Is the PRGF living to its Expectations in Africa?

Key issues from the AFRODAD September 2004 Report

The Poverty Reduction and Growth Facility (PRGF) is the IMF's low-interest lending facility which was established in September 1999 to make the objectives of poverty reduction and growth more central to lending operations for the world's poorest countries. PRGF-supported programs emphasise broad public participation and greater country ownership of development programs which reflect each country's poverty reduction and growth priorities. They also give more attention to the poverty and social impacts of key macroeconomic policy measures.

Although the PRGF has been viewed as a significant improvement from Structural Adjustment Programmes (SAPS), because it is supposedly more inclusive, AFRODAD research findings reveal that the PRGF's key elements remain the same as the Enhanced Structural Adjustment Facility (ESAF), therefore largely unlikely to make much difference in terms of success.

The AFRODAD PRGF study and subsequent workshop experiences reveal that conditionalities are too many, running into several dozens, too rigid, have underlying caveats and countries spend too much time trying to please donors by fulfilling these at the expense of engaging in actual poverty reduction activities. Conditionalities are often too ambitious and difficult, frustrating and diminishing the recipient country's hopes of fulfilling them.

Although the International Financial Institutions (IFIs) do not dictate to recipients which sectors to cut down expenditure on, the overall rigid framework of their policy advice and conditionalities gives borrowing countries little room for flexibility and choice due to the desperate need for resources.

There are several recommendations on the way forward which AFRODAD will continue to highlight as it lobbies for policy changes at national, regional and international levels:

- PRGF and Poverty Reduction Strategy Papers (PRSPs) should be de-linked from the Heavily Indebted Poor Countries (HIPC) initiative as a condition for accessing debt relief.
- The PRGF should be opened up for discussions and contributions by stakeholders to enhance participation and national ownership.
- One size fits all growth strategies are not suitable for poverty reduction in low income countries implementing PRGF supported programmes.
- Donors should adopt the human development concept which embraces both material and non material welfare aspects of the human condition. Human welfare should be the main goal of development.
- Economic reforms should prioritise the needs of the poor and be sensitive to their different circumstances.
- The International Monetary Fund (IMF) should be more flexible in setting targets for measuring and fixing inflation and interest rates.
- HIPC debt relief packages should be revisited in order to release more resources for PRSP programmes and the achievement of the Millennium Development Goals (MDGs).
- Africa needs to begin to explore innovative ways of generating internal sources of financing and have external financing as a supplement.

Studies carried out by AFRODAD on the *Process and Content of PRSPs*[1] in ten African countries revealed that the PRGF is one of the major impediments in the success of the PRSPs. As a major financing tool of PRSPs, the PRGF contains restrictive conditionalities. It deals with highly technical macroeconomic issues that are beyond most ordinary citizens who, therefore, cannot make meaningful contributions in PRSPs.

IFIs do not open up discussions around the macroeconomic framework of the PRGF and hence civil society consulted in the AFRODAD study refer to a "shrouded with secrecy" as having surrounded the PRGF

[1] Africa's Experience with the PRSP: Content and Process. A synthesis Report of 10 African countries, Afrodad PRSP Technical Paper 2003.

discussions. While the PRSP was open to discussion, the PRGF was clearly not – undermining the participation and ownership principle on which both the PRSP and PRGF are based on.

Moreover, conditionalities have increased in PRGF-supported programmes than they were in ESAF-supported programmes. Conditionalities for performance criteria have increased from 10 for ESAF to 13 for PRGF. Conditionalities identified as benchmarks have increased from 39 for ESAF to 45 for PRGF. ESAF did not have conditionalities for good governance but three were introduced in the PRGF between March 2000 and November 2002.

The IMF defines economic growth as a critical condition for poverty reduction and emphasises on religious implementation of their macroeconomic stability prescriptions to achieve this. Their assumption is that economic growth will automatically lead to poverty reduction yet, in reality, evidence shows a rather weak link between the two. For instance, Zambia is said to have achieved an average growth rate of 4% over the last four years, yet more than 72% of the population still lives under the poverty datum line.

Botswana is a good example of an economy that has grown at double digit levels annually during the three decades of the 1970s, 1980s and 1990s, and yet half the people still live in poverty. This largely proves that such growth as being initiated by the IMF is not necessarily conducive for poverty reduction.

The IMF also emphasises on a single digit inflation rate as a measure of macroeconomic stability and general success. To achieve this, countries have to, among other things, maintain sustainable fiscal and structural reforms, strengthen public expenditure management and eliminate budget deficit at all costs. The PRGF, however, fails to show clearly the pro-poorness of the single digit inflation rate.

PRSPs and PRGFs are developed as both a condition necessary for accessing debt relief under the enhanced HIPC, as well as accountability tools for using debt relief savings. These Papers cover economic and social policies of participating countries and both of them require that they be prepared in a participatory manner. While national poverty strategies developed through a participatory process may be a good thing in themselves, studies by AFRODAD (2003)[1] suggest that:

- Tying poverty strategies as a condition for accessing debt relief under HIPC has delayed the desperately needed debt reduction.
- Pressure applied on these countries to rush these strategies left insufficient time to have a deeper participatory process. In all these countries there was a 'broad' participation in preparing the country PRSP, however, there was no participation in preparing country PRGFs. The problem arose when PRGF was required to be signed at a 'Decision Point' while the participatory process of preparing PRSPs had not yet started. Therefore, although all PRSPs include a macroeconomic section, no meaningful discussions have taken place in a participatory way on the macroeconomic framework. It is actually an undemocratic endorsement of the PRGF which has already been signed anyway!
- Indebted countries included in the HIPC Initiative were caught up in a double bind: they desperately needed debt reduction to reduce poverty; but in order to receive full debt reduction they had to reduce poverty first. This was very antagonising to the leadership of these countries.

The analysis of IMF country reports for Burkina Faso, Ghana, Malawi, Rwanda, Tanzania, Uganda and Zambia shows that some isolated participation in preparing PRGFs took place in these countries (see also AFRODAD, 2003)[1].

However, the reality on the ground is quite the contrary. Civil Society conclusions in these countries on poverty reduction strategies are two-fold. One; is that PRSP is participatory but PRGF is not participatory. Two; is that these programs in some instances are country-led, but in all countries they are not country-owned (see AFRODAD, 2003). In all the countries studied except (to a certain degree) Uganda, broad participation did not start until PRSPs started to be prepared. But by this time, PRGF documents had already been signed. The implication of this paradox is that most of the macroeconomic strategies are not pro-poor.

[1] Africa's Experience with the PRSP: Content and Process. A synthesis Report of 10 African countries, Afrodad PRSP Technical Paper 2003.

One of the reasons given by HIPC Governments and the IMF for not engaging the public on PRGF issues is what they call lack of technical expertise within the public and the Civil Society in particular. The problem is that when the IMF outlined its first key feature of PRGFs as broad participation and greater ownership, it did not refer to its previous record of not being engaged in these areas. The IMF has not proven strategies of how they can carry successfully the participation and ownership agenda. That is why almost all IMF documents mentioning PRSP and PRGF under the same breath assume that the PRGF-supported programs are drawn from PRSP documents. This cannot be true in reality. This is simply because PRGFs are prepared and signed before PRSP documents are in place. Therefore, in reality PRSP documents are aligned to PRGF documents, which came into being before the PRSPs were developed.

The need for PRSP and PRGF endorsement by the Boards of the IMF and the World Bank eroded the quest for greater ownership advocated by these lending instruments. And it was, and it is still, quite clear from the IMF and the World Bank that PRGFs and PRSPs have to meet certain criteria for them to be endorsed and attract their funding. This position goes against the spirit of participation. Clearly, there is a huge policy disjuncture between the aspirations of the poor and what is prescribed in the macroeconomic framework. What the poor are seeking are rights-based solutions to their problems (basic needs approach), while PRSPs typically go for market outcomes, which exacerbate poverty.

AFRODAD recommendations to IMF are as follows:

- The IMF should build safety nets into its programmes to deal with potential adverse social impacts of stabilization and adjustment policies. For example, the burden of some IMF policies fell on the middle classes – such as the decline of wages of civil service employees in Ivory Coast during 1998/1999. Others hit the poor the hardest, such as the decline of living standards for maize growers in Zambia and Malawi in 1999/2000, estate workers in Malawi in 1998 and urban day labourers in Tanzania and Ivory Coast between 1998 and 2000.
- The IMF should present governments with economic options and scenarios to choose from rather than a single "solution".
- The reviewers called for the creation of National Economic Management Teams comprised of key stakeholders including government officials and the Civil Society to design and discuss economic options. This, they asserted would have helped to build greater country ownership.

- PRGFs and PRSPs should be de-linked from the HIPC initiative, a condition for accessing debt relief. Both the PRGF and the PRSP should be open to stakeholder-participation and ownership.
- A demand was made for a timetable for preparing a comprehensive PRSP in a participatory process to be included in the preparation of Interim PRSPs. It is therefore proper to recommend that a similar demand be extended to PRGF so that a timetable should be available for its participatory process during its preparation or its review. The time table should allow for deep consultations to occur under an institutionalized framework. A process of mobilization of all civil society groups must be undertaken, followed by economic literacy training before participation so that the process is both inclusive and based on informed participation.

Almost all countries implementing PRGF–supported programs have continued to register positive gains at national level in terms of various macroeconomic indicators for the last few years. There is a consistent increase on the growth of the Gross Domestic Product (GDP), and at the same time inflation has continued to drop. However, these macroeconomic improvements have not had a significant impact on abject poverty. Bearing in mind that the African population is growing at an average of 3.2 percent per year, and given that a population growth of 1 percent requires a GDP growth rate of 3 percent to sustain it, Africa's economy must grow at a rate of 10 percent annually and be maintained for 15 years to have a significant impact on abject poverty.

PRGF growth policies and strategies impact more on sectors which do not employ the majority of the poor – such as Mining, Construction and Tourism. These are the same sectors which attract more Foreign Direct Investments than other sectors which employ the majority of the poor such as the agriculture sector. Growth alone is therefore not enough to reduce poverty and hence more 'tailored' strategies are required for different countries.

"The human development paradigm performs an important service in questioning the presumed automatic link between expanding income and expanding human choices. Such a link depends on the quality and distribution of economic growth, not only the quantity of such growth. A link between growth and human lives has to be created consciously through deliberate public policy – such as public spending on social services and fiscal policy to redistribute income and assets. The link may not exist in the marketplace which can further marginalize the poor." (Haq 1995)[2]

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[2] Ul Haq, M. 1995: Reflections on Human Development, Oxford.