscal Space for Public Investment: Towards a Human Development Approach, United Nations Development Programme.

¹¹ See Oxfam (2003) The IMF and the Millennium Development Goals: Failure to Deliver for Low-Income Countries, Oxfam Briefing Paper No. 54, September 2003.

¹² EURODAD (2008) Critical Conditions: The IMF Maintains its Grip on Low-Income Governments

¹³ EURODAD (2008) op cit.

Now in the context of the Paris Declaration, which espouses the principle of national ownership of development strategies and alignment of donors to the same, AFRODAD commissioned this research¹⁴ to make an assessment as to whether the fiscal space of the case studies has indeed improved under the PRGF and contributed to the country's development strategy.

Specifically the study sought

- To establish how the PRGF has been underpinned within the national macro – economic framework and establish how the programs have shaped the public expenditure framework.
- To establish the link between the programme with various national instruments including National development plans/visions/strategies, the medium term expenditure framework, the National Budget, and Sector allocations.
- To present the challenges in the implementation of the PRGF and the failures and gains from the implementation of programme.
- To make an assessment as to whether the fiscal space of countries under the PRGF has improved.

In the report which follows, Chapter 2 attempts to define fiscal space and analyzes how the PRGF impacts fiscal space in the way of national budgets and the medium-term expenditure framework. Chapter 3 recaps individual country experiences with HIPC debt relief and explores the sustainability of fiscal space based on new lending, both domestic and external. Chapter 4, taking into consideration the country case experiences, summarizes whether fiscal space has increased or decreased as a result of the PRGF programme. Throughout the paper there are box insets which discuss individual country experiences with the PRGF; the extent to which the PRGF was drawn from the national development strategy.

¹⁴ The research was commissioned in Cameroon, Malawi, Mozambique, Rwanda and Uganda

2.0 The PRGF and Fiscal Space

2.1 Fiscal Space: The Concept

Why has fiscal space become a popular topic? Most of it has to do with the context in which development strategies are being discussed. With universal development targets having been set by the international community (the MDGs), countries have turned their attentions to the means by which they are going to be attained. The long term benefits of securing human development outcomes are the primary considerations, which need to be weighed against fiscal sustainability considerations.

As it is now widely recognized that economic growth alone does not alleviate poverty; public investment and aid are the main avenues through which most of the MDGs will be achieved. The means through which aid is to be coordinated and delivered was most recently addressed by the Paris Declaration on Aid Effectiveness (2005), with particular attention on ownership of partner countries over their development programmes. This requires a fiscal policy framework, which would incorporate the use of both public revenues and aid towards development programmes, to be part and parcel of national development plans. Further, partner countries require the space to develop such policy frameworks, which is referred to here as *fiscal space*.

Fiscal space refers to the ability of a government to make budgetary resources available for desired purposes. The IMF's definition of fiscal space is the room in a government's budget that allows it to provide resources for a desired purpose without any prejudice to the sustainability of its position or the sustainability of economy (IMF, 2007). According to this definition, it is short-term fiscal solvency and macroeconomic stability considerations that determine the possibility of mobilizing additional resources for development. The UNDP approach to fiscal space is that it is the financing that is available to government as a result of concrete policy actions for enhancing resource mobilization and the reforms necessary to secure the enabling governance, institutional and economic environment for these policy actions to be effective or a specified set of development objectives.¹⁵ Both definitions focus on the current basket of resources available.

In defining fiscal space, the Government of Uganda, on the other hand, places more emphasis on the budgetary room and flexibility to allocate resources within the aggregate resource envelop to new (additional) priorities. Fiscal space, in this sense, refers to the magnitude of resources that can be re-allocated from the budget to finance additional activities without fundamentally distorting budget priorities or jeopardising budget objectives.¹⁶ According to the official interviewed, fiscal space is realised when provisions in the budget exceed the optimal amount required for attainment of the intended objectives. "It is like cutting white fat off the meat". It is usually occasioned by the incremental approach to budgeting where a percentage is added to a sector's previous budget regardless of the level of need. The Ministry hastens to clarify that fiscal space does not refer to the resource envelop itself and is not new resources that were unanticipated in the budget, as these would instead be saved. Utilising them is tantamount to fiscal indiscipline that is likely to jeopardise other macro-economic variables such as inflation, current account balances, exchange rate, and to some extent, interest rates.

¹⁵ Roy et al (2007)

¹⁶ As defined by a senior official in the Ministry of Finance, Uganda during an interview.

Country Experiences with the PRGF: Malawi

Malawi concluded its first Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF in 1995. The first PRGF arrangement was successfully implemented and its objectives were achieved. The second PRGF arrangement was suspended in 2002 owing to the failure of the authorities to adhere to expenditure controls. As a result, donor aid was also suspended. The country went on to finance public expenditures through domestic borrowing, which had a marked impact on the growth of demand pressures, and increases in inflation and interest rates. Malawi's current PRGF runs from 2005 to 2008, and it completed the HIPC programme in 2006.

The main economic objectives of its PRGF are to:

- Raise the rate of economic growth to 6 percent per year, with an emphasis on rural incomes;
- Increase health services and educational opportunities;
- Reduce core inflation to the 5-8 percent range;
- Build international reserves to at least two months of imports; and
- Run a fiscal surplus to reduce the government's domestic debt to less than 15 percent of GDP from over 24 percent.

Extent to which PRGF is drawn from MRSP

The PRGF drew upon the Malawi Poverty Reduction Strategy Paper (MPRSP) to the extent that it aims at promoting economic growth and reducing poverty. Its fiscal and monetary targets are geared towards pursuing sustainable pro-poor growth, human capital development, good governance, and improving the quality of life of the most vulnerable, which are the aims of the MPRSP and the new MGDS. It also drew upon the MPRSP to the extent that it aimed at increasing health services and educational opportunities.

That said, it must be pointed out that the quantitative targets for inflation, the rate of economic growth, domestic debt as percentage of gross domestic product (GDP), fiscal balance as percentage of GDP, and gross foreign reserves in months of imports were not based on the MPRSP. The MPRSP was prepared at a time when Malawi was supposed to be implementing its second PRGF. It was thought then that if the MPRSP contained new macroeconomic targets, these would be inconsistent with those of the PRGF. Therefore, the MPRSP adopted the macroeconomic targets of the PRGF, which were assumed to be appropriate. Similarly, the MGDS does not have macroeconomic targets of its own. The macroeconomic targets there are those of the new PRGF (Malawi Government, 2006), which are assumed to be appropriate. Furthermore, the PRGF did not derive its quantitative performance criteria and structural benchmarks from the MPRSP or the MGDS, both of which do not have such criteria. In other words, in terms of macroeconomic policies, it is the country's development and poverty strategies that have drawn upon the PRGF and not the other way round.

On its part, the country lacks expertise for preparing a macroeconomic framework and hence relies on IMF staff. For the purpose of attaining the macroeconomic objectives contained in the MGDS, the government is committed to pursue sound economic policies geared at increasing and sustaining economic growth, reducing inflation, maintaining a flexible exchange rate and improving the foreign exchange position, in addition to increasing employment and improving the balance of payments.

Others, particularly those within civil society¹⁷ define fiscal space more broadly as the government's *capacity* to fund economic and social infrastructure necessary to aid growth and development, without restricting it to the aggregate resource envelop. In other words, additional resources, particularly grants that are extra-budgetary, would qualify as fiscal space that could be applied to priority activities to aid development. Consequently, most criticisms about IMF's conditions that restrict government options on expenditure are coming at it from this perspective.

Though the concept of fiscal space is not new, what is an unexplored dimension is the idea that the Ownership principle incorporates the creation and usage of fiscal space by partner country governments. As governments try to create that additional budgetary space so they can allocate it towards spending priorities, they may not have the choice of spending and, most importantly, how to manage the trade-offs.

¹⁷ Action Aid (2007)

That is, the economic policy conditions tied to the PRGF and PSI affect the fiscal space that partner countries actually have to develop the policy framework surrounding development expenditures; calling into question the sovereignty of the country over its development programme.

Fiscal space is created via the following fiscal instruments: external grants, domestic revenue mobilization (taxes and VAT), borrowing from domestic and external sources, and reprioritization of expenditures, and improving the efficiency of expenditures. Though they increase the government's space to spend, they do not do so equally. Increases in aid and domestic revenues do not impair the future fiscal sustainability of the country, as do external and domestic debt.

That is, the economic policy conditions tied to the PRGF and PSI affect the fiscal space that partner countries actually have to develop the policy framework surrounding developing expenditures; calling into question the sovereignty of the country over its development programme.

Fiscal space is country-specific. The policy choices emanating from fiscal space depend on any number of cultural, socio-economic, environmental, legal/constitutional, and international factors. Thus, while some countries may need to raise more revenues to finance their development programme envelope, others may want to reduce the tax burden. While some countries may be able to acquire more debt cheaply, others may be above their debt limits or may be able to raise funds only at high overall costs to the economy. While some countries may want to reallocate expenditure from one area to another while maintaining the same level of expenditure, others may want merely to phase out or cut programs thus, reducing the overall size of the government.

That is, the economic policy conditions tied to the PRGF and PSI affect the fiscal space that partner countries actually have to develop the policy framework surrounding developing expenditures; calling into question the sovereignty of the country over its development programme.

Finally, fiscal space has an inter-temporal component. Essentially, the effective use of resources today is hoped to lead to increased productivity in the economy, generating a larger resource base (human and physical capital and incomes) for tomorrow's economic choices (savings, investments, consumption). When significant public investments are required, as in sub-Saharan Africa today, trade-off decisions are needed as to whether and by how much to reduce current or future consumption to pay for them.

2.2 How PRGF Conditions Impact Fiscal Space

There is now no doubt that structural benchmarks and quantitative conditions have had an impact on fiscal space. The primary objective of structural benchmarks and quantitative conditions was to promote growth through the stabilisation of the economy, improved fiscal position through better collection of taxes and improved management of public resources. But the IMF has come under fire for these conditions, as they limit the options that a partner government has in developing the appropriate fiscal framework for its development strategy.

A study undertaken by EURODAD (2008) on the structural conditions of Post-Paris Declaration PRGF arrangements reveals that the number of conditions have increased; irregardless of whether they are classified as binding or non-binding; sensitive or non-sensitive. In fact, those conditions limiting fiscal space had doubled between 2003/04 and 2005/07. EURODAD counted those conditions limiting fiscal space as all those economic policy conditions related to public financial sector development and economic management, which impose severe restrictions on public spending and borrowing, mainly ceilings.

One of the conditions for which the IMF was criticized was that of inflation targeting. The International Poverty Centre plotted the relationship between inflation and economic growth for 25 low-income countries in the world, including 17 from sub-Saharan Africa.

They found no evidence that higher inflation, up to 20 per cent per year, correlates with lower economic growth. Note that there is no pattern to the array of data points, even when outliers are eliminated.

Further, they concluded that setting the inflation threshold at five per cent creates by itself a slow-growth bias since the primary methods recommended for dampening inflationary pressures are to raise nominal interest rates and cut government spending.¹⁸ This is how a condition involving an inflation target may inhibit fiscal space.

Table 2.1 plots the respective conditions of the countries under examination. The common conditions running across countries are those relating to ceilings on new borrowings, both internally and externally and the payment of arrears on those borrowings. Although the incurring of debt is eroding the fiscal space created from debt relief and is a potentially unsustainable course of financing development programmes, it is a policy option of the partner government and the under-taking of which should be influenced by internal forces (parliamentary debate, CSO consultations, etc.) and not external forces.

Table 2.1 PRGF/PSI Conditions Constricting Fiscal Space

PRGF Conditions	Mozambique (PSI)	Cameroon 2005-2008	Malawi 2005-2008	Rwanda 2006-2009	Uganda (PSI)
Inflation target	v		v		
Floor on Net Foreign Assets			v	v	
Floor on Net International Reserves	v				
Minimum Increase in Net International Reserves					v
Ceiling on Central Government's Domestic Borrowing			v		
Ceiling on Spending on Goods and Services		v			
Ceiling on Government Wages and Salaries			v		
Ceiling on Central Government Discretionary Expenditures		v	v		
Ceiling on External Payments Arrears		v	v	v	v
Ceiling on Non-Concessional External Debt	v	v	v	v	v
Ceiling on Net Credit to the Government	v				
Ceiling on Stock of Reserve Money	v				
Ceiling in Net Claims on Central Government by Banking System		v		v	v
Ceiling on Accumulation of Domestic Arrears and Stock of Domestic Debt				v	

Source: compiled by AFRODAD from IMF Country Evaluations

That fiscal balances widened in 2007 does not automatically imply an increase in fiscal space. Running a deficit does not speak to the basket of policy options available to the partner country.

¹⁸ International Poverty Centre (2008) Pro-Growth Alternatives for Monetary and Financial Policies in Sub-Saharan Africa. Policy Research Brief, No. 6, January 2008.

What is of concern, and what comes out very strongly in the research papers, is that fiscal space, as a concept, has become synonymous with spending; that is, a widening of the fiscal deficits. That fiscal balances widened in 2007 does not automatically imply an increase in fiscal space. Running a deficit does not speak to the basket of policy options available to the partner country. It does not speak to the space, albeit political in nature, to decide how much and where to allocate financial resources. Table 2.3 shows the overall balance of central government expenditures.

A far lower threshold of how PRGF conditions affect a country's fiscal space is whether they prevent countries from absorbing their aid flows. The difference between the spending and absorption of aid relates to how the aid is used. Aid that is spent is merely re-allocated within the economy and does not increase resources.

That fiscal balances widened in 2007 does not automatically imply an increase in fiscal space. Running a deficit does not speak to the basket of policy options available to the partner country.

Aid that is spent is used to pay down existing debts or is "saved" in order to increase the level of international reserves. The *spending* of aid will register in the fiscal balance, primarily as a deficit. However, the *absorption* of aid will register as imports, which require the use of foreign reserves. Table 2.2 give an indication of the degree of spending and absorption of the case countries.

Table 2.2 Country Fiscal Positions, USD millions

Countries	Net ODA (2006)	Change in Current Account Balance(after grants), 2006-07	Change in Fiscal Balance (including grants), 2006-07	Change in Net Foreign Assets, 2006-07
Cameroon ¹	414	-245.21	-5226.05	385.06
Malawi ²	575	1.27	-41.48	64.15
Mozambique ³	1286	-2029	-55.15	226.23
Rwanda ⁴	576	-223.1	-14.3	396.43
Uganda ⁵	1198		-207.3	429.9

Sources: Various

¹ Exchange rate is USD1=CFAF522

² Exchange rate is USD1=MK139

³ Exchange rate is USD1=MT26

⁴ Exchange rate is USD1=Rwf549.9

⁵ Exchange rate is USD1=USH1770

Though Cameroon recorded a fiscal surplus in both 2006 and 2007, the positive balance had declined by approximately \$5.2 billion; clearly the country is spending much more than it is absorbing, as the increase in imports was \$245 million in comparison. That the increase in net foreign assets is nearly equal to that of net ODA received is also an indication of the absence of absorption. Cameroon, for its part, had a ceiling on government expenditures on goods and services.

Clearly Cameroon, Malawi, and Rwanda to a lesser extent, are merely spending aid flows but not absorbing them. The latter two had a floor on net foreign assets as part of their PRGF arrangements. Thus they don't appear to have fully utilized the space afforded to them by official development assistance.

Country Experiences with the PRGF: Uganda

During the last two decades, there have been four consecutive Fund-supported arrangements-Structural Adjustment Facility, Enhanced Structural Adjustment Facility (ESAF 1 and 11) and Poverty Reduction and Growth Facility (PRGF). The PRGF arrangement was first approved in September 2002 and run until January 2006. After the final review of the country's economic performance under the PRGF arrangement that was conducted in January 2006, the Executive Board approved a 16-month Policy Support Instrument (PSI)¹ for Uganda under the IMF's PSI framework which was cancelled almost immediately and replaced by a 3-year PSI. PSI is intended to further support the nation's economic reform efforts.

According to the IMF, the PSI for Uganda is aimed at maintaining macroeconomic stability and at promoting structural reforms, as well as implementing the broader policy agenda as envisaged in Uganda's Poverty Eradication Action Plan (PEAP). The new programme includes structural measures, which are meant to spur private sector activity, lower business costs, and improve the country's competitiveness. Macroeconomic policies would continue to emphasize stability and sound management of aid flows.

Extent to which PRGF is drawn from PEAP

The 1997 Poverty Eradication Action Plan was Uganda's first effort at a comprehensive strategy to reduce poverty. The Government of Uganda programme outlined in the Memoranda of Economic and Financial Policies (MEFP) that is attached to the letter to the Managing Director of the IMF always indicates that PRGF (and later PSI) is embedded in the Poverty Eradication Action Plan (PEAP). A summary of Uganda's Poverty Eradication Action Plan (PEAP) is contained in each of the Review reports of the IMF. Some policy issues identified in the Government of Uganda 2002 progress report on the implementation of the PEAP/PRSP were also reflected in the Memorandum of Economic and Financial Policies.

Comparison of PRGF/PSI and Uganda's Poverty Eradication Action Plan

Key features of the PRGF/PSI	Key pillars of Uganda's Poverty Eradication Action Plan - 2004/05 version
Reducing poverty by maintaining strong economic growth and macroeconomic stability	Economic management (addressing macroeconomic stability, fiscal consolidation and boost to private investment)
Making progress towards fiscal and debt sustainability; Increasing government revenue	Directly increasing the quality of life of the poor (delivery of primary education, health and water...)
Improving governance structures at all levels of government and building effective budget management	Ensuring good governance (human rights, democratization, elimination of corruption) and security and disaster management
Deepening financial intermediation Implementing structural measures to enhance private sector investment and growth	Enhancing production, competitiveness and incomes (agriculture, natural resources, infrastructure, business development)

Source: Compiled from various documents

While it not as easy to identify which programmes derives from the other, it is possible to identify the points of convergence and divergence. Critics of the IMF and PRSPs hold that the centrality of broad participation and greater country ownership as the overarching principle is a myth. The country may seem to be in the driver's seat but the passenger reads the map. Many countries, including Uganda tolerate the IMF policy advice rather than welcoming it. This is particularly the case when the advice has political ramifications. Advice such as privatisation of state enterprises, the placement of Uganda Development Bank for sale (June 2003 review), raising taxes, reduction in public administration (June 2003 review) , restrictions in formation of new districts (June 2003 Review), advice against stepping up defence spending when the government "modernising the army" and fighting a rebellion; ceilings on new borrowing, and restrictions on government intervention to give cheaper credit to rural areas where over 80% of the Ugandan population lives, many of which feature in policy measure to maintain macroeconomic stability (and a number appear in PRGF review reports, as shown above), it is difficult for government to consider such policies as ensuing from its own Poverty Eradication Action Plan.

Table 2.3 Central Government Expenditures, Overall Balance, Excluding Grants

Countries	2005	2006	2007
Cameroon, CFAF, billions	192	274	161
Malawi, MK, billions	-40.4	-52.3	-69.3
Mozambique, MT billions	-13.5	-22.1	-36.6
Rwanda, RWF billions	-160.7	-171.8	-239.3
Uganda, USH billions	2752	3156	3566

There were other indications that the PRGF conditions impaired the planned activities of the partner country's development strategy. For example, in Mozambique, although the wage bill cap was raised from 6.5% to 7.5% of GDP in 2007, the recruitment of public servants as specified in the PARPA was constrained. The Government actually intended to hire 12,000 extra teachers to reduce the pupil/teacher ratio but it was only allowed to hire 9,000 and 1,000 administrative staff, given the cap. Therefore, although expenditure in education rose in this year, it was not enough to meet government needs but rather to comply with the PRGF development model.

It seems that some change has been occurring though. For 2008 the wage bill is expected to reach 7.7% of GDP, mainly on the account of the hiring of 12,000 teachers, 5,000 health workers and reinforcement of security forces. This is a positive move because it implies willingness from the IMF to accommodate some government needs and/or increased capacity that the Mozambican government has in increasing expenditure without provoking macroeconomic imbalances.

The adaptability of the conditions has also been called into question. Unexpected grants, although not originally budgeted for, cannot be accommodated by the PRGF. For example, in Rwanda, the utilization of new grants available for education spending, in particular from Fast track Education Initiative, will entail additional increases in the deficit. Should more grants materialize, the program would need to be adjusted. With large shortage in crops, which could have been stored to bridge the time of the next harvest, this will trigger an automatic adjuster in the program allowing an increase in the deficit and a commensurate reduction in net foreign asset (NFA), causing it to fall below the floor set by the PRGF, because of imports for example of maize or beans.

2.3 PRGF Impacts on National Budgets And MTEF

The national budget is the single most important tool in allocating resources in a country, and is most certainly the result of political machinations. The PRGF has been credited with establishing the structures required for efficient implementation. Such was the case in Cameroon, where the government enacted a new budget law. In fact, budget execution in 2005 was carried out in accordance with the provisions of a 1962 Order that did not take account of the new concept of the budget whose implementation started in 2006, and which is more centred on objectives and results than on the means. In order to remedy the deficiencies of the former budget design, the main measures adopted were concerned with the reorganization of the public spending process, enhancing social sectors management, and the production and dissemination of statistical data, in addition to informing the country's citizens about how public affairs are managed. Regarding delays in the execution of public expenditures, the government has strengthened the training of the members of public procurement commissions.

Moreover, with a view to improving the quality and effectiveness of public expenditures, the government has carried out a Public Expenditures Tracking Survey on the monitoring of public expenditures and the satisfaction of the beneficiaries in the sectors of education and health. Furthermore, the Government has pursued the audits of public enterprises.

The Medium Term Expenditure Framework (MTEF) is a tool that supports the government in the provision and allocation of resources. Its main objectives are to indicate the amount of financial resources needed to implement activities during a medium-term period. The MTEF is a useful framework for achieving financial consistency between sector strategies and the government budget.

A MTEF thus ensures consistency between the provisional budget where expenditures are classified according to a functional approach (by sector or ministry) and the provisional government flow-of-funds table where expenditures are aggregated and projected according to a classification which is by nature economic (current or capital expenditures). Finally, the MTEF ensures consistency among the proportions of recurrent (or operating) expenditures and capital outlays.

Beyond these functionalities, the MTEF is also a targeted budgetary policy instrument. Once the whole budgetary package is determined, it is actually on this basis that the government makes trade-offs in allocating resources between priority sectors and other sectors. According to the IMF Resident Representative in Uganda, the IMF's role is to highlight the trade-off on priorities government has identified, prioritising expenditures that lay foundations for long term growth and which do not crowd out private investment.

The MTEF aims at making budgets more strategic and linking them to outputs. In this sense, the MTEF should reflect the priorities expressed in national development strategies. There have not been any major swings in ministerial budget allocations in Cameroon. Only slight increases have been detected in Education (from 4 to 4.3%) between 2007 and 2010, Health (from 1.5 to 1.9%), and Productive Infrastructure (2.5% to 2.7%). The rural sector will receive an increase of 0.1% over the next three years. This is not the case for Uganda, where rural development is programmed to see a 27.63% increase in expenditures over three years, 2007 – 2010; 4.5% of the total budget. Human development will also see a 20.62% increase in expenditures over the same period. Likewise, Mozambique has also seen a “jump” in allocation to the rural/agricultural sector. It was allocated 5.9% in 2007, the highest since the year 2000. However, that Uganda and Mozambique have more “fiscal space” than Cameroon as a result may be a premature conclusion. The percentage of expenditures to the rural sector and agriculture never exceeded 2% between 1998 and 2003 in Uganda. Further, in 1999, domestic debt as a percentage of GDP was 2%. In 2007, it was 10%.²⁵ The ramifications of domestic debt on fiscal space are discussed later.

Development partners, in general, are reluctant to invest in agriculture due to its perceived low rate of return. The IMF in particular does not identify agriculture as a major source of foreign reserves. Investments in agriculture and rural initiatives are more likely to be poverty-reducing strategies rather than those driving economic growth.

Mozambique is an example of how a re-prioritisation of expenditures can create fiscal space. Expenditures on priority sectors witnessed more pronounced swings. Between 2005 and 2007, Education went from 19.2, 19.5, to 19.7% of GDP; Health went from 12.2 to 14.2 to 12.6% of GDP, Infrastructure went from 18 to 15.9 to 18% of GDP.

²⁵ AFRODAD (2008) The Challenges of Debt Sustainability in Africa: The Case of Uganda

There was a marked increase to the rural sector, from 3.8 in 2005 to 5.9% in 2007; the main donor of this allocation was government Security and Judicial Systems, which fluctuated from 8.6 to 12.1 to 6.3%

The MTEF is thus considered as a crucial step for the improvement of public finance management. Though the Mozambique report also highlighted some challenges in developing the MTEF: 1) government capacity to accurately forecast future income and expenditure; 2) donors' willingness to provided information on their pledges; 3) donors compliance with their commitments in terms of disbursements; 4) government capacity to raise the targeted internal revenues and 5) government ability to split the expenditure between recurrent and capital costs to comply with the level of wage bill set by the IMF.

Uganda is also an example of re-prioritisation, but within sectors, in order to enhance theme outcomes. Within sectors, there are re-prioritisations to increase efficiency and effectiveness. For example in education, a critical feature of the Universal Primary Education initiative has been the need to address efficiency gaps. While enrolment numbers have grown significantly, completion rates are still low. Government plans to ensure that once children are enrolled, they complete the course. In agriculture, it is acknowledged the both production and productivity remain unacceptably low. Consequently, resources are being shifted towards interventions that increase production and productivity for both farm and non-farm activity. The traditional NAADS strategy has been reviewed to emphasise enterprise selection, value addition, and the like. The real contention over fiscal space is on the how additional budgetary room is deployed.

3.0 The PRGF and Indebtedness

A significant constraint on national policy space in low-income countries (LICs) in the past two decades has been uncompromising debt burden and the policy prescriptions which accompany these countries' attempts to reschedule debt owed to external creditors and to mobilize additional external financial resources to meet their resource gaps. Countries benefiting from debt cancellation can enjoy more policy space in many ways. Firstly, the relief of these debts liberate the space occupied by debt service, for more resources henceforth become available to the government budget to finance economic growth and poverty reduction. Secondly, the fiscal space that accompanies debt relief may provide more autonomy for the government to decide on the manner in which those resources may be used. For instance, governments would have more freedom to determine their own spending priorities in the government budget. Thirdly, without the constraints of a structural adjustment program, governments enjoy more freedom to choose among several options as to macroeconomic policy, social policies, and development policies and strategies over the medium and longer terms, including sector plans for agriculture, industry and services. Lastly, government will now have more room to choose among a great variety of financing options for national development projects and plans from a variety of different sources.²⁶

3.1 Country Experiences With HIPC Debt Relief

3.1.1 Malawi

Until its debt was cancelled in August 2006, Malawi had a comparatively high level of official foreign debt relative to the size of its economy. As at the end of 2002, the sum of public and publicly guaranteed debt stood at US\$2.7 billion. Most of this debt was owed to multilateral donors (85 percent), but also to bilateral (11 percent) and commercial creditors (4 percent). The evolution of this debt shows that during the 1970s debt as percentage of export earnings (the so-called debt ratio) exceeded 100 percent, but averaged less than 200 percent. Between 1975-79 and 1980-84 half-decades, there was a marked increase in this ratio from 198.0 percent to 289.4 percent. This was followed by another rapid rise to 400.8 percent during 1985-89. Since the latter half-decade, the increase in the debt ratio had been slower, with the debt ratio averaging 478.0 percent during 1995-2001.

As the debt-exports ratio indicates, the country also shouldered a relatively high debt burden. During the 1970s, the country's debt service as percentage of exports (debt service ratio) was modest and averaged less than 11 percent. The debt service ratio accelerated during 1980-84 and peaked at 32.4 percent during the subsequent half-decade. Afterwards it declined, but it was still far higher than what it was during the 1970s.

Much as Malawi wanted to benefit from the HIPC Initiative, it was not eligible for HIPC I, which came into being in 1996, because its debt service ratio was less than the threshold of 20-25 percent. Under HIPC II, which was introduced in 1999, the threshold debt service ratio was reduced to 15 percent. This enabled Malawi to become eligible. The country reached the decision point in December 2000 after demonstrating a track record of macroeconomic stability, preparing an interim PRSP, and clearing all outstanding arrears on external debt.

²⁶ Tan, Celine (2007)

Upon attaining the HIPC Initiative completion point, the country also became eligible for the Multilateral Debt Relief Initiative (MDRI), under which the World Bank, the IMF and the African Development Bank (ADB) cancelled 100% of debts owed to them. Therefore, MDRI translated into substantial additional debt relief. In total, Malawi's debt was reduced from US\$3 billion to US\$400 million. On an annual basis, it means that Malawi's external debt service obligations were reduced from US\$115 million to only US\$5 million. This is equivalent to a saving of US\$110 million (MK15 billion) per year, or 15% of Malawi's total budget. Since Malawi was already receiving between US\$40 million and US\$60 million in interim debt relief, by reaching the completion point, Malawi is having about US\$50-70 million (MK6-10 billion) additional money to spend per year, or about 6% of the national budget. Furthermore, Malawi's debt-to-export ratio decreased from 229 percent to 32 percent, implying that the country's external debt situation is currently serviceable and subsequently sustainable.

3.1.2 Cameroon

The total external debt of the country increased from USD\$260,3 million in 1971 to USD\$1,485 million in 1980, nearly doubling to \$2,674 million in 1981. From 1985, however, the country's debt position changed drastically, owing to cash-flow problems and increasing financing requirements, which led the government to resort both to foreign official sources of financing and private loans from commercial banks. The total outstanding debt rose from \$2262 million in 1985 to \$6050 million in 1990. It reached its highest peak of \$9846 million in 1993 (after the second SBA). Between 1994 and 1998, the outstanding debt remained relatively high, though decreasing somewhat from \$8883 million in 1994 to \$7510 million in 1999 (during the third and fourth SBA).

Cameroon's foreign debt rose considerably since 1987 mainly because of the negative impacts of the terms of trade in the mid-1980's, the long economic depression, and the fiscal crisis of the early 1990's. In 2000, this external debt exceeded the relevant threshold of the heavily indebted poor countries (HIPC) initiative, and Cameroon reached the decision point of this initiative in 2000. By the end of December 2005, the external debt of Cameroon amounted nearly to \$6.667 billion in nominal terms, 65% of which was borrowed from the Paris Club, 6% from the private creditors and 1% from bilateral creditors outside the Paris Club.

Likewise, after reaching the completion point of the Enhanced HIPC initiative in 2006, Cameroon became eligible for additional debt relief from the IMF, the IDA and the African Development Fund (AfDF) under MDRI. For Cameroon, debt relief involved a reduction amounting to \$1124 million in outstanding debt in nominal terms at the completion point. This would result in debt service savings of \$38.2 million, on average, over the 2006-2025 period. The IDA granted Cameroon debt relief amounting to worth 557 million SDRs (or \$749 million) in nominal terms.

3.1.3 Mozambique

Mozambique's indebtedness had the same crippling effects as was experienced by the other HIPC countries; the stock of external debt was considered unsustainable given the country's incapacity to generate enough resources to service the debts while responding to development needs. In 1985, its external debt stock was \$2794 million. By 1990, it reached \$4960 million. By 1998, it had peaked at \$6056 million.

In April 1998 and 2000 the country reached the decision points for HIPC I and II respectively. In June 1999 and September 2001 Mozambique reached the completion points, with an expected debt relief of USD\$4.3 billion. Following the decision made by the G8 in 2005 to further reduce debt of low income countries that had successfully implemented macroeconomic policies, PRSP and good management policies, Mozambique was eligible to benefit from MDRI. Thus, in 2006 the country received a cancellation of USD\$153 million from the IMF and USD\$1.2 billion from the World Bank, of which \$34 million and \$945 million respectively related to HIPC II. The African Development Fund agreed to cancel \$526 million of Mozambican debt.

3.1.4 Rwanda

In 1999, Rwanda had an unsustainable debt burden, with the NPV of debt estimated at about 520% of exports of goods and nonfactor services. Fifty percent was owed to the World Bank Group, with an additional 9.7% and 16% to the IMF and the AfDB respectively.²⁷ In May 2005, Rwanda became the 18th country to reach the completion point under the Highly Indebted Poor Countries Initiative (HIPC). Between 2003 and 2005, Rwanda underwent a number of reforms to ensure that the additional resources made available through the HIPC initiative would be well-utilized and that debt levels would be maintained at sustainable levels afterwards.

By the end of 2005, Rwanda's external debt was estimated at \$1532.1 million. The majority was composed of multilateral debt (94.5%), with bilateral debt amounting to 5.5% of total. The level of external debt had diminished considerably, beginning with debt relief initiative of the Paris Club in 1998, which relieved 67% of bilateral debt. IDA was among the principal creditors, relieving Rwanda of \$977.8 million. Total debt relief (multilateral and bilateral) amounted to \$795 million. By 2009, Rwanda is expected to receive \$1226.6 in debt relief; \$76.6 million from the IMF; \$883.9 million from the World Bank; \$266.1 million from the AfDB.²⁸

3.1.5 Uganda

Uganda was the first country to benefit from HIPC debt relief in 1998, while Enhanced HIPC was fully implemented in May, 2000. The pre-HIPC nominal value of the country's external debt stock stood at US\$3.7 billion. In the same period, the net present value (NPV) of debt to exports ratio was 243%. Under HIPC 1, Uganda received debt relief worth US\$347 million in NPV terms, of which 79% was from multilateral institutions (WB, IMF and AfDB); and the WB (IDA) debt relief amounted to nominal US\$354 million (equivalent to US \$160 million in NPV terms).²⁹

Enhanced HIPC was granted to the country arising out her declining terms of trade, a factor that had borne a negative effect on the country's NPV debt to exports ratio in the 1990s. Debt relief under HIPC 2, from all Uganda's creditors, was approximately US\$1.3 billion or US\$660 million NPV, which amounted to two-fifths of external debt stock. Including the US\$650 million provided under HIPC 1, total debt relief under the HIPC released approximately US\$2 billion for Uganda.

For Uganda, even with the debt relief enjoyed, as discussed above, the pre-MDRI debt picture was worrisome.

²⁷ See Rwanda: Preliminary document on the Enhanced Initiative for Heavily Indebted Poor Countries. Prepared by the Staffs of the International Development Association and the IMF, July 18, 2000

²⁸ AFRODAD (2008) The Challenges of Debt Sustainability in Africa: The Case of Rwanda

²⁹ AFRPDAD (2008) The Challenges of Debt Sustainability in Africa: The Case of Uganda

The contribution of HIPC, as compared to MDRI, was negligible. By end of FY 2005/06, the country's external debt amounted to approximately US\$8,360 billion, equivalent to 79 per cent of Uganda's total debt stock. The stock itself stood at about 61 percent of GDP. So, by registering 100 percent debt cancellation under the MRDI, Uganda's total external debt had sharply declined from US\$4.5 billion in 2005 to about US\$1.1 billion by March 2007.³⁰

3.2 Did Debt Relief Increase Fiscal Space?

In the cases under analysis here, the economies quickly come up against two tensions: debt sustainability and macroeconomic pressures. Thus, policies geared to create fiscal space should also ensure solvency for future generations by allowing more productive and growth-enhancing public spending and by reducing distortions that hamper growth.

For example the current debt position of Mozambique gives room to the government to contract further loans to support its development programmes. In fact new loans have been contracted to finance priority areas of the development programme. For example, between 2004 and 2006 the government contracted about US\$1.0 billion against debt relief of \$1.9 billion in 2006 alone. The new loans are a result of the fiscal space created by debt relief and have the potential to create revenues to further increase fiscal space in the future depending on the areas in which the resources are invested and government's commitment to improve the management of public resources. Table 4.1 shows total loans from 2000 to 2006.

Table 3.1 Total Loans to Mozambique in Million USD (2000 – 2006)

Year	2000	2001	2002	2003	2004	2005	2006
Loan	163	104	248	214	313	398	398

Source: GMD, *Aid Delivery and Country's progress, 2008*

The increasing trend of loans may very well be partially due to the unpredictability of grants, increasing by 25% in 2004 and declining by 5% in 2005. It was reported that the government of Mozambique is shifting from bilateral creditors to multilateral because the latter offer longer maturity periods, low interest rates and long grace periods.

In response the IMF contends that it is wrong to attribute the constraints on significantly higher Government spending to IMF programmes and advice. Rather, they are imposed by "sustainability considerations" (IMF Resident Representative in Uganda). According to him, there is no sustainable fiscal space to fund the MDGs as computed above because the funding required represents an additional 10% of Uganda's GDP or 50% of current total government spending, which cannot be mobilised domestically from taxation, borrowing, spending efficiency or re-prioritisation. If it were to come from external grants that would completely distort macroeconomic fundamentals.

Only Rwanda has not been hurt by unpredictability of aid flows, in terms of there being unexpectedly lower receipts of grants and concessional loans. Grant financing has been increasingly steadily since 2002, from \$155.1 million to \$315.2 in 2006. The year 2007 marks a decline in grant financing but closer inspection reveals that there was a more of a shift to budget support of \$139.3 to \$169.4, 2006-2007, and a decline in grants to capital financing.

³⁰ *ibid*

Despite the prevailing debt sustainability situation, precautionary actions should be taken to avoid the re-occurrence of future unsustainable debts, namely to ensure that investment is also made in sectors that generate income and that the overall debt package is adequately managed.

Country Experiences with the PRGF: Cameroon

Before the PRGF, Cameroon had concluded four stand-by arrangements (SBA) with the IMF, successively in 1988, 1991, 1994 and 1995. Generally, these arrangements aimed at limiting the governmental spending, at mobilizing the internal and external resources, and to increase in this way the budgetary space of the government. However, the implementation of this program was slow and inadequate for stemming increasing economic deterioration, except perhaps for trade liberalization measures which were carried through. Elsewhere, the persistence of problems increasingly worsened the situation, in such areas as the balance of trade and budgetary position where the latter recorded a deficit of 50 billion CFAF between 1989 and 1990/91. Consumption per head fell 40% between 1985/86 and 1992/93. The outstanding external debt, which was less than one third of GDP in 1984/85 rose to more than one fourth of GDP in 1992/93. The rate of capital expenditure went from 27% to 13% of GDP during the same period. Further public finance imbalances were characterized by cash flow problems, which forced the government to initiate drastic salary cuts in the Civil Services in January and November 1993.

Generally, the SBAs did not achieve their intended objectives. It is under these conditions that the government in 1997, decided to implement more significant reforms by formulating a medium-term economic and financial program (1997/98 – 1998/2000), supported by the IMF's Enhanced Structural Adjustment Facility (ESAF) that was later transformed into a Poverty Reduction and Growth Facility (PRGF), denoted below as PRGFI.

In August 2000, an interim Poverty Reduction Strategy Paper (PRSPi) was finalized by the government. This Paper permitted the country to reach the HIPC initiative decision point in October 2000. On this basis, Cameroon obtained both a second Poverty Reduction and Growth Facility (PRGFII), approved by the IMF in December 2000, and a third Structural Adjustment Program (SAP III), approved by the World Bank in April 2000-2003. It was later extended to include the year 2004 at the request of Cameroon's authorities. At the beginning of 2005, the government adopted a program monitored by IMF services (PMF), and in October 2005, the IMF Board of Directors approved another arrangement for three years in the context of the PRGF. The new Cameroon PRGF programme started in 2005 and expires in 2008.

Extent to Which PRGF is drawn from PRSP

In the case of Cameroon, the PRSP was prepared by the government by using a board and detailed consultative process adopted by the government in April 2003. The Paper was to cover the 2003-2015 period, and it was examined by the Boards of Directors of both the IDA and the IMF. The stakeholders participating in the consultative process included the poor, civil society, the private sector and development partner. It presents the views of public authorities and the priority actions provided for to combat poverty in accordance with the Millennium Development Goals (MDGs) set for the 2015 horizon.

The PRGF, however, was not generally open to the public, and notably to civil society. Consequently, the PRGF process has had a limited impact in the production of significant discussions outside the restricted official circle (made up of a few officials from the Ministry of Finance, the Autonomous Sinking Fund, the Technical Committee for Monitoring Economic Programs (CTS), the Ministry of Planning, and the Prime Ministry) on alternative policy options regarding the macroeconomic framework, and relevant structural macroeconomic reforms. This partially reflects the lack of any mechanism for ensuring that key questions be aired and great debates informed. In such an environment, ownership is not clear.

The main policies and strategies of the programs supported by the PRGF are exactly reproduced on those of the PRSP. The growth consolidation strategy of the government consisted of consolidating the progress achieved, and to proceed with budgetary reorganization, to deepen and carry through its structural and sector reform programs, in order to achieve high economic growth, to diversify the economic base, to reduce poverty appreciably, and to succeed in attaining durable financial viability. The part of the program relating to poverty reduction was centred on the following sub-components: i) to improve the incomes of the populations; ii) to improve the living conditions of the populations; and iii) to improve the provision and the quality of education and health. The part of the program relating to governance dealt with the implementation of the priority action plan of the National Governance Program (NGP) adopted by the government in 2000. It had two sub-components: the promotion of good governance, and the combat against corruption.

It is important to note that even with the recourse to extremely concessional loans, this could lead to unsustainable debt if the economy can not respond to debt service and development needs.

Debt relief under HIPC and MDRI have expanded Uganda's fiscal space. For example, the Poverty Action Fund created under HIPC debt relief initiative created fiscal space to fund selected expenditure in priority areas of government such as health and education, PAF has grown from 23% of the budget to 33% in 7 years. Additional fiscal space created under MDRI is allowing government to take loans on commercial terms to fund Bujagali Hydro Electric Power Generation. In terms of other sources of fiscal space, Uganda has mobilised domestic revenue at a growth rate of 0.5% of GDP per year. Uganda has undertaken inter and intra sectoral prioritisation and expenditure re-allocation and it has formulated a comprehensive and integrated debt management strategy.

Debt remains a considerable obstacle to meeting the MDGs in many poor countries. Rwandan debt stock, before HIPC, was \$1,009 million. ODA is insufficient when viewed against the MDG financing requirements. The country spent \$695 million on development expenditures, taking in only \$180 million in ODA. Its total income that year was \$532 million. The decrease in debt service through the HIPC initiative represented a permanent release of over US\$60 million per year of domestic revenue to Rwanda. In absolute terms the relief is quite significant. In 2006, the total health budget was about Rwf34 billion, equivalent to approximately US\$60 million. Thus, while the country had the opportunity to re-allocate what would otherwise have gone to servicing external debt to priority sectors, the idea that HIPC debt relief is sufficient to assist countries in meeting the MDGs is absurd.

The sustainability of the fiscal space created by debt relief is also called into question in Rwanda. Government revenue has not increased significantly as a proportion of GDP (it is hovering around 6%), and it is insufficient to cover the increasing expenses, as demonstrated by the trade balance, which increased from \$249.1 million to \$295 million between 2005 and 2006. Fiscal space does not appear to have widened, even as the stock of external debt has declined considerably; from 70.7% of GDP in 2005 to 14.6% in 2006.

The Mozambique report points out that debt relief should only be considered a contributor to fiscal space if the loans were being serviced. Some debts were not being paid in the first instance due to lack of capacity to do so. Hence, debt relief did not result in saved money but in writing off the amount from both creditor and debtor books.

Table 3.2 Contribution of Debt Relief to Fiscal Space, USD millions

Countries	Debt relief to date	Net Deficit Financing, 2007	Of which IMF loans, 2007	% of fiscal space reduced
Cameroon	2400	595.7	12.3	24.8
Malawi	3600	40.8	27.6	1.1
Mozambique	5280	419.3		7.9
Rwanda	795	14.3	3.3	1.8
Uganda	1300	331.1		25.4

Source: Compiled by AFRODAD from various sources

The case of Cameroon is most alarming. The fiscal space created by debt relief contracted by near a quarter in 2007. 91.3% of deficit financing in 2007 was domestic. Further, in Chapter 2, it was presented that Cameroon's fiscal balance, though positive, had narrowed considerably in 2007.

3.3 Domestic Debt

Another source of financing of a government's development programmes is public domestic debt. Although Mozambique's domestic debt level are regarded as sustainable so far, it has been increasing rapidly in recent years, creating cause for concern. The main reason why the government has sought to borrow domestically is that there have been delays in funds disbursement by donors and creditors originated by either bureaucratic procedures or lack of compliance with conditions. From a total stock of 51,900 million MT³¹, in 1999, it had reached 3,366.900 million MT by the end of 2005, representing 0.1%, 4.3% and 2.2% of the GDP in 1999, 2003 and 2005 respectively. It is expected that by 2008 the public domestic debt will reach 8,500,000 millions MT.

Although figures suggest that this debt is still sustainable, the fact that the interest rates are fixed and serviced at market prices is worrisome in that considerable amounts of resources are going back to debt service. At the present, the public domestic debt service constitutes a bigger burden than the public external debt service. While in 2004, the public external debt was serviced at 411,000 millions MT, the public domestic debt was serviced at 910,000 millions MT, representing 1.3% and 2.9% of the total Government Expenditures of the same year, respectively. Moreover, the recourse to public domestic debt can limit private investment as both the government and private sector are competing for limited internal funding. Therefore, although recourse to domestic borrowing can increase fiscal space in the short run, the latter can be reduced in the long run due to the crowding-out effect and heavy debt service.

Cameroon was on its way to getting out from under its domestic debt burden. Domestic debt had decreased from \$2697 millions in 2004 and to \$1788 millions in 2006. However, in 2006, the Cameroonian government spent 350 billion CFAF on domestic debt service alone; 21.8% of domestic budgetary receipts.

³¹ Interview with the IMF Uganda Resident Representative

4.0 Fiscal Space: Has it Increased or Decreased?

In its Regional Economic Outlook for SSA (2007), the IMF lists the sources and trade-offs of creating fiscal space. It includes domestic borrowing, which has implications towards long-run fiscal sustainability and may potentially crowd out domestic private investment. Re-prioritising expenditures also creates space when resources are scarce. Aid is an obvious source of fiscal space, but it reinforces dependency and there are limits to its absorption.

If one is to define fiscal space as the amount of resources currently available for allocation and distribution, then Table 4.1 attempts to quantify the amount of fiscal space the countries had in 2007, given their pool of resources in 2006. That pool is drawn from external support, which consists both of grants and debt relief, domestic revenues comprising of both tax and non-tax revenues and net deficit financing, comprising both external and domestic financing. The fiscal space created in 2006 is then measured against the projected public expenditures in 2007.

Table 4.1 Calculation of Fiscal Space, USD millions

Countries	External Support, 2006	Domestic Revenues, 2006	Net Deficit Financing, 2006	Fiscal Space 2006	Total Expenditures, 2007
Cameroon	5273.95	6.63	5628.35	10908.93	3059.3
Malawi	357.34	484.29	13.58	855.21	1104.9
Mozambique	810.08	1038.35	112.77	1961.20	2649.8
Rwanda	3051.46	3786.14	276.41	7114.01	8446.9
Uganda, Ush billions, FY 06/07	1193.9	2710.6	861.6	4766.1	4364

Source: Compiled by AFRODAD from various sources. Based on methodology proposed by Rathin Roy.

The Mozambique report found that fiscal space had increased owing to debt relief, economic growth and donor contributions. The implementation of policies and strategies that allowed the country to benefit from debt relief and increase national revenues has led to government ability to increase investment in critical areas without prejudice to the sustainability of financial position. The government was able to increase public expenditures over time while maintaining fiscal and monetary targets and the sustainability of expenditure. However, it is important to note that fiscal space increased within the framework of a restrictive development model. It increased in the extent of compliance with macroeconomic targets and not necessarily to the full extent of government needs.

Nearly all the cases premise fiscal space on the fulfilled commitments of donors. Therefore, the unpredictability of aid affects fiscal space. Development programmes should take into consideration past delivery of aid against the commitments made when trying to assign budgetary allocations.

An alternative way to capture the fiscal space is to consider the financing of expenditures derived solely from domestic resources. In Cameroon, over the whole 2000-2015 period, government revenues excluding grants (fiscal space) exceed expenditures, thus indicating a positive budgetary balance. The latter is due to the importance of the fiscal or budgetary space available to the government. In 2007, for instance, projections indicate that, based on orders to pay, the budgetary space excluding grants amounted to 182.4 billion CFA francs. Therefore, the space has generally been increasing since Cameroon reached the decision point of the HIPC initiative in 2000, a situation that has led to the attainment of budgetary surpluses.

Using this same measure, Rwanda has actually experienced a decline in fiscal space; that is, a decline in its ability to finance expenditures with domestically-generated resources. With public revenue projected to decline and expenditures projected to increase from 31.3% to 23.8% of GDP, the domestic fiscal deficit has widened to -8.1% in 2007.

The Mozambique report found that fiscal space had increased in Mozambique owing to debt relief, economic growth and donor contributions. The implementation of policies and strategies that allowed the country to benefit from debt relief and increase national revenues has led to government ability to increase investment in critical areas without prejudice to the sustainability of financial position. The government was able to increase public expenditures over time while maintaining fiscal and monetary targets and the sustainability of expenditure. However, it is important to note that fiscal space increased within the framework of a restrictive development model. It increased in the extent of compliance with macroeconomic targets and not necessarily to the full extent of government needs.

As Table 4.1 indicates, fiscal space also increased through borrowing from external and internal sources. As the figures for Cameroon indicate, more than half of its fiscal space was created by debt financing. As mentioned in the previous section, from 2004 to 2007 Mozambique borrowed about USD 1.1 billion to support its development programme. Recourse to debt external for countries who have just come out of unsustainable debts and have fragile economic base should be done with care and need reliable debt management systems. Otherwise, the gains obtained from debt relief can be lost in the presence of inability to sustain new debt obligations. Internal debt, on the other hand has been used to increase fiscal space but it is expensive and can affect negatively the development of the private sector because the government would be competing for the same resources. Though the report cautions that more has to be done to increase the level of fiscal space mainly from government revenues and to reduce the level of dependency on deficit financing.

Considering fiscal space in the sense that it is more the political space to make determinations regarding fiscal policy, the political space within PRGF process though, is still very tight. The PRGF document is not open to debate by civil society and other stake holders. As a result, there is lack of understanding about IMF programmes in different countries and weak interaction with non state stakeholders. In Mozambique there have been some consultations with IMF country representatives but the interaction needs improvement. Civil society would like to establish a communication channel with the Fund and be able to participate in the PRGF/PSI processes.

In Uganda, sector ministries prepare investment plans painstakingly working out the resources needed to realise the plan. But sector ceilings constrain the full implementation of the plans. Examples are in Education's Fast Tracking programme and additional health programmes to fight malaria and HIV/AIDS that could not be accepted on macroeconomic stability reasons. This dilemma boils down to the 'logic of need' versus the 'logic of the available', leaving no room for a sector to dream.

While the IMF claims that it only helps government do projections to create the aggregate resource envelop, this very envelop is what Government uses to determine sector ceilings under a Commitment Control System, which the IMF monitors religiously under Quantitative Performance criteria and Benchmarks. In response the IMF contends that it is wrong to attribute the constraints on significantly higher Government spending to IMF programmes and advice. Rather, they are imposed by "sustainability considerations".

Country Experiences with the PRGF: Mozambique

Mozambique joined the IMF in 1984, following the President's announcement that the country was no longer able to service its external debt. The International Monetary Fund supported programme was launched in 1987 and involved shifting from a centrally planned economy to market based economic policies and structural reforms. This programme consisted of the implementation of major reforms that included the unification and stabilisation of the exchange rate, significant tariff reforms and trade liberalisation, the elimination of most price controls, privatisation of public enterprises and extensive financial sector reform. The last PRGF arrangement for \$15.16 million was approved in July 2004 to support the implementation of the Government Macroeconomic programme for 2004-2007. The programme aimed at consolidating macroeconomic stability and addressing the remaining structural adjustment challenges to sustain and broaden growth, promote employment and further reduce poverty.

The IMF approved a three year Policy Support Instrument for Mozambique, covering the period 2007 – 2010. The main objective of the programme is to sustain high rate of growth and further reduce poverty in line with PARPA II. This will be achieved by continuing to implement sound monetary and fiscal policies as well as prudent debt management and public finance reforms. Thus, inflation rates are expected to be maintained at single digit, preservation of comfortable levels of foreign reserves, flexible exchange rate and no recourse to financing from the domestic financial system. Overall, the PSI is the continuation of the implementation of PRGF reforms. Structural performance criterion and structural benchmarks continue to be a requirement and their assessment is at a semi-annual basis.

Extent to which PRGF is drawn from PARPA

Looking at the content of both PARPA and PRGF supported programmes we can conclude that there is consistency in terms of objectives and policies. PARPA II states that for the achievement of sustainable economic development and poverty reduction, it is necessary to have a stable macroeconomic situation, an institutional framework and a favourable environment to investment, a developed and comprehensive financial system, infrastructures and increased technical and technological capacity of companies and Mozambican workers. This strategic document is organised in three pillars: governance, human capital and economic development.

What may not seem clear is whether the PRGF supported programs are underpinned in PARPA objectives or PARPA is underpinned in the PRGF macroeconomic framework. There is a sense of government "subordination" to the IMF. This grey area is supported by the following facts. First, Mozambique has been implementing IMF supported programmes for seventeen years and its macroeconomic framework has been, in great deal, shaped by international policies. The implementation of these policies has been reinforced by the need to comply with conditionalities, which in turn dictated the access to external funding. Second, other government documents like the Five-Year plan and annual plans and their respective budgets are in line with PRGF macroeconomic targets. Third, the timing of approval of both PRGF and PARPA (PRSP) were not concurrent, with the PARPA in lag: PRGF approved in July 1999 for a period of three years and PARPA I approved in April 2001; final PRGF approved in July 2004 for 3 years and PARPA II approved in May 2006.

Lastly, civil society organisations have been participating in the formulation of the PRSP where they discuss all issues related to poverty reduction programmes except the macroeconomic framework because this has been already defined to comply with the IMF model. From the statements above, it is evident that the PARPA macroeconomic and structural frameworks and other government documents such as the Five years Plan, sector plans and their related budgets are underpinned in the PRGF supported programmes which respond to the IMF development model.

According to him, there is no sustainable fiscal space to fund the MDGs as computed above because the funding required represents an additional 10% of Uganda's GDP or 50% of current total government spending, which cannot be mobilised domestically from taxation, borrowing, spending efficiency or re-prioritisation. If it were to come from external grants that would completely distort macroeconomic fundamentals.

The countries under study were able to create fiscal space in a variety of ways (re-prioritisation of expenditures, borrowing, domestic revenues) and did so under the guidance of the IMF. However, there were instances in which policy space was constricted by the PRGF/PSI framework. As governments try to create that additional budgetary space so they can allocate it towards spending priorities, they may not have the choices of spending and, most importantly, how to manage the trade-offs. That is, the economic policy conditions tied to the PRGF and PSI affect the fiscal space that partner countries actually have to develop the policy framework surrounding development expenditures; calling into question the sovereignty of the country over its strategy to combat poverty.

References

CAMEROON

Devarajan, S., M.J. Miller, and E.V. Swanson (2002), "Goals for Development: History, Prospects and Costs", Policy Research Working Paper No.2819, The World Bank, Washington, D.C

Emini, C. and Fofack, H. (2004) .A Financial Social Accounting Matrix for the Integrated Macroeconomic Model for Poverty Analysis Application to Cameroon with a Fixed-Price Multiplier Analysis, World Bank Policy Research Working Paper 3219.

Hanmer, L., N.D. Jong., R. Kurian., and J. Mooij (1999), "Are the DAC Targets Achievable?: Poverty and Human Development in the Year 2015", Journal of International Development, 11, No. 4, pp.547-63.

IDA (2006). 'IDA's Implementation of the Multilateral Debt Relief Initiative'. 14 March 2006.

IDA and IMF (2006). 'Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative – Status of Implementation'. 21 August 2006. Washington DC: IDA and IMF. <http://www.imf.org/external/pp/longres.aspx?id=3887>

IEO (2004) Evaluation of the IMF's Role in Poverty Reduction Strategy Papers and the Poverty Reduction and Growth Facility. Washington DC: IMF Independent Evaluation Office.

IMF (2006a). 'The Multilateral Debt Relief Initiative (MDRI)'. IMF Factsheet, December 2006. <http://www.imf.org/external/np/exr/facts/mdri.htm>

IMF (2008). Cameroon: 2008 Article IV Consultation, Fourth Review Under the Three Year Arrangement Under the PRGF, Request for Waiver of Performance Criterion et al. Country Report No. 08/11

IMF (2007). Cameroon: 2007 Article IV Consultation, Third Review Under the Three Year Arrangement Under the PRGF, Request for Waiver of Performance Criterion et al. Country Report no. 07/285

IMF (2007). "Cameroon: 2007 Article IV Consultation, 3rd Review Under the Three Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Performance Criterion et al" Country Report No. 07/285.

IMF (2007). Structural Conditionality in IMF-Supported Programs: Background Documents
October 29, 2007, Washington DC.

IMF (2007) Cameroon, Country long term assessment, cr05189

IMF (2005) Cameroon: Review of the Staff-Monitored Program and Request for a Three-Year Arrangement under the PGRF, Report No. 05/413, IMF Nov.

IMF (2003). Cameroon: Fourth Review Under the Three-Year Arrangement Under the PGRF, December 31, 2003.

IMF (2002) Cameroon: Article IV Consultation, Third Review Under the PGRF, and Request for a Waiver of Performance Criterion, dec.2002.

IMF (2001) Cameroon-Poverty Reduction Strategy Paper Preparation Status Report-Table of Contents, December 28, 2001.

IMF (2001)Cameroon: Article IV Consultation, First Review of the First Annual Program Under the Poverty Reduction and Growth Facility, August 6, 2001

IMF (1999) Cameroon Enhanced Structural Adjustment Facility Medium-Term Economic and Financial Policy Framework Paper (1999/2000–2001/02,) August 9, 1999

Njankouo, D., L., (2004).Domestic Debt Management : The experience of Cameroon, WADMO Journal, N°2, October.

PRSP (2003). Cameroon's Poverty Reduction Strategy Paper, IMF Country Report No.03/249 2003 International Monetary Fund, August 2003. <www.imf.org/external/country/cmr/index.htm> (cited January 2004).

PRSP (2000). Interim Cameroon's Poverty Reduction Strategy Paper, Government of Cameroon, MINEFI. Tan, Celine. (2007). Debt and Conditionality: Multilateral Debt Relief Initiative and Opportunities for Expanding Policy Space, Third World Network (TWN),Global Economy Series 9.

UNDP (2005), Investing in Development: A Practical Plan to Achieve the Millennium Development Goal (United Nations, New York).

UNDP (2002). Summary Report Financing the Development Goals An analysis of Tanzania, Cameroon, Malawi, Uganda and Philippines, March

World Bank (2000), "Can Africa Claim the 21st Century", Washington D.C

World Bank (2004) Cameroon: Third structural adjustment credit, Implementation Completion Report, November 2004.

World Bank (2003) Cameroon: Country Assistance Strategy (CAS) 2004-2006, August 2003.

World Bank (2001) Cameroon; Country Assistance Evaluation, Operations Evaluation Department, Jan.2001.

World Bank (1998).Cameroon: Third structural adjustment credit, Report No.PID6517, June 1998.

World Bank (2000). *Global Development Finance 2000*. Washington, DC: World Bank.

World Bank (1982), World debt Tables, Supplement, 1982

World Bank (1981), World debt Tables, December.

MALAWI

Bamusi, M. (2005), The Impact of the Poverty Reduction and Growth Strategy on Social Services in Malawi, draft report submitted to AFRODAD.

Chipeta, C. and Peretz, D. (2006), Monitoring Donor Support Behind Country Owned Poverty Reduction Strategies: Malawi, report for the Commonwealth Secretariat.

Chirwa, E.W. (2005), "Poverty Reduction Strategies in Malawi: Processes, Implementation and Sustainability", in Proceedings of the Workshop on the Assessment of Poverty Reduction Strategy Papers in Sub-Saharan Africa: The Case of Malawi, held on 4th November 2005 in Lilongwe – Malawi.

International Monetary Fund (2006), Malawi: Second Review Under the Three-Year Arrangement Under the Poverty and Growth Facility and Request for Waiver of Performance Criteria – Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Malawi.

_____ (2007), Malawi: Article IV Consultation and Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Nonobservance of Performance Criterion – Staff Report; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Malawi.

_____ (1988), IMF Survey, July 25, pp. 252-253.

_____ (1983), IMF Survey, October 10, p. 322.

_____ (1982), IMF Survey, August 16, p. 248.

Malawi Government, Ministry of Economic Planning and Development (2007), Annual Economic Report 2007 (Lilongwe: Government Printer, 2007).

_____ (2006), Malawi Growth and Development Strategy From Poverty to Prosperity 2006-2011 (Lilongwe: Ministry of Economic Planning and Development).

National Action Group Forum (2005), "The IMF – Malawi Government Agreement, 2005-2008", August.

Malawi Economic Justice Network (2006), Inside the Proposed 2006/2007 National Budget A Pre-Budget Analysis.

_____ (2007), FY 2006/07 Post-Budget and 2007/08 Pre-Budget Analyses.

_____ (2007a), Service Delivery Satisfaction Survey (SDSS III) Report.

_____ (2006), Findings of Service Delivery Satisfaction Survey II.

National Statistical Office (2005), Integrated Household Survey 2004-2005 (Zomba: National Statistical Office).

_____ (2006), Welfare Monitoring Survey 2005 Statistical Abstract (Zomba: National Statistical Office).

_____ (2007), Welfare Monitoring Survey 2006 Statistical Abstract (Zomba: National Statistical Office).

Nyirenda, M. (2006), "Reconciling Principles and Practice of the PRGF: Are We on the Road to Poverty Reduction?", AFRODAD Occasional Paper No. 6.

World Bank (1998), World Development Indicators 1998 (Washington, D.C.: World Bank).

World Bank (2007), World Development Indicators 2007 (Washington, D.C.: world Bank).

MOZAMBIQUE

1. Aid effectiveness in Mozambique, GMD, 2007
2. Balanço do Plano Económico e Social 2007, República de Moçambique, 2008
3. Balanço do Plano Económico e Social 2006, República de Moçambique, 2007

4. Fourth Review under the Three-Year Arrangement under PRGF, Financing Assurance review, and Request for Modification of Performance Criteria, Government of Mozambique, June, 2006
5. IMF Policy Development Review Department on Key Features of PRGF, IMF
6. IMF and Assistance to Sub-Saharan Africa, Independent Evaluation Office, 2007
7. Information Note n° 98/33, 30 April, 1998, IMF Letter of Intent, Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding, 2004/2006, Government of Mozambique
8. Letter of intent, Memorandum of Economic and Financial Policies and Memorandum of Technical Understanding, October, 2007, Government of Mozambique
9. Letter of Intent, Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding, Government of Mozambique, April 2006
10. Letter of Intent Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding, Government of Mozambique, October, 2006
11. Letter of Intent Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding, Government of Mozambique, November, 2007;
12. Letter of Intent Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding, Government of Mozambique, January 24, 2005;
12. Letter of Intent Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding, Government of Mozambique, May, 2005
13. Letter of Intent Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding, Government of Mozambique
14. Memorandum of Economic and Financial Policies of the Government of Mozambique for the Sixth Review under PRGF Arrangement and for PSI Supported Programme (June 2007-June 2010) of March, 2007, IMF
15. Press Release n° 99/25, June 28, 1999 – IMF Approves ESAF for Mozambique, IMF
16. Reaching the Impossible – Sustain the Inclusion in Growing Economy in Mozambique, World Bank, 2007
17. Review of PRGF Programme Design – Overview, IMF, August 2005
18. Seminar on Debt Management, GMD, 2008
19. Staff Report for 2000 Article IV Consultation and Second Review under PRGF, IMF
20. Understanding Fiscal Space, Petter S. Heller
21. Review of PRGF Programme Design – Overview, IMF, August 2005

UGANDA

Action Aid (2007): The IMF Policy Support instrument; Expanded Fiscal Space or continued belt-tightening; A Policy Brief

AFRODAD (2006): Course on International Financial Institutions (IFIs) Macro-economic Issues

AFRODAD (2006): Macro-Economic Policy options in Sub Saharan Africa: Linking Poverty Reductions Strategy Papers and Millennium Development Goals- the Case of Uganda

Heller, Peter (2005), "Understanding Fiscal Space" *Policy Discussion Paper 05/4*, (IMF: Washington)

International Monetary Fund (2003): IMF Country Report No. 03/213

International Monetary Fund (2004): IMF Country Report No. 04/34

International Monetary Fund (2004): IMF Country Report No. 04/289

International Monetary Fund (2005): IMF Country Report No. 05/183

International Monetary Fund (2005): IMF Country Report No. 05/306

International Monetary Fund (2006): IMF Country Report No. 06/43

International Monetary Fund (2006): Press Release No. 06/14

International Monetary Fund (2007): A fact sheet October 2007

International Monetary Fund (2007): IMF Country Report No. 07/212

International Monetary Fund (2008): IMF Country Report No. 08/4

Ministry of Finance, Planning and Economic Development (2007): Uganda Debt Strategy

Semanda, S. (2007): Basic Macro-Economic Concepts; A paper presented to NGO Forum training Seminar (unpublished)

