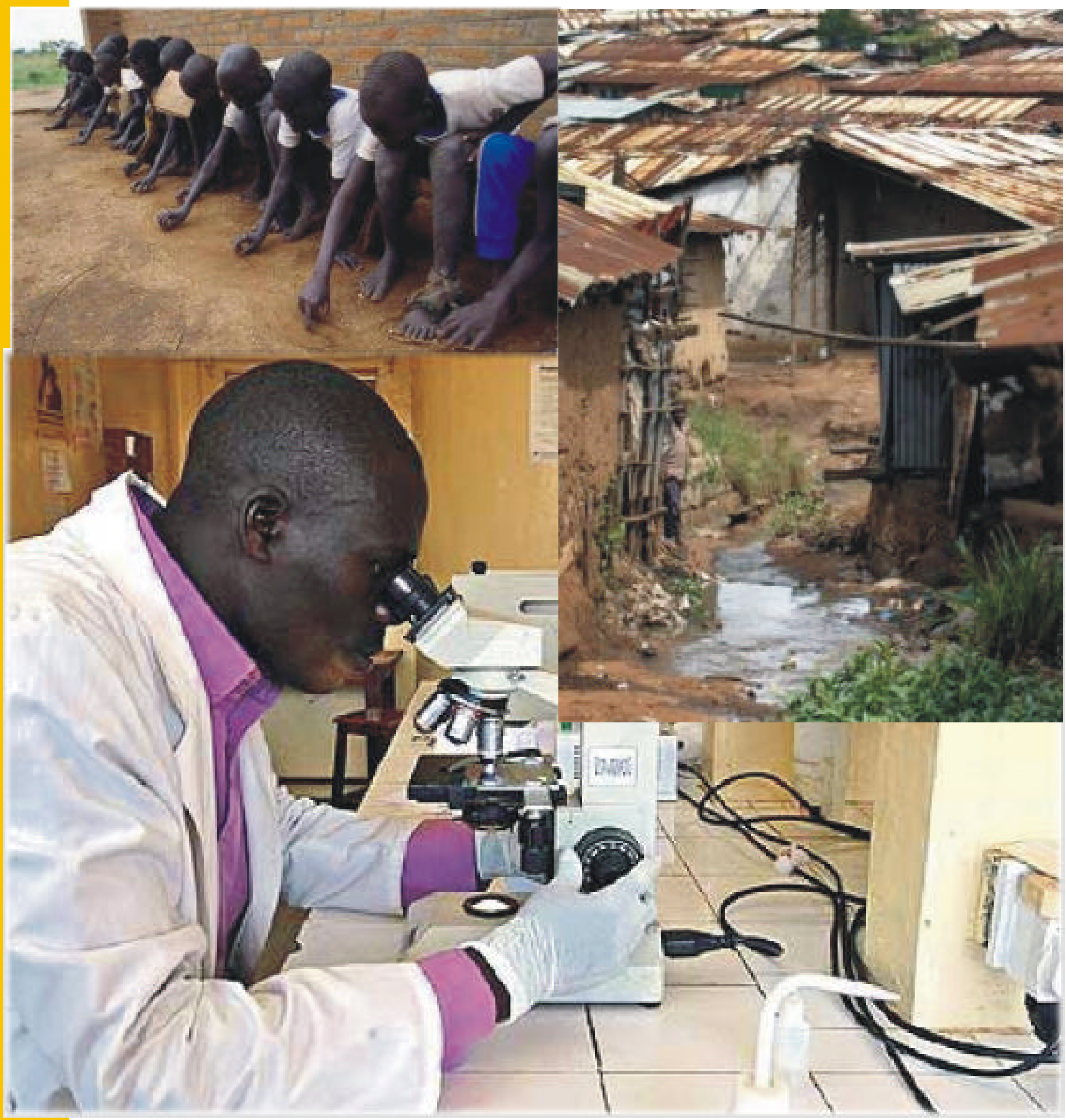
Assessing the Impact of the PRGF on Social Services in Selected African Countries



AFRODAD

African Forum and Network on Debt and Development

A Synthesis Report on Ethiopia, Malawi, Zambia and Tanzania

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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.

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Preface

To achieve significant poverty reduction in poor and indebted countries, the International Monetary Fund (IMF) introduced a new policy framework called the Poverty Reduction and Growth Facility (PGRF) in 1999. The PRGF was introduced, among other things, to replace the Enhanced Structural Adjustment Facility (ESAF) of the IMF as a lending window for poor countries. The PRGF was supposed to usher in a new era of reduced international financial institution (IFI) conditionalities, but in reality this has not been the case. In countries that were implementing ESAF policies, these were simply renamed PRGF and continued with their restrictive conditionalities, which in many cases included the privatisation of public utilities in the various sectors of the economies. Some of the conditions attached to PRGF financing such as user fees for education and health services as well as privatisation of water and energy services have proved to be detrimental to social service delivery.

The signing of the Millennium Development Goals (MDGs) in 2000 also allowed the International Monetary Fund (IMF) to make poverty reduction the main objective of its activities in poor countries across the world through the Poverty Reduction Growth Facility (PRGF). The facility promises 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.

While the PRGF can potentially represent an improvement from the structural adjustment policies of the past, a number of studies, including those of the Independent Evaluation Office (IEO), make us question the merit of the new approach. Although broader participation in the formulation of macroeconomic policies is explicitly stated as one of the key pillars of the PRGF, it is crystal clear that discussions still remain an almost exclusive preserve between the IMF and a few selected government officials. The lack of participation and the limited alignment between PRSPs and PRGFs represents severe limitations to the potential ownership and poverty reduction impact of Fund policies. This is a major concern, since the PRGF was supposed to be informed by the Poverty Reduction Strategy Papers (PRSPs). The opposite is true.

The impact of the PRGF on the social services studies are part of the broader policy oriented research and analysis aimed at decision makers to facilitate better understanding of the linkages between policy programs and the current pursuit of social services provision on the countries under study. It is also part of broader agenda for enhancing national partnerships and civil society's ability to analyse the underlying problems with the PRGF and help increase their capacity to map out strategies that will help deliver better social services to the poor

The four country case studies undertaken raise a number of concerns that need to be addressed for any meaningful progress on poverty reduction and the attainment of the Millennium Development Goals (MDGs). We hope that both the IMF and our African governments will take the findings of this report seriously and address concerns aptly.

Charles Mutasa
Executive Director
AFRODAD

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Executive Summary

The Poverty Reduction Growth Facility consists of a series of targets designed to encourage transformation in the economies and policies of the participating countries, with a view of promoting macroeconomic stability, economic growth and poverty reduction with a six year framework.

After varying years of implementation across the countries under study (Ethiopia, Malawi, Tanzania and Zambia) there has been little trickle-down of the macroeconomic stability and growth accruing from it to poverty reduction. The PRGF seems to be haunted by the same problems that haunted the old structural adjustment programs. Although PRGF implementation can be done to the letter, the trickle-down effects of growth are yet to translate into increased supply in the social services by the public sector as manifested in the increased expenditures in these sectors. There is also little evidence that there will be a positive change over a longer period of time. The studies focused on intermediate outcomes, i.e., the nature of the PRGF strategy and policy framework under-pinning the implementation process for the provision of social services in these countries, and the results that have accrued thereafter. We summarize here our major findings as well as the lessons to be drawn from them and make a number of recommendations for the future.

1. The broad picture which emerges from our study is that the results from implementing the PRGF have largely been positive on the macroeconomic stability front. There remains, however, a considerable amount of scepticism (also backed by empirical evidence) that not all was well with the PRGF. Although PRGF has resulted in improved economic indicators for the selected African countries except Ethiopia where GDP has declined, its impact on services and human welfare has been very mixed

2. Contrary to expectation the PRGF did not inform the PRSP in three of the four countries. PRSPs tended to provide detailed structural and social policies but were often weak in providing a consistent macroeconomic framework - a gap which was filled by the PRGF in all the countries. Participation in streamlining the processes remained a mirage in Ethiopia and Zambia. In Tanzania inclusion of civil society was there but did not go as far as including the macroeconomic framework. Malawi's MPRSP and national poverty framework changed without people's approval. On the participation front, where there was urgent need to fast track the interim PRSPs in order to quickly access HIPC funds, the desire for funds was traded-off for effective participation. Zambia and Ethiopia are examples of such. On the contrary, the process in Tanzania and Malawi, to a certain extent, secured wide and quality consultation

3. Conditionality continued in PRGF: Although it has been claimed that the PRGF differs from the earlier ESAF, most notably in the extent to which conditionality has been streamlined, in some countries such as Malawi and Zambia where there have been problems with "ensuring appropriate flexibility in fiscal policies", the Fund has maintained a tight fiscal control. In Malawi and Zambia long struggles with expenditure control and structural problems, especially privatization issues, led the Fund to revert back to ESAF fiscal controls. In such cases social spending remains a challenge. In cases where problems of expenditure control plague macroeconomic policy-making the Fund finds it easy to crack the old whip of conditionality. Furthermore, the devil is in the details.

4. Poor countries cannot avoid the IMF: The Aid signalling effect of the IMF resulted in significant social and economic problems for the affected countries. Domestic debt rose significantly in the countries that suffered aid freeze as a result of poor relations with the IMF. Studies also reveal that if a country does not need the Fund's resources because of the availability of other more concessional sources they still need the fund's seal of approval. The case of PRGF programs being suspended in Malawi, Zambia, demonstrated to a large extent that those countries that are enlisted as bad performers by the fund are unlikely to get funding from other sources. This, in a big way, stifles economic and social development, worsening the poverty status and efforts of the governments to secure social services to poor households.

5. The PRGF has resulted in improved budget management in most countries resulting in reductions in deficits, reduction on new borrowing and increased allocations to social spending, while outcomes remain subdued. Although there has been marked improvement in budgetary allocation to social expenditure under the program such as health and education, results of social service provisions are far from satisfactory. Survival indicators of poverty are not encouraging.

For instance, no substantial progress was made in the reduction of infant and under-five mortality and maternal mortality indicating severe health problems in all countries. There are even indications of slight increases in recent years. There still exist critical shortages of health workers required to deliver medical services in all the country cases, while shortages of drugs and other essential supplies such as medical and laboratory supplies for public hospitals are still rampant. There are quite a large number of public health facilities where patients are sent away because there are no drugs. The Infrastructure component of the health sector shows capacity constraints in training institutions. Lack of hospital wards has hampered efforts to reduce congestion in hospitals which leads to re-infections and transmission of airborne diseases in most in-patient facilities that are publicly run in all the countries.

At the operational level transport services in the form of ambulances and service vehicles are poorly maintained. Other services like food and other provisions for patients, consumables for institutions, planning, budgeting and monitoring and other routine activities for the Ministry of Health are inadequately supplied. Most rural areas health facilities have no access to ambulances for quick transportation of the sick to higher-level facilities. All governments report that they are gradually addressing these challenges but there exists budgetary constraints and the fear of bursting the deficit ceiling as set out in the PRGF-led Medium Term Expenditure Framework (MTEF).

For some countries there have been improvements in the area of education in infrastructure and enrolment but problems have been reported in terms of education quality as evidenced by increasing school drop out rates in Ethiopia, increased teacher-pupil ratios in Malawi and Zambia and the inability of the state to train and engage qualified teachers. The IMF's harsh conditions continue to curtail efforts to improve the quality of school education. While government initiatives to get more children into school by introducing free basic education were paying off, IMF policies, which severely restricted the recruitment of teachers, threatened to undo many of the gains achieved in recent years.

In Tanzania, marked improvements occurred in primary education with enrollment doubling and evidence of many newly built classrooms. Out of all school-going age children, 90% are now in school yet post-primary school attendance remains low (30%). Evidence from the four countries also shows that the PRGF impacted on teacher-pupil ratio in primary schools. In Malawi, budget constraints limited the government's ability to train and recruit qualified teachers to the extent that this was considered to be a priority poverty expenditure issue. In Malawi, the principle of cost sharing has been confined to tertiary education and even here its implementation has been half-hearted and parsimonious. In Zambia, school fees have only been recently removed from the primary education sub-sector. Policies being pursued by the four countries are varied in this sector, and the effect of the PRGF on the overall policy thrust appears mixed.

6. However, there was NO evidence to show that there were changes in the underlying philosophy driving IMF lending. Core structural reforms like civil service reform, privatization, liberalization and the continued need for countries to generate local revenue has resulted in punitive taxes on the poor and economic activity in general. The impact of the PRGF programs on the delivery of key social services has been disastrous when one considers the decline of quality services in education and health. Privatization of social services faces a lot of problems in the four countries. In fact, there is NO public support for the privatization of public utilities and enterprises

7. The overall picture, therefore, suggests that there are some areas that require attention from the architects of the PRGF as well as to the implementing governments. These changes need to recognize the policy options available to countries. Allowing for meaningful public dialogue in the PRGF process, and integrating poverty indicators in the assessment of PRGF performance are key. Civil society will need to rethink the manner in which they perceive and engage with the PRGF.

Acronyms

ADMARC	Agriculture and Development Marketing Corporation
AIDS	Acquired Immune Deficiency Syndrome
DFID	Department for International Development
ESAF	Enhance Structural Adjustment Facility
ESCOM	Electricity Supply Commission of Malawi
GDP	Gross Domestic product
EU	European Union
GNP	Gross National Product
HIPC	Highly Indebted Poor Countries
HIV	Human Immune Virus
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
NGO	Non Governmental Organization
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
USAID	United Stated Agency for International Development
CIDA	Canadian International development Agency
UNDP	United Nations Development Programme
UNICEF	United Nations Children Fund
MDG	Millennium Development Goals
WB	World Bank
ZNOC	Zambia National Oil Company

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1.0 Background

To achieve significant poverty reduction in poor and heavily indebted countries, the International Monetary Fund (IMF) in 1999 introduced a new policy framework called the Poverty Reduction and Growth Facility (PGRF). The PRGF was introduced, among other things, to replace the Enhanced Structural Adjustment Facility (ESAF) of the IMF as a lending window for poor countries in response to widespread criticisms against ESAF programs and their pauperising effects across the globe, in particular .

The PRGF was instituted with the assumption that there would be far-reaching changes in the way the IMF worked to support low-income member countries.

- First, there would be a change in the content of the IMF-supported programmes in these countries - the programmes would be more pro-poor and pro-growth.
- Secondly, there would be an increased emphasis on country ownership of PRGF-supported programmes
- And thirdly, there would be a better definition of the IMF's role and relationship with other agencies supporting development efforts of low-income countries (Gupta et. al, 2002).

The IMF had, under the PRGF, committed itself to providing external assistance consistent with the goals of growth and poverty reduction[1] . The PRGF now functions as the principal instrument for supporting low-income countries in implementing their poverty reduction strategies (PRSs). Key social and sectoral programmes and structural reforms aimed at poverty reduction would be identified, assigned priorities, and given cost estimates from the country's I-PRSP/PRSP[2] , which are produced in a transparent process involving broad participation from government, non-governmental organizations (NGOs), civil society, and donors (Gupta et. al, 2002).

This report examines the core and principal elements of the PRGF and the extent to which its promise has been kept by its architects: the IMF and collaborators (the governments of Malawi, Zambia, Tanzania and Ethiopia). The report further examines the impact the facility has had on social services such as health, education and social welfare. Issues relating to debt management and sound economic management are also highlighted.

[1] The PRGF takes as its point of departure the conviction that a concerted international effort was needed to reduce poverty and thus should be a fundamental element of assistance by the IMF for low-income countries. Rapid, sustainable growth has been the objective and thrust of Fund supported programs in reducing poverty in poor countries

[2] Some countries have moved on with life beyond the PRSP.

2.0 PRGF Features and Principles in Practice

The IMF established the Poverty Reduction and Growth Facility (PRGF) in 1999 to make the objectives of poverty reduction and growth more central to lending operations[3] to its poorest member countries. This marked a further step in the IMF response to public criticism following the introduction of the HIPC initiative. Reviews by the IMF's PRGF[4] staff in 2002 and by the Independent Evaluation Office (IEO) of the IMF in 2004 confirmed that the design of the programmes supported by PRGF lending had become more accommodating to higher public expenditure, in particular social spending on pro-poor services. Field data from all the countries in the study supported this development in health and education.

PRGF-supported programs are essentially the macroeconomic framework for achieving growth and poverty reduction. In order to ensure that PRGF programs do not lose focus on poverty reduction, they are supposed to be framed around a country's Poverty Reduction Strategy Paper (PRSP). Targets and policy conditions in a PRGF-supported program are supposed to be drawn from a country's PRSP. But in practice there was little evidence to suggest that the PRGF was PRSP-driven except in the case of Tanzania. Malawi has disbanded the PRSP altogether and was creating a new national development policy framework by the time negotiations went underway for a new PRGF program.

A few general conditions apply across the board for PRGF beneficiary countries:

- Eligibility is based on GNP per capita (US$895).
- Loans carry an annual interest rate of 0.5 percent.
- Repayments are made twice a year, beginning 5½ years and ending 10 years after initial disbursement.
- Borrowing is up to a maximum of 140 percent of a country's IMF quota[5] under a three-year arrangement
- Borrowing ceiling may be increased to 185 percent of quota in exceptional circumstances.

In each case, the amount that could be borrowed depends on the country's balance of payment needs; the strength of its adjustment program and its previous and outstanding use of IMF credit. The expected average access under the initial three-year arrangement is 90 percent of quota, and 65, 55, 45, 35, and 25 percent of quota for second through sixth-time users of the facility, respectively. "Low-access" PRGF arrangements with a standard level of 10 percent of quota may be used for members with little or no immediate balance of payments need. PRGF-eligible members with per-capita income above 75 percent of the cut-off for World Bank concessional lending, or members borrowing on commercial terms, may combine PRGF arrangements with lending from the IMF's non-concessional Extended Fund Facility.

Concessional lending under the PRGF is administered by the IMF through the PRGF and PRGF-HIPC Trusts. The PRGF Trust borrows resources from central banks, governments, and official institutions generally at market-related interest rates, and lends them on a pass-through basis to PRGF-eligible countries. The difference between the market-related interest rate paid to PRGF Trust lenders and the rate of interest of 0.5 percent per year paid by the borrowing members is financed by contributions from bilateral donors and the IMF's own resources.

In addition to the eligibility conditions stated above, PRGF-supported programs have a number of features, largely building on the PRSP experience.

[3] http://www.imf.org/external/np/exr/facts/howlend.htm

[4] http://www.imf.org/external/np/sec/pn/2002/pn0230.htm

[5] http://www.imf.org/external/np/exr/facts/quotas.htm

Box 1 Key Features of the PRGF-supported programs

1. Broad Participation and greater ownership
2. Embedding the PRGF in the overall strategy for growth and poverty reduction.
3. Budgets that are more pro-poor and pro-growth.
4. Ensuring appropriate flexibility in fiscal targets.
5. More selective structural conditionality.
6. Emphasis on measures to improve public resources management/accountability.
7. Social impact analysis of major macroeconomic adjustments and structural reforms.

The above list of key features should be perceived as an attempt to improve on the gains from the PRSP processes. It should be noted however, that some features of the PRGF show substantial continuities with those supporting ESAFs and this reflects the extent to which the key features represent a codification of best previous practice rather than a radical departure from it.

The advent of PRGF promised a new IMF culture, which can largely be seen as an attempt to improve the program formulation process beyond the levels attained by the PRSP. There were no high profile consultations in all the four study countries. While this was what the key features of the PRGF listed above envisaged, in practice things have not turned out better than the PRSP in many respects. The PRSP was technically expected to be the sourcebook for PRGF programs. This was done with mixed fortunes.

Box 2 Underlying Principles of the PRSP Process

1. Country-driven involving broad-based participation
2. Results-oriented and focused on outcomes that benefit the poor.
3. Comprehensive in recognizing the multidimensional nature of poverty and in the proposed policy response
4. Partnership-oriented involving coordinated participation of development partners.
5. Based on a long-term perspective for poverty reduction.

It must, however, be noted that participation in PRSPs was compromised where governments were in a hurry to secure HIPC funds. PRGF and PRSPs were developed as a condition necessary for accessing debt relief under the enhanced HIPC initiative. For instance, in Malawi and Ethiopia, where there was urgent need to fast track the interim PRSPs in order to quickly access HIPC funds; effective participation was traded-off with the desire for funds. In Tanzania, on the other hand, the full PRSP was used to feed into the PRGF (Shitundu 2005) while Zambia simply converted its ESAF into a PRGF. It should always be noted that the PRGF is a macroeconomic framework based on a given philosophy of economic development and thus some sections of the PRSP are more important than others. There was no evidence that the PRSP fed into the PRGF realistically. Apart from a shared macroeconomic framework, the PRGF was not a copy cat of the PRSP.

PRGF-supported programs are designed to cover only areas within the primary responsibility of the IMF, unless a particular measure is judged to have a direct, critical macroeconomic impact. Areas typically covered by the IMF include advising on prudent macroeconomic policies and related structural reforms such as exchange rate and tax policy, fiscal management, budget execution, fiscal transparency, and tax and customs administration. When appropriate, the IMF draws on World Bank expertise in designing PRGF-supported programs, and both the Fund and Bank staff cooperate closely on conditionality. The Bank staff take the lead in advising countries in areas such as poverty assessments, monitoring, structural and sectoral issues, social issues, and costing priority poverty-reducing expenditures.

3.0 Signaling Role of IMF on Aid

A number of Sub-Saharan Africa development programs depend on aid, that in turn depends on donors feeling that their resources will be put to good use and not diverted elsewhere. This has been particularly critical in cases where donors support national annual budgets by above 30%. The IMF's approval of countries' macroeconomic policies functions as a type of international credit rating, and serves as an important signal or "green light" that opens the doors to millions of dollars in foreign aid from other bilateral and multilateral donors and creditors around the world, as well as to private foreign direct investment.[6]

The IMF has played the critical role of "gatekeeper" as evidenced by Malawi and Zambia when these countries were not complying with PRGF requirements. In 2003 Zambia received just over half (U$404.5 million) of the aid it got in 2002 (U$746.1 million) because the country currently had no program with the IMF. A similar development took place in Malawi, where the absence of an IMF program led to donors developing cold feet in releasing resources particularly meant for budget support and non-humanitarian assistance. All this turned around once the IMF signaled that these countries were now making serious moves to commit to the IMF requirements (Zulu, 2005; Bamusi, 2005).

The 1980s and 1990s showed a remarkable increase in ODA to Zambia, rising from US$56 million in 1973 to an average of US$312 million over the period 1977-1989 during which time the country embarked on IMF/World Bank-supported structural adjustment programmes. Between 1990 and 1994, aid jumped to an average of US$951 million. It reached a record high of US$2,093 million in 1995, a growth rate of 172 percent over the previous year. This was largely because of the donor countries' satisfaction with the country's transition to multi-party democracy in 1991 and a more intensive implementation of SAP thereafter (Zambia, Aid Policy and Strategy, 2005). However, total external aid has been declining in recent years. It fell from US$746.0 million in 2002, to US$404.4 million and US$298 million in 2003 and 2004, respectively. With the credit worthiness having been "restored" through the attainment of the HIPC Completion Point earlier in the year, it is expected, other things being equal, that donor inflows are likely to increase to support development programmes.

Oxfam (2003) reported that the IMF basically determines how much a government can spend based on their view of what constitutes an acceptable set of macroeconomic policies for a poor country. This occurred in Malawi where the budget ceiling had first to obtain a nod from the IMF before being discussed with any other stakeholders including Parliament. Zulu (2005) and Bamusi (2005) reported that although the IMF has been able to influence aid flows for Malawi and Zambia, this did not translate into a 'total donor walk out' as other forms of aid were classified as humanitarian. The IMF has not had a significant role with regard to project financing for a country like Tanzania where BOP was not required (Shitundu, 2005).

It should be noted that recently the EU, Nordic countries and DFID resumed aid support that was suspended to the Government of Malawi (GoM) before the IMF formally declared that it was safe to do so. This may suggest that donor agencies are sometimes taking their own steps to determine whether a country deserves their support or not. Nonetheless, it is true that whenever the IMF raises the 'red card' countries lose out on money in direct budget support, experience delayed debt relief, decline in donor support, and increased domestic borrowing to bridge the financing gap. The latter has serious consequences for economic activity in the national economy as governments have turned on the tap of domestic borrowing (Bamusi, 2005).

[6]Jubilee USA, an anti-debt campaign movement notes in a Discussion Paper: *Diminish or Close the IMF's PRGF To Partially Finance Debt Cancellation*, Posted on www.jubileeusa.org on 15th April 2005

4.0 Impact of PRGF on Debt Management

Evidence from the four countries suggests that there are certain core aspects of IMF programming common to all the countries. These include reducing the budget deficit, anti-corruption, financial management systems including laws and procurement systems. These have been promoted by the IMF as part of the PRGF, and have in turn resulted in better economic management and thus lesser need for government borrowing, except in the case of Ethiopia. The PRGF has put particular emphasis on debt management since increased borrowing, especially at the local levels, results in macroeconomic instability.

Overall external debt stock declined over the past couple of years while domestic debt stock rose as a result of problematic relations with the IMF as demonstrated by Zambia and Malawi. Contrary to the foregoing norm, the PRGF could be seen as providing an opportunity to take up new debts. Erega (2005) reported that Ethiopia's external debt stock increased in the face of the PRGF and was projected to rise. Though foreign borrowing was generally in line with program projections under PRGF, external debt ratios have increased more than projected, especially compared with the original program targets, due to unanticipated declines in GDP.

Some of the proceeds from IMF lending have been used to retire domestic debt as has happened in Malawi. In some case resources released from HIPC have been used to retire domestic debt as part of macroeconomic stabilization and PRSP implementation (Bamusi, 2005; GoM, 1999). Zulu (2005) clearly demonstrates how in Zambia, resources released from debt relief have been used to boost the education and health budgets among other things. In Malawi, for example, domestic debt targets have been set to move from 25% of GDP to less than 15% by 2008 and progress has been made towards achieving this. In the national budget of 2003/4 27.5% compared to 16.3% in 2005/06 was spent on interest payments alone. The IMF looks negatively at excessive government borrowing on the domestic market.

5.0 Conditionalities and the PRSP Promise

A conditionality in international development is a condition attached to a loan or to debt relief, typically by the International Monetary Fund or World Bank. These require countries to commit to certain economic policy reforms, as a precondition for receiving financial assistance (also know as policy-based lending). Conditionalities may range from uncontroversial requirements to enhance aid effectiveness, such as anti-corruption measures, to very highly controversial ones, such as the privatization of key public services, which may provoke strong political and popular opposition in the recipient country.

Gupta et al (2002) reported that with the inception of the PRGF, 58% of the structural measures that need to be undertaken by borrowing countries focused on the IMF's core competencies compared with 41% in earlier programs. This was a clear demonstration that there were more conditionalities on the cards especially in view of the extra conditionalities that are imposed by the World Bank. The table below shows the generic forms of conditionalities that are imposed on the PRGF countries.

Structural conditionality and areas of IMF expertise

Core	Shared	Non-Core
Tax Policy	Financial sector reforms	Public enterprise reforms
Fiscal transparency	Trade Policy	Privatization
Fiscal management	Private sector promotion	Marketing and pricing reforms
Monetary policy		Civil service restructuring
Foreign exchange regime		Social safety nets
Exchange rate policy		Monitoring poverty reduction
Macroeconomic data		Sectoral policies
Tax and customs administration		

Source: Zulu, 2005

AFRODAD country studies on PRGF indicate that the IMF and the World Bank have combined their energies to insist that governments should phase out subsidies, liberalize maize markets, limit bank credits, remove tariff bans, lay-off 'surplus' civil service staff, announced privatisation policy and offer parastatal companies for sale (Zulu, 2005; Shitundu, 2005; Bamusi; 2005; Erega, 2005). The IMF was linked to creating the hunger crisis of 2002 in Malawi as they have been accused of ill-advising government to sell strategic grain reserves (Mitra, 2002). In 1999 and 2001 the IMF, under the ESAF and PRGF arrangements, prescribed for the Zambian Government the privatisation of state enterprises, liberalisation of the strategic grain reserves and liberalisation and privatisation of the energy sector, particularly the Zambia National Oil Company (ZNOC). Similar developments have occurred in several other countries. Liberalization of the banking sector through withdrawal of state shares in commercial banks such as Commercial Bank of Malawi, breaking up of Electricity Supply Commission of Nalawi (ESCOM), sale of the Agricultural Marketing Corporation (ADMARC) and several other state enterprises have been advocated for and demanded of the Government of Malawi (GoM).

A comparison of program conditionalities and compliance under SAF, ESAF and PRGF in the Ethiopia study reveals that the number of IMF program conditionalities to the country increased significantly under PRGF as compared to the country's time under the SAF and ESAF programs.

According to the Fund's last and sixth review of the three year PRGF arrangement, program compliance under the arrangement has generally been good compared to the experiences under the previous programs and especially the ESAF.

The reforms under PRGF include liberalization of the external sector and interest rates; the re-orientation of spending to poverty alleviation; the speeding up of tax reform, privatization and the strengthening of the financial sector, including by removing barriers to foreign bank entry. The government, however, resisted allowing foreign bank entry to the financial sector in that it would be premature and that priority should continue to be given to strengthening the domestic banks and enhancing supervision by the National Bank of Ethiopia (NBE) as well as the importance of fostering micro finance institutions.

Ethiopia: Program conditions under SAF, ESAF and PRGF

	Number of Structural Conditions				
	Structural Benchmarks (3 year total)	Performance Criteria (3 year total)	Prior Actions (3 year total)	Total Structural Conditions	
				3 year total	Average per year
SAF Program, 1993-95	17	0	0	17	5.7
ESAF Program, 1997-99	8	4	0	12	4.0
PRGF Program, 2001-03	9	7	19	35	11.7

Source: Adopted from EPA, 2004:18

It was critical to observe that although countries have been allowed flexibility in terms of PRGF programs, the fundamentals are the same. The philosophy behind all IMF lending has not changed over the years. This was evident in all the four study countries (Zulu, 2005; Shitundu, 2005; Bamusi; 2005; Erega, 2005). In fact what may appear, as flexibility may be a change of strategy where if IMF does not demand it, World Bank certainly will. This was clearly illustrated by the case of land reform and the privatization of telecommunications in Malawi, where the IMF publicly denied involvement but blamed the World Bank instead. The World Bank was also associated with land reform in Malawi, a policy thrust that has been rejected over and over again by local and traditional leaders.

Referring to the table above, it was clear that all PRGF programs have some policies and strategies reflecting the core competencies of the IMF. This raises questions as to whether the IMF has really changed. Variations in the PRGF programs largely occur in the non-core areas and even here too policy debates have already been ignited. This has often resulted in a situation where national, social and economic policies are moving in two different directions (Zulu, 2005; Bamusi, 2005). For example, economic policy says that incomes must grow for people to move out of poverty , while 61000 jobs were lost in Zambia at the same time through privatization without adequate social protection or compensation (Zulu, 2005). This does not only increase the number of the poor but also increases the gap between the rich and the poor .[7]

Currently, many foreign firms enjoy export subsidies from their governments and thus have been able to dump or sell their products cheaply in Zambia, Malawi, Tanzania and Ethiopia, wiping out their local competitors in the process. Most of the reforms claiming to be in the interests of private sector development are actually in the interest of obliterating local entrepreneurs from the economic landscape.

They have huge economic and social costs to the local people as reflected in high levels of unemployment and poverty due to collapsed companies occasioned by trade liberalization, privatization and stiff competition from foreign firms (Nyirenda and Botha, 2005; Zulu, 2005). This is a recipe for local de-industrialization of sub-Saharan Africa and ultimately frustrates global efforts to reduce poverty in the four countries, and as promised by the MDGs.

[7] It has been argued that those that are left working after privatization get better salaries and wages. What is often not talked about are the multiplier effects on African society. In essence this would easily translate into the promotion of a society of haves (salaried elite) and have-nots

6.0 PRGF Impact on Social Services

Both macroeconomic and social sector reforms can have a huge impact on education and health, because they influence people's health behaviour and health care consumption. As an example, user fees are known to lead to lower and different utilization rates, exclusion and coping strategies, particularly among the poor. Under PRGF, policies such as trade liberalization; privatization, devaluation, tax systems reforms, and inflation and deficit targets continue to have negative impacts on people's welfare, education and health, despite promises that these will be streamlined and selective.

Overall the PRGF was perceived rather negatively in terms of its effects on the delivery of social services to the poorest. This was caused by emphasis on liberalization, stabilization and privatization policies. There were variations amongst countries regarding the extent to which these policies have been pursued and therefore impacted on social services such as health and education (Zulu, 2005; Shitundu, 2005; Bamusi; 2005; Erega, 2005).

6.1 Education

The IMF's harsh conditions curtailed efforts to improve the quality of school education. While government initiatives to get more children into school by introducing free basic education were paying off, IMF policies, which severely restricted the recruitment of teachers, threatened to undo many of the gains achieved in recent years.

Evidence from the four countries also shows that the PRGF impacted on teacher-pupil ratio in primary schools. In Malawi, budget constraints limited the government's ability to train and recruit qualified teachers to the extent that this was considered to be a priority poverty expenditure issue. In some instances it was even reported that primary school teachers were recruited and paid using the initial HIPC debt relief resources (GoM, 2003). The Zambia situation was opposite, with government failing to recruit 9000 qualified teachers in order to stay within budget limits so as to attain the HIPC debt relief Decision Point. One particular school had only three teachers for 526 pupils (Zulu 2005). This was also true of Ethiopia, where both primary and secondary education teacher-pupil ratio has declined. The Ethiopian case was more serious in view of the increase in school-drop out rates (Erega, 2005). Policies being pursued by the four countries are varied in this sector, and the effect of the PRGF on the overall policy thrust appears mixed.

Budget allocations to education increased in Zambia resulting in overall improvements in access to education at all levels. School fees have only been recently removed from the primary education sub-sector. (Zulu, 2005). In Tanzania, marked improvements occurred in primary education with enrollment doubling and evidence of many newly built classrooms. Out of all school-going age children, 90% are now in school yet post-primary school attendance remains low at 30%(Shitundu, 2005). In Ethiopia primary school enrollment almost doubled, from 4.5 million students in 1996/97 to 8.1 million in 2001/02, consistent with government's education-for-all policy. Gross enrollment is currently about 62%. However it must hastily be mentioned that the expansion has placed tremendous strains on the system, and quality has suffered. Total education sector spending in 2001/02 was ETB 2.9 billion (US$ 333 million), or 14% of total public expenditure. Two-thirds is spent on primary and secondary schooling, and the balance on technical and university education. Budgets increased by over 50% in real terms in the past five years, reflecting a conscious effort to redirect resources and expand access to education. The composition o f education spending appears broadly appropriate, but the over-riding issue is the insufficiency of spending at all levels. (Erega, 2005).

There was lack of coherence regarding the precise education interventions that the PRGF promoted in the four countries. It is clear that the IMF and World Bank have attempted to promote privatization of higher and tertiary education with the principle of cost sharing. Although each one of these countries has had policy debate over specific PRGF-related policies, they have also shown different levels of interest and commitment to them. For example, in Malawi, the principle of cost sharing has been confined to tertiary education and even here its implementation has been half-hearted and parsimonious.

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6.2 Health Services

The performance of the health sector in some of the four countries has been unsatisfactory. There are quite a large number of public health facilities where patients are sent away because there are no drugs. The infrastructure component of the health sector shows the capacity constraints in training institutions. Lack of hospital wards has hampered efforts to reduce congestion in hospitals which leads to re-infections and transmission of airborne diseases in most in-patient facilities that are publicly run in all the countries. At the operational level, transport services in the form of ambulances and service vehicles are poorly maintained. Other services like food and other provisions for patients; consumables for institutions, planning budgeting and monitoring and other routine activities for the Ministry of Health are inadequately supplied. Most rural area health facilities have no access to ambulances for quick transportation of the sick to higher-level facilities. All governments report that they are gradually addressing these challenges but there exists budgetary constraints and the fear of bursting the deficit ceiling as set out in the PRGF-led Medium Term Expenditure Framework (MTEF).

Bamusi (2005) reports that over the last 5 years the percentage of healthcare facilities able to deliver essential health services has declined in Malawi. This has affected the rolling out of HIV/AIDS therapy.

Government reports in Ethiopia indicate that over the past decade health spending increased from 0.9% to 1.5% of GDP; but the bulk of this increase took place in 2003 (the era PRGF), and recurrent per capita spending has been fairly stagnant since. Health services, however, have remained severely limited. Ethiopia has one of the world's highest ratios of population per doctor and per nurse; and there are only 384 health centers serving a population of over 67 million. Coverage has increased in the past five years; the proportion of the population within 1 km of a health facility rose from 52% to 61%; but utilization remains low, and lower-tier facilities are often by-passed because they lack staff or drugs. The decline in immunization coverage is a cause for concern, given that immunization is one of the most cost-effective health interventions available. Regional differences are quite large; and the share of operation and maintenance expenditures is low in most of the regions. Availability of essential drugs has improved recently, but shortages are still common in public facilities. (Erega, 2005).

By contrast, Zambia’s healthcare performed better and this was largely due to implementation of major health initiatives such as acquisition and distribution of essential drugs, child health survival, reproductive health and rehabilitation of health facilities. Notable achievements have also been reported in Tanzania, particularly the improved supply of drugs. The health budget is one of the main beneficiaries of increased social spending in recurrent expenditure (Shitundu, 2005).

6.3 Social Welfare

The single most pronounced PRGF policy instrument has been privatization. This has caused agricultural commodity markets to collapse due to the withdrawal of the state from commodity marketing, removal of farm subsidies (Nyirenda and Botha, 2005) and selling of pro-poor banks. The Malawi government sold the Commercial Bank and immediately raised the bank balance, closing many small accounts and in the process threw hundreds of people out of the formal financial markets. The bank largely used to service farmers and was specifically setup to provide them with easy access to loans.

Privatization in Zambia, Malawi, Tanzania and Ethiopia remains highly controversial and politically risky. Over the past decade or two, often under pressure from creditor institutions to act quickly, governments have sold off thousands of state-owned enterprises. According to the proponents of privatization the goal is to cut waste, improve economic efficiency, stimulate the private sector and mobilize more foreign and domestic investment. However, the process has been fraught with problems and controversy, causing governments to proceed more carefully. With the intensified push for PRGF policies by the IMF, more and more African leaders agreed to privatize.

What remains mesmerizing for the general citizen are the social consequences that come with the privatization of basic needs such as water and pubic utilities as well as concessional credit facilities and health to the point of politely excluding them and even condemning them to death in the process.

Gender dimensions of social dislocation resulting from privatization in sub-Saharan Africa are conceptually distraught. The burden of healthcare and the failure to provide quality education all put women in real social problems as they remain the "social sink" - caring for the sick and illiterate. It reduces the participation of women in economic life.

7.0 Conclusions and Recommendations

There was adequate evidence to suggest that countries that were pursuing the PRGF were having economic gains in terms of economic growth and macroeconomic stability. It should be noted that when growth takes place it did not necessarily benefit the poor. This happened in Tanzania and Malawi, where growth did not often take place where the poor actively participated in the economy. This suggests that focusing all energies in achieving economic growth in the short-term may not impact on the poor positively. Secondly, the gains resulting from good implementation of the PRGF should not be viewed as a result of the mere existence of such a program. Factors such as political leadership and natural factors are much critical.

Recommendations

In view of the results from field studies, the following recommendations are made:

- PRGF processes should be opened up for public dialogue in the same spirit as was the case with the PRSP.
- PRGF conditionalities and targets should be drawn directly from the PRSPs and should include poverty measures not just macroeconomic measures. The conceptual framework for poverty reduction through PRGF should be clear to all stakeholders.
- A set of measures needs to be taken to ensure ownership of the PRGF process by local institutions and leaders. In-country IMF/WB staff should be given greater decision-making mandates so that there was in-depth dialogue with government and civil society.
- Measures should be taken to promote and facilitate local consultations with respect to PRGF policy choices and options in the same manner that the PRSP consultations and public expenditure review processes took place.
- National governments should demonstrate to IMF and World Bank that macroeconomic stabilization and growth do not take place in a vacuum. There are people involved and that national governments should not continue to hurt their own people.
- National governments should institutionalize that gains made in economic management, debt relief and financial management systems with the view of having cut-off point for PRGF support.

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Appendix 1

PRGF Country Studies Objectives

The broad objective of the study was to carry out an analysis of the PRGF in the four selected countries paying special attention to its impact on the social service delivery system. The aim was to stimulate debate and further interrogation of the new IMF approach to dealing with severely indebted poor countries especially those of Sub-Saharan Africa.

Terms of Reference

- To establish the extent to which the main elements of the PRGF have been drawn from a country's PRSP
- To quantify financial flows disbursed through the PRGF window compared to other sources of official finance. Does the PRGF provide guidance on how best to re-orient government spending towards activities that benefit the poor and to what extent did it seek commitments of higher aid flows and build these into the programme?
- To ascertain the extent to which the IMF's signalling role affected aid disbursements in individual countries and in particular resources targeted for social services and the MDGs?
- To document and discuss the sector allocation of resources disbursed under the PRGF paying attention to the amounts allocated to social services and to finance the MDGs. In so doing also assess the extent to which the PRGF programmes in various countries reflect the Fund's appreciation of the different circumstances facing them.
- To analytically discuss the conditionalities attached to the PRGF and to determine the extent to which they differ from the ESAF programmes. To what extent are conditionalities streamlined and applied selectively?

Appendix 2
The Check List: PRGF Key Features

Key Feature	Overall Implication	Notable Country case Experiences of PRGF
A. Broad participation and greater ownership		PRGF was negotiated after 1999 through less participatory interim PRSPs in Ethiopia & Malawi. Tanzania had a full PRSP. In Zambia it was a roll over from previous ESAF arrangements.
B. Embedding the PRGF in the overall strategy for growth and poverty reduction		
C. Budgets that are more pro-poor and pro-growth	**Pro-poor:** A reorientation of government spending towards the social sectors and basic infrastructure coupled with improved tracking to ensure these expenditures actually take place. **Pro-growth**: Reduction in inflation assumed to benefit all citizens. Growth was supposed to be distributed but in Ethiopia it failed o trickle down	
D. Ensuring appropriate flexibility in fiscal policies	**Fiscal targets**- IMF helpful to explore dimensions of prudent flexibility & explore alternatives. -There was forced choice to retire domestic debt with debt relief at the cost of more or less severe reduction in social spending.	-Medium Term Expenditure Framework (MTEF) became a common feature to all. -Tanzania experienced a measure of price stability, a moderate domestic fiscal deficit & addressed major structural reforms. This lead to narrowed IMF structural conditionality & greater flexibility in negotiations. -Zambia& Malawi have had long struggles with expenditure control & structural problems especially privatization issues leading to ESAF fiscal controls maintained.
E. More selective structural conditionality	A move towards streamlining conditionalities, with a much tighter focus on quantitative performance criteria (international reserves, net domestic assets, reserve money etc.	
F. Emphasis on measures to improve public resource management/accountability	This has been pursued before and during the PRGF.	
G. Social Impact analysis of major macroeconomic adjustments & structural reforms	-The Importance of assessing the distributional consequences of policies. -Here social development advisors are vital	