WHAT IS THE POINT OF THE PSI?

The Views of African Policymakers

A Study for Oxfam

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Foreword

When this research was developed in 2008, the possibility of a global financial crisis was only recognized by a few, and trillion dollar bank bailouts were unthinkable. So the original purpose of the research was straightforward; evaluate whether the Policy Support Instrument, one of the IMF's facilities for low-income countries, was meeting its stated objectives and the expectations of policy makers.

The project aimed to present the frank views of African policy makers and practitioners on their experiences and expectations, and what they felt were the most useful way to engage with the Fund.

Since 2008 the world has profoundly changed. The global community is now facing the worst economic recession since the Second World War. While banks and countries deemed to be of systemic importance for the world economy are being bailed out, aid commitments to Africa face real risk of default. And as recent economic growth in Africa seems set to be reversed, African Governments' progress on guaranteeing basic rights to education, health, employment and livelihoods and the fight against poverty are now threatened. It is tragic that this should be happening as we approach the end of the timeline for the delivery of the Millennium Development Goals.

The IMF's role has also seen a dramatic turn around from an organization that was considered to be increasingly irrelevant to an organization that has been given a lead crisis response role. As part of this response to the crisis the IMF is now revising its facilities for low-income countries. The Policy Support Instrument is one of these facilities.

This makes this research even more relevant now. The lessons that can be drawn from the research are not solely limited to the Policy Support Instrument. It gives valuable insights on how policy makers from low-income countries interact with the Fund and how perception and political processes are intimately interlinked with decisions by countries, donors and the Fund.

Oxfam would like to thank Development Finance International for their hard and sustained work. The research asks vital questions about whether Policy Support Instrument is a useful instrument in the range of IMF support facilities for low-income countries, and is therefore essential reading for anyone involved in assessing how the IMF should interact with low-income countries in future.

I hope that policy makers and practitioners, others including parliamentarians, business communities and civil society will find much food for thought in this research when deliberating on Policy Support Instruments and debating the future shape of the Funds engagement with low-income countries.

Irungu Houghton

Pan-Africa Director
Oxfam International

What Is the Point of The PSI ?

CONTENT

GLOSSARY

Article IV Article IV of the IMF Articles of Agreement states that it will provide "firm surveillance" of members' exchange rate policies. On this basis, IMF staff conducts a review, usually annually, of all member countries' economic situation and economic and financial policies, including policy advice. For countries without a programme relationship with the Fund, this Article IV surveillance is the major substance of their engagement with the Fund on their own policies.

Benchmarks are a type of *IMF condition* for borrowing countries (also see conditionality). Benchmarks are not binding requirements for the disbursal of individual loan instalments, but are *quantitative* or *structural criteria* against which the IMF assesses a country's performance under a Fund programme.

Conditionality Any loan from the IMF to a member country is part of a programme requiring implementation of specific economic policies. These are known as conditionality. Conditions may be *quantitative* (specific monetary or budget targets), or *structural* (requiring particular policies around eg tax rates, banking regulation, privatisations or institutional reform). They may be required before or during programme implementation (also see *benchmarks, prior actions, and performance criteria*).

Exogenous Shock Facility (ESF) A facility providing loans, with policy *conditions*, for *low-income countries* whose balance of payments are threatened by exogenous shocks. It is available to countries eligible for the *Poverty Reduction Growth Facility (PRGF)* – the IMF's main instrument for financial assistance to low-income countries – but that do not have a PRGF program in place. Financing terms are equivalent to a *PRGF* arrangement and more concessional than under other IMF emergency lending facilities.

Letter of Intent Document accompanying an IMF programme agreement or loan request, which describes a member country's economic and financial policy programme. Letters of Intent are sent in the name of member governments, but are written by Fund staff.

Low-Income Countries (LICs) Countries with 2007 GNI per capita of $935 or less. This currently includes 78 IMF members. LICs are eligible for different facilities and measures, often including cheaper (concessional) finance.

Mature Stabilisers is an IMF term to designate those low-income countries, which have typically had a *PRGF* programme in the past, and which have now achieved steady growth, single-digit inflation, low budget and current account deficits, therefore no longer needing IMF loans.

Performance Criteria are a type of condition in IMF programmes. They are binding macroeconomic *conditions* such as monetary or budgetary targets which must be met during implementation of an IMF programme in order for each instalment of the loan to be disbursed. As of May 2009, IMF agreements no longer include structural performance criteria.

Prior Actions are a type of IMF *condition*. They are binding conditions that must be met before the IMF's Executive Board approves financing or completes a *review*.

Programme Review Regular assessment by the IMF Executive Board to assess whether they consider an IMF-supported program to be broadly on track and whether modifications are proposed for achieving the program's objectives.

Policy Support Instrument (PSI) a new programme introduced by the IMF in 2005 for low-income countries that do not need or want to borrow from the IMF's under its *Poverty Reduction Growth Facility (PRGF).* It includes policy advice and conditions but no lending.

Poverty and Social Impact Analysis (PSIA) assesses the consequences of policy interventions – before, during, and after – on the well-being of different social groups, with a special focus on the vulnerable and the poor.

Poverty Reduction and Growth Facility (PRGF) Lending facility introduced by the IMF in September 1999 to replace the Enhanced Structural Adjustment Facility. It provides loans to low-income countries at a concessional rate, linked to a range of conditions, both quantitative and structural. In theory, these conditions are based on the country's *Poverty Reduction Strategy Paper (PRSP)*.

Poverty Reduction Strategy Paper (PRSP or PRS) The document in which low-income countries set out their poverty reduction strategy, and describe and analyse the country's macroeconomic, structural and social, policies and programs. PRSPs are required in order to qualify for multilateral debt relief schemes and some other donor financing. In theory, they are produced by a participatory process involving civil society and governments, and then agreed upon by multilateral institutions.

Quantitative Targets are IMF *loan conditions* which indicate specific budgetary or monetary targets to be met. They typically refer to macroeconomic policy variables such as monetary and credit aggregates, international reserves, fiscal balances, or external borrowing.

Structural conditions are policy conditions linked to the economic program. They can vary widely and can for example, include institutional or legislative measures for financial sector operations, social security systems, or structure of the energy sector.

Technical Assistance (TA) Support provided by donor governments, multilateral institutions (such as the IMF) or others in the form of expert advice or assistance.

Waiver An agreement by the IMF Executive Directors not to enforce a specific condition in a programme because the country has justification or extenuating circumstances for not complying (or having complied) with it.

EXECUTIVE SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

1. BACKGROUND AND STRUCTURE OF STUDY

This study was commissioned by Oxfam in parallel with, and in order to inform, its inputs to the IMF's own review of the Policy Support Instrument (PSI); an instrument introduced by the IMF in 2005 as a means of providing non financial support to low-income countries that do not need or want to borrow from the IMF's under its Poverty Reduction Growth Facility (PRGF). Its main focus was on independently testing the opinions of African policymakers on the PSI – principally those of the countries with PSI experience, but also countries with continuing PRGF programmes or countries with no IMF programme, some of which had discussed but decided against adopting PSIs. The last group was especially chosen in order to provide a basis for comparison with the two other groups with IMF programmes. The countries covered by the study were: Cape Verde, Ethiopia, Ghana, Mali, Nigeria, Senegal, Tanzania, Uganda and Zambia. The study was organised in two phases; a desk-based analysis of the design and impact of the PSI, followed by assembling the opinions of 40 African policymakers, donor officials and Fund staff. The emphasis was placed on tracing the process for each country, in order to gauge whether the advent of a PSI changed a country's experience.

The issues covered and main findings by the study included:

- **Process of negotiations**: countries chose PSIs largely because they represented a signal of graduation from PRGF, because they believed it was needed to maintain aid levels, and because (from late 2008) they wished to leave open the possibility of accessing loans under the Exogenous Shock Facility (ESF) in times of shocks like the food or economic crisis. PSI negotiations were felt to be slightly more country-led than PRGF negotiations, but involved no more consultation or the use of a Poverty and Social Impact Analysis (PSIA). Virtually all policymakers want a finite period for the PSI relationship.
- **Conditionality:** looking into the degree and nature of macroeconomic and structural conditionality in PSIs, as well as the degree of fiscal space provided by the programme. There was very little difference in PSIs from trends observed in PRGFs – a very slight and by no means consistent trend to streamlining conditions and increasing fiscal space.
- **Signalling:** this is the degree to which the PSI provided clear signals to donors, to external or domestic investors, or to domestic political leaders or public opinion. Here there was no significant impact compared to the pre-PSI period or to countries with a PRGF or no programme.
- **Growth and Poverty Reduction:** the impact of the PSI on intended or actual growth or poverty reduction levels. There were slightly higher growth levels in PSI than in other countries, but this reflected only a continuation of the pre-PSI situation in PSI countries.

Overall, there is a high degree of misunderstanding among African policymakers of the intentions of the PSI. The PSI was not intended by the IMF Board or management to be significantly different from a PRGF (except in not providing financing), but this message was not necessarily clearly transmitted, to African leaders. As a result, the PSI raised significant expectations among African policymakers that "mature stabiliser" countries might see more flexible negotiations, less conditionality, clearer signalling and faster growth. As a result, many policymakers are disappointed by the PSI and contributed many suggestions to this study for changes to the PSI. This report reflects their views, and an accompanying Oxfam position paper reflects those of Oxfam.

2. CONCLUSIONS AND RECOMMENDATIONS FOR THE PSI

Overall, 43% of policymakers believe that there is little point to the PSI as currently structured: as one put it, *"We might as well move straight from PRGF to Article IV"*. However, for this to be feasible, it would be necessary to ensure that donor reaction would not be negative (confirming the experiences of Ethiopia and Ghana who both have no PSI), and that countries could rapidly "re-enter" a PSI/ESF combination (rather than a PRGF) if a shock leads a "mature stabiliser" country to need financing. Countries are also concerned to ensure that non-programme countries should be able to benefit from levels of technical assistance (TA) and diagnostic assistance comparable to programme countries.

The majority view of policymakers (57%) was that the PSI can be potentially useful if it is very substantially reformed, in order to be much more tailored to the needs of "mature stabiliser" low-income countries, and therefore very different from PRGF. The main reforms suggested by the policy makers were:

- **A country-led negotiation process,** where the government suggests its own conditions, writes its own letters of intent, and consults fully with parliament and civil society about the decision to move to PSI and the programme content. To facilitate such consultation, PSI-related information needs to be more transparent ex ante, and stakeholders need extensive capacity-building in analysing PSI content. The process should also incorporate Poverty and Social Impact Analysis (PSIA) of PSI conditions, as well as a clear time frame (many suggested 3 years) and criteria for a country to move beyond a programme relationship and base signalling on Article IV surveillance.
- **Dramatically streamlined conditions compared to PRGF programmes.** In particular, given PSI users' long track record of stable macro policies and structural reform, macroeconomic quantitative performance criteria should be replaced with an overall judgment of progress, and structural conditions should be virtually abolished (through application of an extremely low numerical ceiling on conditions and their limitation to core areas of IMF competence).
- **Much more growth-oriented programmes.** This would involve targeting and achieving higher rates of growth and faster poverty reduction, placing more emphasis on analysing the factors contributing to higher growth, and allowing greater fiscal space and higher levels of growth- and MDG-related spending, for "mature stabilizers".
- **Clearer distinction of the PSI signalling role.** The above suggestions are all essential for PSI "mature stabiliser" countries to reduce the "stigma signal" to markets and private investors (as well as to domestic stakeholders) of being under an IMF programme. However, in addition, donors need to agree a clear position on how PSI signalling should work (duration, transition to Article IV, and circumstances for "re-entry").

3. LESSONS FOR THE WIDER IMF REVIEW OF LOW-INCOME COUNTRIES ENGAGEMENT

The study also provides important lessons for the wider review of all IMF facilities for low-income countries, currently being undertaken by Fund staff.

First and perhaps most important, it indicates that to reflect accurately the opinions of various stakeholders on future IMF engagement, all surveys should be conducted independently and confidentially, by the Independent Evaluation Office (IEO) of the IMF or third parties, and not identify individuals or country authorities.

Second, the initial review paper written by the IMF staff in February 2009[1] envisages that the PSI should support countries which need little or no adjustment, and no IMF financing. The most important attribute of this circumstance is that countries already have a strong policy framework and track record of stabilisation and structural reform (ie are "mature stabilisers"). As a result, for such countries, conditionalities should be minimal (whether they need no finance, precautionary finance, or short-term finance to combat an exogenous shock). This requires a far more fundamental tailoring of conditionality to country need then currently is foreseen, if the Fund is to be taken seriously in "modernising" conditionality and "destigmatising" programme relationships.

However, as one African policymaker put it, *"the most fundamental change needed is in the way the Fund does business with all low-income countries".* IMF engagement in low-income countries should:

- **focus on efforts to enhance growth, poverty reduction and government spending,** by working with governments and donors to develop macroeconomic frameworks different scenarios for scaling-up aid and investment to achieve the MDGs, accelerating growth, spending, and fiscal space, and working with governments to mobilise resources to finance the MDGs and highlight gaps or quality problems in donor assistance.
- **support genuine democratic ownership of policies,** by drawing all conditions from the government's own economic programme, limiting numbers of quantitative targets and structural conditions (even more tightly in 'mature stabilisers') and confining them to IMF core areas, allowing governments to write letters of intent, and subjecting the decision to take up an IMF program, and its form and content, to consultation with all domestic stakeholders.
- **base the availability of IMF Technical Assistance (TA), diagnostic and other advisory services on country need.** This would imply departing from current practice where such support

is concentrated on those countries which have a programme relationship with the Fund.

Ultimately, the IMF's role in low-income countries should be as short-lived as possible, and the best way to ensure this is for countries to design and implement their own development strategies. As one policymaker put it:

> *"It is an illusion to think that Fund-supported programmes will solve our country's problems and allow it to develop its economy. Our government has to develop its own policies and be accountable to its people for their implementation. Everything the Fund does should be judged on the basis of whether it is helping that to occur."*

1. BACKGROUND AND METHODOLOGY

In 2005, the International Monetary Fund (IMF) introduced the Policy Support Instrument (PSI) as a means of providing support to low-income countries that do not need or want to borrow from the IMF's under its Poverty Reduction Growth Facility (PRGF). The Fund describes the PSI as being to " help countries design effective economic programmes that, once approved by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement of a member's policies".[2] Annex 1 summarises the key features of the PSI based on IMF documents. The principle difference between a PRGF and a PSI are that: a PSI it provides no financial resources; it has a fixed rather than flexible schedule for reviews to assess programme implementation; and its duration can be shorter than a PRGF (which is 3 years long).

The PSI is currently being used by six African countries, three in West Africa (Cape Verde, Nigeria and Senegal) and three in Eastern and Southern Africa (Mozambique, Tanzania and Uganda). The first PSI was signed by Nigeria in 2005 and the most recent by Senegal in November 2007. The IMF is presenting the PSI as the next step in policy support and signalling for countries that graduate from the PRGF. It has discussed PSIs in a number of other countries, some of which have opted instead either to continue with a PRGF or to discontinue any programme relationship with the Fund.[3]

There is some enthusiasm within the IMF to see the PSI as the natural next step for countries which have reached the status of "mature stabilisers" following a PRGF and to move more countries onto this programme. Now that it has been in place for three years, there is scope to gather sufficient evidence from a country level to better assess whether it is living up to its intentions, and to the expectations of the wider development community.

Oxfam therefore commissioned this study from Development Finance International in order to assess the PSI. The particular focus of the study was to mobilise the frank opinions of low-income country policymakers on their experience of the PSI. The study aimed to assess both whether the PSI has fulfilled its own stated intentions, and whether it met the expectations of other stakeholders (including changing behaviour by the Fund which they have criticised in the past), as well as to generate suggestions on its future role. It therefore asked the following questions:

1) THE PROCESS OF NEGOTIATION

- Why are PSIs being agreed (instead of PRGF successor arrangements or a shift to surveillance as Article IV consultations) ?
- What are the perceived advantages and disadvantages of a PSI compared to alternatives (eg on negotiations, conditionality, waivers, signalling to donors, maintaining responsible policies etc) ?
- Is the nature of negotiations leading up to a PSI different from those for a PRGF ? Is the goverr more in control of the negotiations, with a higher degree of ownership ?
- What is the degree of consultation of non-government stakeholders on the decision to negotiate a and on its contents ? Who is consulted and how ? How does this compare with the degr consultation surrounding a PRGF (eg more or less consultation, or of different stakeholders) ?
- Is any analysis conducted before signing the PSI of its potential advantages or disadvantage poverty and social impact compared to the alternatives ? How does this compare with the an conducted under PRGF ?
- What are the future negotiation perspectives for a PSI ? Over what time period do governments e to stay in a PSI arrangement ?

2) CONDITIONALITY

- What are the differences (if any) between PSI and PRGF conditionality, in terms of numbers of conditions; types of conditions (quantitative/macroeconomic or structural); and content of conditions (eg focussing on the IMF core mandate on fiscal, monetary, external, financial sectors, and being critical to macro stability) ?
- What practical examples are there of where PSI conditionality is notably different from PRGF in improving government's flexibility to execute policy in line with its own development priorities ?
- Does the PSI provide more "fiscal space" to spend finance offered by donors to support development objectives (ie a larger budget deficit before loans and grants) ? Does this reflect the nature of the PSI itself, a more general trend to flexibility in this area by the IMF, or the availability of larger amounts of finance being offered by donors ?

- Is the process of review missions and applying for waivers of conditions under PSI different from that of PRGF ? If so, has it been more or less flexible ?

3) SIGNALLING
- What is the signalling role of the PSI?
- Has the move from a PRGF to a PSI (or to Article IV surveillance) had any effect on aid flows to countries (in terms of the amount, or the type of aid - eg budget support or project aid) ? Have any individual or groups of donors indicated that they are reducing or increasing their support (especially budget support) as a result of this move ? Do donors insist on a formal programme (rather than just a positive Article IV report) as a condition for budget support ?
- Has the move from a PRGF to a PSI (or to Article IV surveillance) had any significant impact on foreign private flows or domestic private investment levels ? What have been practical examples of where a PSI has been cited as specifically influencing decisions on external or domestic investment ?
- What signals does a PSI send about a country's macroeconomic stabilization achievements in the past ?
- What signals does a PSI send to national policymakers and politicians about the need for responsible policymaking ?
- Could any or all of these signals be achieved by PRGF or Article IV ? If not, why not ?

4) GROWTH AND POVERTY REDUCTION IMPACT
- Has the PSI assisted governments to spend more on anti-poverty and/or pro-growth measures than under a PRGF (or Article IV surveillance) ?
- Has the additional spending resulted in faster growth, poverty reduction, or progress towards the MDGs than was the case under a PRGF (or Article IV surveillance) ?

5) CHANGING THE PSI
- If you could suggest how the PSI could change to be more relevant to the needs of developing countries, what would you suggest in relation to negotiating processes; conditionality; signalling; growth and poverty reduction impact; or any other issues ?
- How should the PSI fit into any future architecture of IMF facilities and instruments for assisting low-income countries ?

The study has been conducted in two phases.
- Phase 1 was a desk-based analysis, which used the evidence from publicly available documents on the most recent PRGF and PSI programmes and reviews, as well as Article IV consultation reports, to examine many of the questions from a data-based objective standpoint. A complete list of countries and programmes for which documents were consulted is in Annex 2. To compare PSI with other circumstances, the countries included all African PSI users, as well as some with continued PRGFs (Mali and Zambia) or no IMF programme (Ethiopia, Ghana and Vietnam).
- Phase 2 was a process of consulting 30 key policymakers from the same low-income African countries. They were asked for their views through questionnaires and face-to-face or telephone interviews. To maximise the frankness of their responses, confidentiality was guaranteed, so no respondents are named in this text. This allowed the study to collect many more answers to the "why" questions about motivations and expectations, and whether they had been met, as well as comparing perceptions of stakeholders with "objective" data. Interviews were also conducted with several Fund staff and Executive Directors' offices, as well as several like-minded donor officials dealing with the Fund, either in PSI countries or their headquarters.
- Overall, the survey of policymakers produced fascinating results, which contrast with those of a similar survey conducted by the IMF. The contrast indicates two important lessons: 1) to ensure true reflection of stakeholder opinions on future IMF engagement, all surveys should be conducted independently, by the Independent Evaluation Office (IEO) of the IMF or third parties; 2) they should reflect the views of individual policymakers rather than overall views of country governments, and not name governments or individuals, to avoid African governments saying "what the IMF wants to hear".

2. THE PROCESS OF NEGOTIATION

2.1. Reasons for PSI Negotiations
Why do PSIs get agreed (instead of PRGF successor arrangements or a shift to surveillance such as Article IV consultations) ? What were the perceived advantages and disadvantages of a PSI compared to other alternatives (eg on negotiations, conditionality, waivers, signalling to donors, maintaining responsible policies etc) ?

Based on responses from policymakers, the main reason motivating low-income countries to opt for a PSI, rather than staying with a PRGF, appears to have been the wish to achieve credit from the international community for having graduated from PRGF to PSI. This means that they had previously been a “crisis” country, which had a balance of payments problem and therefore needed an IMF loan; and had now become a “mature stabiliser” which had adopted policies designed to achieve macroeconomic stability, growth and poverty reduction consistently over a number of years, and had therefore achieved steady growth, single-digit inflation, low budget and current account deficits, and healthy reserve levels (and therefore also did not need an IMF loan). This was cited by all policymakers adopting the PSI as their top motivation. Around 33% of policymakers also cited the perception that the negotiating relationship with the IMF might be more flexible under a PSI, and around 23% had expectations of less conditionality.

On the other hand, three main motives emerge for opting for a PSI rather than ending a “programme” relationship with the IMF and switching to annual surveillance through Article IV consultations:
1) a concern by 63% of policymakers that donors would require a continued programme in order to maintain aid levels (which was however, in almost all cases, not tested by asking donors);
2) a concern among 37% of officials that without an “external anchor”, stabilisation policies might not stay in place; and
3) a wish by 77% of policymakers to leave open the option of rapid access to IMF financing to combat exogenous shocks in the event of such shocks.

The first two were sometimes perceived as linked, especially when there was a temporary crisis – such as the External Payments Arrears scandal in Tanzania, or domestic arrears in Uganda – as one policymaker put it “you may need a PSI when you have a crisis but don’t need any IMF money, to stop donors freezing their flows”. However, the motive of keeping open access to IMF financing against shocks (such as the food and fuel price increases of 2007-08 or the global financial crisis of 2008-09) considerably outweighed the others. The few policymakers (23%) who were sceptical about this need pointed to the minimal level of Fund resources compared to shocks, their slow disbursement and their relative expense compared to grants and MDB resources as reasons not to care about financing.

For those countries which chose to stay with a PRGF rather than a PSI, the main reason, especially in countries which were less advanced in building budget support relationships with donors (as measured by the proportion of budget support in their total aid flows, or the existence of well-established multi-donor budget support frameworks), was (67%) that they might undermine donor relations due to a potentially weaker IMF support signal provided by a PSI compared to a PRGF. In some cases this reflected concerns about the practical operation of a PSI. In particular, concerns about the inflexible timetable for programme reviews, and that a PSI review might produce a “mixed” signal (ie of partial compliance with conditions) to donors and the wider community, were important factors in staying with a PRGF. In a few cases, this even extended further to the (mis)perception that waivers were “not possible” under a PSI and therefore it would be more likely to provide an “off” signal to donors if a programme was suspended due to non-compliance. These perceptions showed that some senior African policymakers were rather ill-informed on the functioning of the PSI or on the relative type or strength of signal it was expected to provide to donors.

For those countries moving to Article IV rather than PSI, four factors were vital for policymakers. They perceived:
1) no significant difference between the negotiations process of a PRGF and that of a PSI, whereas Article IV offered less frequent discussions and no negotiations;
2) no difference between the level of conditionality in a PRGF and PSI, whereas Article IV offered no conditionality;

3) no risk to donor flows or private investment from a decision not to have an IMF programme; and
4) little or no risk that policies would become less “responsible” without an IMF anchor.

To some degree, the first two of these perceptions worked together to convince the government concerned that the cost to their policy space of continuing with an IMF programme was too great, and in this they were sometimes influenced by individual tricky policy issues over which there were intensive discussions, such as the issuance of an international bond in Ghana.

2.2. Nature of PSI Negotiations

Has the nature of negotiations leading up to a PSI been different from that of a PRGF ? Has the government been more in control of the negotiations or had a higher degree of ownership ?

Policymakers in those countries opting for a PSI in general (57%) felt that there had been more leadership from the government side in the negotiations (though a 43% minority saw no difference with a PRGF). This was due in part to a more open attitude by some IMF missions to suggestions from the country authorities, which provided more scope for the government to suggest individual policies, and less “predrafting of policies by the IMF before the mission arrived in our country”, though only 10% indicated this had translated into governments having greater say in their own letters of intent. There was also a stronger correlation between government prior design of its own development programme beyond the PRSP (such as the National Strategy for Growth and Reduction of Poverty or MKUKUTA in Tanzania) and ownership of policies included in the PSI. They believed that this had led to more ownership than PRGFs – though some suggested that this dissipated over time when the nature and application of conditionality came to be seen as very similar to the PRGF. However, as already indicated, those not moving to a PSI (but who started discussions in that direction) did not perceive any clear difference between the two types of negotiations (100%).

2.3. Consultation of Non-Government Stakeholders

What was the degree of consultation of non-government stakeholders on the decision to negotiate a PSI, and its contents ? Who was consulted and how ? How did this compare with the degree of consultation surrounding a PRGF (eg more or less, or of different stakeholders) ?

There was in principle no difference between the degree of consultation on policy issues involved in a PRGF and that involved in a PSI. The consultation which occurred was largely on the country’s own Poverty Reduction Strategy (PRS) or development strategy. In this context, stakeholders raised many faults in this process, including:

- lack of sufficiently wide consultation in terms of stakeholders, coverage of issues, and time;
- consultation on initial design but not enough on implementation; and
- a macroeconomic framework driven largely by the PSI discussions rather than a PRS (partly because PRSs often did not have detailed macro frameworks).

These characteristics were not seen as having changed to any degree in the PSI process as opposed to the PRGF. Though some stakeholders had expectations of more consultation under a PSI, this was not ever a goal or intention of IMF Board/management or of country policymaking authorities.

However, more specifically, there was usually very little consultation over the decision to move from a PRGF to a PSI and the potential implications for country policies, signalling etc. Where the PSI itself did become a public-discussed issue (as in Nigeria/Bangladesh) this was much more related to the fact that it implied a continuation of a “programme-conditionality” relationship with the IMF, rather than anything to do with the nature of the PSI compared with the PRGF.

2.4. Poverty and Social Impact Analysis

Was any analysis conducted before signing the PSI of its potential advantages or disadvantages for poverty and social impact compared to the alternatives ? How did this compare with the analysis conducted under PRGF ?

There was generally very little analysis of the poverty and social impact of the PSI, in particular of its overall macroeconomic framework – except to the degree that it would produce growth and therefore was assumed to reduce poverty. Some analysis was conducted of individual controversial policies such as privatisations, or specific issues such as the amount of spending on specific social sectors or programmes (for example wage ceilings). This of course was similar to the situation under the PRGF, where only one "macroeconomic PSIA" analysis has ever been done, in Rwanda funded by DfID. There was some expansion of growth-related analysis, notably in recent economic developments papers and Article IV analysis, but this was explained by IMF staff as being part of a wider stream of work being done by the IMF to look at factors impacting on growth, and not specifically linked to the PSI. Again there was no expectation by IMF Board/ management or PSI countries that there would be more PSIA under PSI than under PRGF.

2.5. Future Perspectives and Duration of PSIs

What are the future negotiation perspectives for a PSI ? Over what time period do governments expect to stay in a PSI arrangement ?

Most of the policymakers consulted (83%) had initially envisaged that a PSI relationship would last a maximum of three years (most countries had opted from the start for a three-year PSI, with the exception of Nigeria and Uganda). Most countries have reached the mid-point or final year of current programmes, and many policymakers (37%) are expressing a degree of frustration that a common assumption among some IMF staff and donors seems to be that a second PSI three-year programme will follow a first, though Cape Verde (the first to end a multi-year PSI) is extending its programme by only 1 year. Many (57%) expressed a strong belief that, unless there is a continuing need for a strong focus on macro stabilisation and sustainability after the end of the programme, more stress should be placed on the PSI as a transition mechanism to surveillance under Article IV: as one put it, "there should be a clear presumption that one PSI is enough, unless the Government clearly has continuing macro stabilisation problems". However, those expressing a potential continued need for PSI beyond the current programme (33%) cited "uncertainty about exogenous shocks" as the main reason, particularly referring to the fact that countries with PSIs can borrow High Access ESF resources[4]. Some were more pessimistic, indicating that their country might need a PSI or similar relationship until such time as they could graduate from aid dependence and finance their development from market sources – "we will need a PSI as long as donors require it, unless we become an emerging market".

3. CONDITIONALITY

3.1. PRGF-PSI Differences

What are the differences (if any) between PSI and PRGF conditionality, in terms either of the numbers of conditions; the types of conditions (quantitative/macroeconomic or structural; prior actions, performance criteria or benchmarks); and the content of conditions (eg focussing on the IMF core mandate on fiscal/monetary/external/financial sectors, and crucial to macro stability) ?

There was no expectation globally that the PSI would have a lower level of conditionality than the PRGF. This was a subject of considerable discussion during the design of the PSI, but those Board members advocating lower conditionality were overruled by those insisting on "upper credit tranche conditionality"[5] the same as the PRGF. Interestingly, a few (20% of) country officials went into the PSI with the impression that there might be less conditionality than under a PRGF. However, the overwhelming majority of policymakers (83%) felt that there was no practical difference in conditionality comparing PSI and PRGF, whether in numbers of conditions, types or content.

Related to the earlier point that around 10% of policymakers indicated that a more flexible negotiating atmosphere might have had a practical impact on conditionality, the same proportion of policymakers indicated that it might have reduced conditionality. However, only 1 country was able to cite practical examples of significant change in conditionality providing more flexibility – Uganda that it had been allowed to borrow less concessionally for power and road projects.

A document-based analysis of the numbers and types of conditions of the PSI and PRGF agreements of Cape Verde, Mozambique, Senegal, Tanzania and Uganda, would suggest that the picture is somewhat mixed as shown in Table 1 below.

- Comparing the numbers of conditions at the start of programmes, Cape Verde and Senegal had more than in prior PRGFs, Uganda and Mozambique less (Uganda partly because its initial programme was very short), and Tanzania virtually the same. Nigeria had no prior PRGF but had a relatively high number of 14 structural conditions.
- Comparing numbers of conditions in final reviews of programmes, Cape Verde had similar numbers in their PRGF and their PSI, and Mozambique, Senegal and Uganda had increases. Nigeria had a reasonably average PSI number of 9.

It is extremely difficult to draw any lessons for trends in numbers of conditions over time during PSIs. While Table 1 shows that they rose for 2 countries, fell for 2 and stayed the same for 2, a more in-depth analysis of the numbers of conditions in each programme review for each country indicates relatively frequent trends to increase conditions in early reviews (which stakeholders have suggested is because execution of conditions relating to studies or definitions of policies, tend to lead to further conditions about more detailed implementation). General declines in conditions towards the end of programmes reflect the execution of earlier conditions, and the realisation that there is a decreasing amount of programme time left during which any new conditions could be met.

In terms of the type of condition, some clearer trends emerge. First, two countries had prior actions under PRGF and only one under PSI. All countries but Senegal had fewer performance criteria at the start of their PSI than their PRGF, though only Cape Verde had fewer at the end of the PSI than the PRGF. On the other hand, there were often more benchmarks by the end of PSIs than there had been in PRGFs. However, in the cases of Mali and Zambia which have recently signed up to a further PRGF programme, the number of structural conditions in the new PRGF are somewhat less and there are no prior actions and fewer performance criteria but more benchmarks.

As for the content of conditions, there appears to be a marginal move towards the “core areas” of IMF responsibility (macro and financial sector) and reduction in non-core areas such as public enterprise reform and detailed trade policy. However, there is no evidence that structural conditions became substantially more “macro-critical” over time under PSIs, or in PSIs compared to PRGFs. These findings also appear to be continuing those of earlier analysts (IEO 2007; Martin and Bargawi).

According to IMF and donor staff, the marginal but patchy reductions in the overall numbers of PSI conditions, the reduction of prior actions, the movement of structural conditions from performance criteria to benchmarks, and the slight trend to more “core” areas, are part of wider trends in all IMF programmes for middle- and low-income countries. These have been prompted partly by earlier reviews of structural conditionality which concluded that there had been virtually no “streamlining” of such conditions (IEO 2007). The third of these trends has in 2009 been cemented by the reform of lending and conditionality frameworks, which has abolished structural performance criteria and will soon be applied to low-income countries.[6]

3.2. Differences in Reviews and Waivers

Has the process of review missions and applying for waivers of conditions under PSI been different from that of PRGF ? If so, has it been more or less flexible ?

In contrast to the content of conditionality, the process of reviews (missions and reports when the Fund assesses compliance with the programme) and waivers (an application to the IMF Board to waive a condition because the country has good reasons for not complying with it) was expected by the PSI designers to be rather dramatically different from that of the PRGF, in 2 ways:

- PSI review missions are held at a fixed (6-month) time interval, with no flexibility to delay review missions or reports to the Board by a couple of months until some key conditions have been implemented as is possible under the PRGF. The logic behind this was that it would provide a regular and comparable time period for “signalling” to donors and investors about country progress, and therefore in particular for regular disbursements of budget support aid (rather than for delays to disbursements while negotiations were finalised). Opinions vary among stakeholders as to whether this inflexible review system has been positive or negative. Policymakers who see

Table 1: Structural Conditionalities

Countries with PSI		PRGF structural conditions: At start	PRGF structural conditions: Final review	PRGF waivers total	PSI structural conditions: At start	PSI structural conditions: Latest review	PSI waivers to date
Cape Verde	PRGF: 2001-04 (5 reviews) PSI: 2006 - (4 reviews)	2 prior actions 2 performance criteria 2 benchmarks	5 performance criteria 10 benchmarks	5 quantitative criteria 2 performance criteria	1 performance criteria 7 benchmarks	3 performance criteria 11 benchmarks	7 quantitative criteria
Mozambique	PRGF: 2004-07 (6 reviews) PSI: 2006 - (2 reviews)	4 prior actions 4 performance criteria 7 benchmarks	1 performance criteria 3 benchmarks	1 quantitative criteria 1 performance criteria 3 benchmarks	1 performance criteria 3 benchmarks	1 performance criteria 5 benchmarks	3 quantitative criteria
Nigeria*	PSI:2005-07 (4 reviews)	no PRGF			6 performance criteria 8 benchmarks	5 performance criteria 4 benchmarks	2 quantitative criteria 8 performance criteria
Senegal	PRGF: 2003-05 (4 reviews) PSI: 2007- (1 review)	3 performance criteria 3 benchmarks	2 performance criteria 5 benchmarks	1 quantitative criteria 7 performance criteria	3 prior actions 3 performance criteria 6 benchmarks	1 prior actions 4 performance criteria 6 benchmarks	1 quantitative criteria
Tanzania	PRGF: 2002/03-06/07 (6 reviews) PSI: 2007 - (2 reviews)	2 performance criteria 6 benchmarks	1 performance criteria 6 benchmarks	3 performance criteria	1 performance criteria 6 benchmarks	1 performance criteria 6 benchmarks	2 performance criteria
Uganda	PRGF: 2002/03 - 2005/06 (6 reviews) PSI: 2005/06 - (3 reviews)	4 performance criteria 12 benchmarks	1 performance criteria 4 benchmarks	7 quantitative criteria 9 performance criteria	3 performance criteria 5 benchmarks	3 performance criteria 5 benchmarks	6 performance criteria
Countries with PRGF		**PRGF 1**			**PRGF 2**		
Mali	PRGF: 2004-07 (4 reviews) PRGF: 2008 - (no reviews to date)	2 prior actions 4 performance criteria 1 benchmarks	2 performance criteria 9 benchmarks	1 quantitative criteria 9 performance criteria	2 performance criteria 2 benchmarks	no reviews to date	
Zambia	PRGF: 2004-07 (4 reviews) PRGF: 2008 - (no reviews to date)	2 prior actions 3 performance criteria 6 benchmarks	8 performance criteria 12 benchmarks	5 quantitative criteria 3 performance criteria	2 performance criteria 7 benchmarks	no reviews to date	

* No previous PRGF, PSI completed in 2007

Source: IMF

less need to "leverage" decisions by delaying reviews slightly (67%) appear not to care about the fixed schedule, but those who feel they often need more time to implement or redesign conditions, prefer the flexibility of the PRGF (33%).

The PSI was also expected to change the nature of the signal. Rather than asking for waivers in order to assure (having granted them) the international community that a country was "on track" with its programme (or delaying or suspending programmes because a country was off track), it was expected that the management would report to the Board in a more "nuanced" or "mixed" way, and that the Board would accordingly issue statements indicating where a country was doing well and also where it was doing less well. For various reasons to do with Board and PSI countries not wanting to risk a "less than positive" report, this has not occurred. In practice, the signal and waiver process has been almost exactly like that of a PRGF, with the exception that no country has gone "off track". As shown in Table 1 below, overall (calculating the number of waivers per programme review), there has been a slight increase in the number of waivers granted in the PSIs, as well as a slight increase in the proportion of waivers related to quantitative criteria. A few policymakers (13%) suggested that there were more waivers on structural policies because the Fund felt that for PSI countries the macro and quantitative policies were more on track, but the evidence does not support this.

3.3. Fiscal Space

Has the PSI provided more "fiscal space" to spend finance offered by donors to support development objectives (ie a larger budget deficit before grants) ? Does this reflect the nature of the PSI itself, a more general trend to flexibility in this area by the IMF, or the availability of larger amounts of finance being offered by donors ?

In principle, greater country ownership of policies could include increased spending to pursue national development objectives and enhanced poverty reduction spending. The Action Aid 2007 assessment of the PSI contained as its main criticism that this was not happening, provoking a debate which continued by teleconference (IMF 2007).

What is the latest situation? As shown in Table 2 below, if measured by expenditure as percentage of GDP, there is no substantial difference in trends for countries switching to PSIs compared with those sticking with PRGFs or ending a programme relationship with the Fund. Of the first group, 3 of 6 saw some rise in spending levels as a percentage of GDP; whereas 3 of 5 from the second group saw a rise.

Table 2: Government Expenditure

Government Expenditure as % GDP, 2004-09						
	2004	**2005**	**2006**	**2007 (Est or actual)**	**2008 (proj)**	**2009 (proj)**
Countries with PSI						
Cape Verde	34.1	30.9	34.3	30.9	34.0	34.2
Mozambique	23.7	22.5	27.0	32.8	34.5	33.3
Nigeria	27.2	28.7	26.4	27.8	24.9	25.9
Senegal	23.0	23.8	26.9	27.2	28.5	27.3
Tanzania*	22.0	24.5	25.6	28.2	27.9	28.0
Uganda *	22.9	20.8	17.4	17.5	20.3	20.6
Countries with PRGF						
Mali	22.7	22.8	24.0	25.3	23.8	23.5
Zambia	26.7	25.7	23.1	24.6	27.4	26.7
Countries with no current IMF programme						
Ethiopia*	24.7	23.3	22.3	20.8	21.7	20.6
Ghana	33.3	30.7	34.4	37.0	37.7	38.1
Viet Nam	25.8	27.1	27.4	29.0	28.0	27.7

* Fiscal year ending June ; [shaded] = year PSI signed or last year PRGF

Source: IMF

Table 3 also shows that, as measured by the budget deficit before grants as a percentage of GDP, country experience is mixed:

- For Mozambique and Uganda, there is more fiscal space being provided under the PSI than in the final years of the previous PRGF programme.
- For Senegal and Tanzania the situation is not significantly different under than PSI than under the PRGF, and for Cape Verde, the fiscal deficit is narrower, albeit it increasing in 2008-09
- Senegal has the narrowest fiscal gap, whereas Mozambique has the widest. Nigeria runs a budget surplus because of its high level of oil revenues.
- Of the countries with new PRGFs, Mali has seen increasing fiscal space in recent years, whereas in Zambia the projections suggest a narrowing of the budget deficit in future years.
- For countries without a current IMF programme, Ghana and Vietnam have certainly widened their fiscal deficits before grants fairly significantly since their Fund programmes ended in 2006 and 2004 respectively. In Ethiopia, the fiscal space is less than in 2004, the final year of its last PRGF programme, but it has not declined significantly and remains higher than in Senegal (with a PSI) or Zambia (with a PRGF).

Table 3: Fiscal Space

Fiscal deficit before grants as % GDP, 2004-09						
	2004	**2005**	**2006**	**2007 (Est or actual)**	**2008 (proj)**	**2009 (proj)**
Countries with PSI						
Cape Verde	8.0	12.2	10.4	5.5	9.9	9.7
Mozambique	12.1	8.9	12.5	13.5	18.3	17.0
Nigeria (surplus)*	*(6.3)*	*(8.1)*	*(7.7)*	*(0.9)*	*(6.2)*	*(4.8)*
Senegal	5.2	4.6	7.3	6.0	7.1	6.2
Tanzania**	9.3	11.1	10.4	9.1	11.2	10.3
Uganda **	11.1	8.5	5.3	5.6	7.7	8.1
Countries with PRGF						
Mali	6.6	7.3	7.7	8.4	8.7	6.8
Zambia	7.2	8.3	7.4	4.9	6.5	4.5
Countries with no current IMF programme						
Ethiopia**	9.4	7.4	8.1	8.6	7.6	8.1
Ghana	9.5	6.9	12.5	14.5	14.7	14.5
Viet Nam***	4.6	4.8	8.8	8.4	7.9	na

* Consolidated government
** Fiscal year ending June
***Includes off-budget expenditures less ODA finance
Source: IMF

= year PSI signed or last year PRGF
na = no available
(ital) = surplus

Policymakers are evenly split between those (53%) who see the PSI as providing a little more fiscal space than the PRGF, and those (47%) who see no difference – broadly reflecting the actual data variations discussed above. An interesting exception is Uganda where, given the perceived negative impact of mopping up liquidity caused by aid inflows on inflation, there was not in 2005-06 any particular wish for increased fiscal space. However, they are united in agreeing that the primary factor driving the degree of fiscal space is a rise in the amount of grants being provided by donors. This appears to them to be driving a somewhat increased degree of flexibility in this area by Fund missions, for both PRGF and PSI countries. Some (13%) suggest that IMF confidence in country macroeconomic stabilisation policies has helped them "loosen up" slightly more for PSI countries, but there is no strong evidence of a general trend in this area. IMF staff and donor officials also indicate that there may be a marginal overall trend to allowing more fiscal space in both PRGF and PSI countries, where donors are providing higher grants, but this is not due to the nature of the PSI itself.

4. SIGNALLING ROLE OF THE PSI

4.1. What is the Primary Signalling Role of the PSI?

Perhaps the primary goal of the PSI is to have a 'signalling' role whereby "the information that Fund activities can indirectly provide about countries' performances and prospects" [7] can be used to:

- Inform private creditors and bondholders about loan repayment prospects; and
- Reassure official donors and creditors about the economic environment and policies for which they are providing support.[8]

Policymakers from low-income countries confirmed almost unanimously (97%) that the point of the PSI was expected to be in the area of signalling to donors and investors. Some added to the analysis two other types of potential signalling – the political signal to the electorate that the country's achievements in macroeconomic stability and growth were being recognised (30%); and the signal to national policymakers and politicians beyond the core economic team about the need to maintain "responsible" policies (33%).

4.2. Signalling Effects on Aid

Has the move from a PRGF to a PSI (or to Article IV surveillance) had any effect on aid flows to countries (in terms of the amount, or the type of aid - eg budget support versus project aid) ? Have any individual or groups of donors indicated that they are reducing or increasing their support (especially budget support) as a result of this move ? Do donors insist on a formal programme (rather than just a positive Article IV report) as a condition for budget support ?

There is very little evidence that IMF programmes, notably PSIs, have a major influence on lenders and aid providers, in part because donors often have substantial country programmes, which they have a vested interest to maintain irrespective of the country's policy performance and prospects. So even if a country no longer has an IMF-agreed programme, as has happened in Bangladesh, Ethiopia, Ghana and Vietnam, donors are still willing to provide new funding because they are already committed to large country-support programmes and/or the country is seen as one of the donor's priority countries.

For example of the top ten IDA[9] borrowers in fiscal year 2007, six of the countries (Vietnam, India, Bangladesh, Ethiopia, Ghana[10] and Nepal) including the largest four as shown in Table 4 below, do not have IMF programmes in place. Nigeria and Tanzania had or have PSIs whereas Cote d'Ivoire has recently signed an Emergency Post-Conflict Assistance (EPCA) and Liberia has a Staff-Monitored Programme (SMP). For the OECD DAC donors, half of the top ten recipient countries in 2006 did not have Fund programmes in place. And it is a similar story with regard to the UK's aid programme. However, of course a considerable part of this aid is allocated for humanitarian purposes or on the basis of strategic interests.

Table 4: Major Recipients of the World Bank, OECD and UK Aid

Top Ten IDA Borrowers in FY 2007 *			Top Ten Recipients of OECD DAC Net Bilateral Aid in 2006**			Top Ten Recipients of UK's Bilateral Aid in 2006/07***		
Countries	**Status of IMF Agreement**	**US$ million**	**Countries**	**Status of IMF Agreement**	**US$ million**	**Countries**	**Status of IMF Agreement**	**UK £ million**
Vietnam	No current	1,193	Iraq	Stand-By	5,143	India	No current	234
India	No current	837	Afghanistan	PRGF	2,405	Tanzania	PSI	112
Bangladesh	No current	753	Sudan	SMP	1,518	Sudan^	No current	110
Ethiopia	No current	711	Viet Nam	No current	1,289	Bangladesh	No current	109
Nigeria	PSI	572	China	No current	1,174	Pakistan	No current	101
Cote d'Ivoire	EPCA	555	Pakistan	No current	1,140	Afghanistan	PRGF	99
Tanzania	PSI	499	Ethiopia	No current	996	Ethiopia	No current	90
Liberia	SMP	478	Tanzania	PSI	988	Nigeria	PSI	82
Ghana	No current	387	Uganda	PSI	934	Uganda	PSI	78
Nepal	No current	380	Colombia	No current	917	Congo, DR ^	SMP	75
* Including regional projects, excludes debt relief. Year to June 30 2007			** Excludes debt relief, includes humanitarian assistance			** Includes debt relief and humanitarian assistance ^ Mainly humanitarian aid		
PSI = Policy Support Instrument, EPCA = Emergerency Post-Conflict Agreement, SMP = Staff-Monitored Programme			PRGF = Poverty Reduction and Growth Facility, SMP = Staff-Monitored Programme, PSI = Policy Support Instrument			PRGF = Poverty Reduction and Growth Facility, SMP = Staff-Monitored Programme, PSI = Policy Support		
Source: World Bank			Source: OECD			Source: DFID		

So it is necessary to look more closely at the experience of PSI countries and the countries with which they can be compared. As shown in Table 5, there does not appear to be any general major increase in aid as a result of moving to PSI from a PRGF. In the case of Mozambique, aid flows are projected to be higher in 2008 and 2009, but this is due to a large increase in aid flows from the United States, improved recording of aid on budget, and a rise in the value of Euro-denominated aid, rather than any PSI effect. This picture – of other factors being much more influential on the dialogue with donors – is confirmed by the experience of Cape Verde, which is losing some of its aid as a result of graduating from least developed country status; and of Tanzania and Uganda, which want to keep aid flows at lower levels to avoid excessive aid dependence. All policymakers from PSI countries indicated that no individual donors or groups of donors had explicitly indicated that they were increasing or maintaining levels of aid as a result of adoption of a PSI, and that other factors determined the levels of aid flows. Even countries like Senegal or Tanzania, which cited concerns that donors would cut aid flows in the context of macro policy problems as a reason for continuing with a PSI, had not had any donor explicitly indicate that moving to Article IV would result in aid falls. However, Senegalese policymakers did feel that the adoption of a PSI at the end of 2007 was an important element in convincing donors to agree on a multi-donor budget support agreement, which should enhance aid quantity and quality.

Table 5: Past and Projected Aid

Aid* as % GDP, 2004-10							
	2004	**2005**	**2006**	**2007 (Est or actual)**	**2008 (proj)**	**2009 (proj)**	**2010 (proj)**
Countries with PSI							
Cape Verde	8.6	11.5	9.6	9.5	9.6	9.0	9.0
Mozambique	12.7	9.6	16.1	13.7	18.5	17.6	15.5
Nigeria	na	na	na	na	na	na	na
Senegal	5.3	4.7	4.4	4.5	6.0	5.2	4.8
Tanzania**	11.2	11.6	9.5	8.7	11.2	9.3	10.0
Uganda **	11.4	9.7	6.3	7.5	8.2	7.7	na
Countries with PRGF							
Mali	4.0	4.7	6.4	5.4	5.8	na	na
Zambia	7.1	7.9	4.6	5.4	7.0	6.3	6.0
Countries with no current IMF programme							
Ethiopia**	8.2	8.0	7.9	6.8	7.9	8.0	8.0
Ghana	9.4	10.7	7.7	7.7	7.4	6.8	na
Viet Nam	3.5	3.0	2.7	2.6	2.4	2.3	2.1

* For Cape Verde, Ethiopia, Ghana, Senegal, Tanzania, Uganda, Zambia data are BOP basis. For Mozambique, fiscal data used. For Mali: data are grants and budgetary loans only (no data on project loans). For Vietnam, BOP data for grants and ODA loan disbursements

** Fiscal year ending June

[shaded] = year PSI signed or last year PRGF

Source: IMF

na = not available

In Mali and Zambia, which still have PRGF programmes, projected aid flows are lower as a percentage of GDP than in four of the PSI countries (Cape Verde, Mozambique, Tanzania and Uganda) and in Zambia aid flows as a percentage of GDP is projected to decline in future years. Though policymakers from both countries cited providing a more positive signal to donors as one reason for sticking with a PRGF, it does not seem to be having that effect – indeed again the factors influencing donors appear to be the wider dialogue with the country about its spending needs and absorptive capacity for the MDGs.

For the non-IMF programme countries, the level of aid to Ethiopia, Ghana and Viet Nam has not been adversely affected by the lack of an IMF programme. Policymakers from Ghana and Ethiopia indicate that aid flows have increased or stayed stable during this period, both in nominal terms and as a percentage of GDP, that there has been no fall-off in budget support, and that no donors have indicated that they will reduce their aid flows (or budget support flows) as a result of the shift to Article IV consultations. Projected future falls in Ghanaian and Vietnamese future aid flows have more to do with a clear policy by government to reduce aid dependence and mobilise more market-related flows, especially for infrastructure-related spending (as well as in Ghana's case the eventual application of reduced access to flows from the World Bank and the African Development Fund because it borrowed a bond on international capital markets).

Most interestingly, it was only the countries which had decided to move to Article IV consultations and not continue with a formal Fund programme, which had "tested the water" with their donors as to what their reaction would be – finding that, provided they stuck with reasonably stable macroeconomic policies, and had strong local mechanisms for continuing dialogue with donors about macro policy and public financial management, budget support and wider aid would continue to flow and even increase. Most of the countries which had moved to a PSI or stuck with a PRGF had not had explicit discussions with their donors about their potential reactions. They had rather assumed (without any hard evidence) that the strongest signal would be provided by a PRGF, with a PSI providing a slightly weaker programme signal (though a few suggested it was stronger given that it also showed countries had managed to become "mature stabilisers"), and Article IV providing a weaker signal (though some suggested that, using the same logic as the PSI, it could provide an even stronger signal by indicating that the country no longer needed an IMF anchor to maintain strong growth and stable macro policies).

Overall, while signalling to donors was the motivation most often cited by country policymakers (87%) for their policy choice, there was a huge degree of confusion as to what signal was really being given, and virtually no evidence that any effective signal was occurring.

4.3. Signalling Effects on Private Flows

Has the move from a PRGF to a PSI (or to Article IV surveillance) had any significant impact on foreign private flows or domestic private investment levels ? What have been practical examples of where a PSI has been cited as specifically influencing decisions on external or domestic investment ?

As regards signalling to private creditors, there is even less evidence of an IMF programme having an impact on foreign or domestic investment. Ghana was the first post-MDRI[11] country to issue a sovereign bond on the international capital markets in 2007 and it did so without having any IMF agreement in place. Ghanaian policymakers indicate strongly that the existence or absence of a Fund programme was not raised as an issue during their bond roadshow, and this is in line with other (and with credit rating agency assessments which even sometimes include the existence of a Fund programme as a negative risk factor, demonstrating that the government needs external policy assistance). In fact Ghana might not have been able to issue such a bond had a Fund programme been in place, as the bond would have breached any Fund ceiling on non-concessional borrowing for countries with an IMF programme.

Ghanaian policymakers and those from the other PSI countries generally indicate that a Fund programme is not raised as an influential factor in any investment decisions taken by either foreign equity or portfolio investors, or domestic investors. In surveys of more than 3000 investors in 16 countries with either PRGFs or PSIs, conducted by the Foreign Private Capital Capacity-Building programme (see www.fpc-cbp.org) since 2002, an IMF programme has not been mentioned as an important factor by any investor. There is no evidence that the "nuanced" signal of graduation from PRGF to PSI has any impact on levels of private flows. No policymaker in the survey was able to cite any example of a private investor mentioning a PSI as having influenced their decision.

The only possible impact of an IMF programme is indirect, in that strong growth and reasonable levels of macroeconomic stability are important factors influencing foreign and direct investment levels: to the degree that Fund programmes promote accelerated growth, and moderate sharp variations in inflation and the exchange rate (including protection against exogenous shocks) they may be helping to signal reasonable economic conditions for investment. Other non-macroeconomic factors (especially enhanced investment in infrastructure, health and education) are also very important to investors, and it is interesting that Fund programmes have in the last 4-5 years begun to discuss the business and investment climate as a part of their negotiations. However, LIC policymakers in favour of moving to Article IV argued that they could maintain stable macroeconomic policies and strong growth without "IMF tutelage", and this would be an even stronger signal to investors to have confidence in the national government. This confirms earlier analysis that the influence of a Fund programme on private flows is difficult to trace (Martin and Bargawi 2004).

4.4. Signals to Policymakers, and Electorates

What signals does a PSI send (compared to the alternatives) to national policymakers and politicians about the need for responsible policymaking ? What signals does a PSI send about a country's macroeconomic stabilization achievements in the past ?

Two strong messages from some policymakers were that the PSI could a) send a strong message to the electorate and nation that the country had made major steps forward in growth and stabilization, and therefore no longer needed an IMF loan (compared to a PRGF) (30%); and b) remind potentially "irresponsible" policymakers outside (or sometimes inside) the core economic team about the need to continue with "responsible" policies (33%) rather than, as one policymaker put it, "engaging in borrowing or spending sprees". Indeed, as already discussed in section 2, these were often cited as the reasons for having adopted a PSI rather than moving to surveillance.

However, a much larger number of policymakers felt that a) the signal to the electorate and nation was at best weak and rapidly forgotten, especially in a context where it had few or no concrete benefits in terms of enhanced aid or investment flows (70%); and b) their political systems should be sufficiently "grown up" to debate and agree the need for responsible policies (or to learn to live with the consequences of election-related spending cycles) without needing restraint from the IMF (67%).

The most trenchant point in this regard was made by a policymaker with impeccable anti-inflationary credentials over a 15-year period, who said: "What does it say for the degree to which our politicians and society 'own' the policies we have followed with IMF assistance, that after 15 years we are still too scared to let go of nanny's hand and cross the road by ourselves ?". Indeed those policymakers who had been at the forefront of achieving stable and growth-oriented economies for more than a decade felt most strongly that it was time that their countries had the self-confidence (and that donors supported them) to move to IMF surveillance and "fight their own internal fights" about policies.

4.5. Signals from Alternative Paths

Could any or all of these signals be achieved by PRGF or Article IV ? If not, why not ?

Overall, many policymakers (70%) initially suggested that the PSI was a "transition mechanism" which provided signals to donors, investors, politicians and the electorate about the need to continue with stable policies. However, in more detailed discussions, a large majority (77%) indicated that, as one put it, they had "just assumed" that the PSI worked in this way, but had not actually tested it against any evidence. Overall, most (73%) suspected that donors would probably accept an Article IV report as a reasonable signal and continue to provide support, there would be little or no impact on the private sector of choosing among PRGF, PSI and Article IV, and they could (with the possible exception of some hotly contested elections) continue to maintain growth and macro stability without Fund conditions. The exceptions (27%) were those who were less confident of their country's relationship with donors, or of the commitment of their policymakers, and very often this reflected some recent policymaking crisis which had demonstrated less cordial donor-government relations). However, even these indicated that, under major electoral pressures, a PRGF or PSI would be "only marginally more likely" to keep their government "on the straight and narrow". Several therefore expressed the view that the transaction costs and time invested in negotiations with the Fund would be much better spent in the long run engaging with parliament and civil society on policy issues, in order to maximise ownership of the policies most likely to produce growth and poverty reduction.

5. GROWTH AND POVERTY REDUCTION IMPACT

5.1. Pro-Growth/Anti-Poverty Spending

Has the PSI assisted governments to spend more on anti-poverty and/or pro-growth measures than under a PRGF (or Article IV surveillance) ?

It is important to realise that the PSI did not have any explicit intention to allow countries to increase their priority spending on anti-poverty or pro-growth measures. As a result, as already discussed in section 3, the degree to which each country achieved greater fiscal space to spend on these priorities depended on other factors which were at best indirectly (if at all) related to the PSI.

As shown in Table 6, at first sight PSI programmes could be thought to have had a positive impact on anti-poverty spending in the beneficiary countries, which has risen in the most recent years and is expected to remain at higher levels. However, any causal link between a PSI and increased anti-poverty spending is not clear cut, as a result of three factors:

1) inconsistency of data on anti-poverty spending in countries, with some data sets considering only social sectors and others having expanded their Poverty Reduction Strategies (PRS) recently to cover pro-growth spending on infrastructure, energy, agriculture etc. Indeed for countries such as Tanzania and Zambia, reclassifications of what constitutes anti-poverty expenditure, to include more growth sectors, make interpretation of the time series virtually impossible.
2) the impact of other factors such as HIPC[12] and MDRI debt relief and prioritisation of aid to poverty sectors. In particular, MDRI debt relief[13] by the African Development Bank, IMF and World Bank was implemented from 2006 and 2007, so HIPC countries were able to allocate additional resources to anti-poverty spending starting in these years. The main exception is Zambia where poverty spending as a percentage of GDP spiked in 2005, the year of its HIPC Completion Point, and then declined in 2006, albeit to a significantly higher level than in pre-2005 years.
3) the gradual increase of aid flows, and especially of government focus of spending on anti-poverty measures (ie that some countries are planning to spend a higher proportion of resources mobilised nationally through taxes on anti-poverty measures) which, while perhaps being a result of PRS and debt relief processes over the last decade, cannot be claimed (especially in the light of the earlier discussion on signalling) to be a result of PSIs.

Table 6: Anti-Poverty Spending[14]

Poverty Spending of HIPCs as % GDP, 2002 - 2010									
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
						Prel		**Projections**	
Countries with PSI									
Mozambique	15.3	16.3	17.7	13.7	16.1	18.0	21.2	21.7	21.5
Senegal	5.9	6.6	8.1	8.4	8.6	9.0	9.5	10.0	10.7
Tanzania	7.4	8.1	8.8	9.3	11.9	16.8	19.8	19.7	20.0
Uganda*	5.8	5.5	5.2	4.9	4.8	5.2	5.3	4.6	4.5
Countries with PRGF									
Mali*	5.7	7.3	7.0	7.4	7.2	8.1	8.3	8.5	8.9
Zambia	0.9	1.1	2.0	16.5	8.3	9.8	11.7	11.7	10.4
Countries with no current IMF programme									
Ethiopia*	9.0	11.3	11.7	11.7	13.2	13.9	13.1	13.8	13.8
Ghana*	4.8	6.5	7.7	8.5	10.6	9.3	9.6	9.0	9.0

* Data refer to health and education spending

Comparable data are not available for Cape Verde, Nigeria and Vietnam = year of PSI

Source: IMF

Policymaker responses to questionnaires and interviews confirmed this evidence. They unanimously saw no particular impact of the PSI on anti-poverty spending levels, ascribing it instead to MDRI debt relief, higher revenue mobilisation or broadening of what was considered anti-poverty spending in their countries. A substantial minority did note that "there was more openness to discussing pro-growth in addition to anti-poverty expenditures". However, it was not clear to policymakers whether this had anything to do with the PSI. A few speculated that, as one put it, "the change of name from Poverty Reduction and Growth Facility to Policy Support Instrument may have reduced the degree of obsession with the social sectors", but far more ascribed it to a "broadening of the anti-poverty agenda", as a result of second generation PRSs in many countries which identified pro-growth spending as a top priority, and an overall learning process (and more of a focus on growth promotion) in the Fund. This is confirmed by the responses of PRGF countries, which also indicated a greater openness to pro-growth spending in line with their PRSs (see also Martin and Vencatachellum 2009).

5.2. Growth, Poverty Reduction and MDG Outcomes

Has the additional spending resulted in faster growth, poverty reduction, or progress towards the MDGs than was the case under a PRGF (or Article IV surveillance) ?

It is too early to judge most of these long-term and indirect impacts of spending. Nevertheless, as shown in Table 7, there was no consistent significant increase in growth targets projected for PSI countries compared to their pre-PSI projections. While Cape Verde and Tanzania saw increased projections, Senegal and Uganda saw no increase, and Mozambique and Nigeria saw reduced projections. Of course, there was no explicit intent under PSI programmes to target higher growth levels than under PRGFs. Any higher targets (especially those in 2007-08) were therefore, according to Fund staff and African policymakers, much more due to the highly favourable external environment, which in many cases "allowed growth to be export- and FDI-led", than to higher expenditures or deliberate intent to increase growth rates under the PSI. As one policymaker put it, "we had been struggling for years to convince the Fund to allow us to target higher growth rates credibly: then the world economic boom allowed us to put higher growth rates in the PSI". This implies that the real test of whether the PSI can target higher growth will come over the next couple of years, as the global financial crisis hits low-income countries, and their sources of investment and markets for exports.

Table 7: Projected GDP Growth

Projected GDP Growth (average of 3 projected years following the baseline year, %)					
	Base Year				
	2004	2005	2006	2007	2008
Countries with PSI					
Cape Verde	..	6.7	6.3	7.7	6.9
Mozambique	6.7	6.7	7.0	7.0	6.8
Nigeria	5.3	5.3	5.1	6.2	7.4
Senegal	5.5	..	5.1	5.8	5.9
Tanzania**	6.8	7.3		7.7	8.0
Uganda **	6.3	5.6	6.5	..	8.1
Countries with PRGF					
Mali	6.1	5.6	5.3	..	5.0
Zambia	4.8	5.0	6.0	6.2	6.3
Countries with no current IMF programme					
Ethiopia**	5.4	5.4	6.9	7.8	6.5
Ghana	5.0	5.8	6.2	7.3	5.9
Viet Nam	7.1	7.4	7.5	8.1	5.9

** Fiscal year ending June
= year PSI signed or last year PRGF
Source: IMF
na = not available

As shown in Table 8, several countries also saw higher actual growth rates than in earlier years: this was true of Nigeria (which had finished its PSI), Tanzania and Uganda. However, Cape Verde and Senegal saw lower growth rates, and Mozambique no increase. As with projections, higher growth rates arrived generally in 2008 because of the global economic boom, rather than in the first year of the PSI; or (in the case of Tanzania) represented a continuation of previous trends. While one can argue that earlier reforms placed these countries in a better position to benefit from the global economic boom, it is not possible to ascribe any causality for the higher growth rates to the PSI.

Table 8: Actual GDP Growth

Actual GDP Growth (%)					
	2004	2005	2006	2007	2008 (Est or actual)
Countries with PSI					
Cape Verde	4.4	6.5	10.8	6.9	6.5
Mozambique	7.5	8.4	8.0	7.0	7.0
Nigeria	10.5	6.5	6.0	6.3	9.0
Senegal	5.9	5.6	2.3	4.8	3.9
Tanzania**	6.7	7.4	6.7	7.1	7.5
Uganda **	5.7	6.7	10.8	7.9	9.8
Countries with PRGF					
Mali	2.2	6.1	5.3	2.8	5.4
Zambia	5.4	5.2	6.2	6.0	6.2
Countries with no current IMF programme					
Ethiopia**	11.9	12.6	11.5	11.5	11.6
Ghana	5.6	5.9	6.4	6.3	6.5
Viet Nam	7.8	8.4	8.2	8.5	6.2
** Fiscal year ending June			= year PSI signed or last year PRGF		
Source: IMF			na = not available		

There has been no analysis in any IMF documents of whether higher levels of anti-poverty or pro-growth spending under the PSI (which as already discussed were probably due to non-PSI factors and also seen in contemporaneous PRGF programmes and development plans by countries which had only Article IV surveillance) have translated into faster progress on poverty reduction or the other MDGs. In large part this reflects the delay in household surveys and collection of data on other MDG indicators, so this will remain an issue for future study. However, intuitively higher levels of spending should have accelerated progress towards the MDGs (unless there was some dramatic decline in the efficiency of spending). When asked about this, Africa policymakers indicated that they expected acceleration in progress on these indicators because there was no reason to believe that they had reached “some form of plateau in terms of potential impact of the spending”. As with all anti-poverty spending, the impact on MDG indicators would depend much more on the mechanisms in place for ensuring the effectiveness of spending in terms of MDG results (see also Martin and Vencatachellum 2009). However, policymakers across the three study groups (PSI, PRGF and Article IV) all had expectations of accelerated progress, and did not ascribe the progress to the PSI.

6. IMF Technical Assistance (TA), STANDARDS AND ADVICE

One additional issue raised by several policymakers during the study was the fact that it had been made clear to them that IMF Technical Assistance (TA), assessment missions for codes and standards, and other advice, is largely linked to the existence of a formal programme, on the assumption that countries which do not need a programme do not need these extra services. They felt strongly that this linkage should be rethought and that these diagnostic, TA and advisory services should be provided to countries which had established basic macroeconomic stability, regardless of whether they opted for a Fund programme. Indeed, to the degree that these services are delinked from a Fund programme and therefore not translate directly into conditionality, they felt that the recommendations would be likely to be provided even more impartially and therefore owned and implemented more strongly by the country authorities.

7. RECOMMENDATIONS

If you could suggest how the PSI could change to be more relevant to the needs of developing countries, what would you suggest in relation to negotiating processes; conditionality; signalling; growth and poverty reduction impact; or any other issues ?

Overall, there were two currents of thought among African policymakers about the future of the PSI. The more radical view, expressed by 43%, was that "there is little point to the PSI". As one put it,

> "There is a marginally more positive atmosphere in PSI negotiations, but this does not seem to translate into any major differences in conditionality. The PSI signal to donors and investors seems to be nonexistent, and we should be able to convince our own politicians and people of the need to balance growth, poverty reduction and economic stability. Indeed, we are already doing this by mobilising more revenue and spending more on growth and poverty reduction. So ***what is the point of the PSI ? We might as well move straight from PRGF to Article IV.***"

Within this group, a few expressed a need to have more clarity about what the donor reaction would be to such a move (ie would they continue to disburse budget support based on an Article IV as they had in other countries, and be able to present this as graduation from the need for a Fund programme), as well as the need to have a "plan B" of possible access to a PSI if there was "a crisis which didn't require IMF lending". Some also expressed the view that IMF diagnostic (ROSC, FSSA)[15] and technical assistance missions would also need to be available on an equal basis to countries which moved to Article IV, to ensure that countries were not penalised for such a decision.

The majority view (57%) was that the PSI could be useful if it was very substantially reformed to make it more relevant to country needs and delineate it much more clearly from the PRGF, as follows:

1) Negotiation processes should be more clearly differentiated from the PRGF, with government required to suggest conditions which would go into a PSI, or even writing their own (much shorter) letters of intent, and more transparency and consultation in the process of moving to a PSI.
2) There should be PSIA analysis of the PSI conditions, rather than everyone relying on the PRS to deal with poverty reduction impact issues.
3) There should be a clear time frame (many suggested maximum 3 years) during which countries would be expected to move out of PSI to Article IV, as well as broad criteria to define when such a move should occur.
4) Conditions should be dramatically streamlined compared to a PRGF. A prior record of stabilization should imply replacing macroeconomic quantitative performance criteria, with a more nuanced judgement of progress compared to target ranges, akin to enhanced surveillance. It would also imply a virtual abolition of structural conditions, unless it could be demonstrated that they were critical to continued macroeconomic stability (and even then they should be subject to a very low numerical ceiling, and limited entirely to areas in the Fund's core mandate).
5) There should be a presupposition that PSIs would aim for higher growth rates, MDG-related spending, and fiscal space to absorb donor flows and tax revenues (accommodated if necessary by slightly higher inflation), given that PSI countries are "mature stabilizers".
6) Review periods should be made more flexible, to maximize potential reform progress, and the fiction of a "nuanced" judgment by the Board should be dropped.
7) Donors should decide on a clear position in relation to PSI signalling - ie how long countries were expected to stay on PSI, would they be as happy with Article IV, what would be the (crisis/policy lapse) circumstances under which they expect a move back from Article IV to PSI.
8) The path through PSI to surveillance, as well as its potential impact on aid, should be made much clearer to politicians and civil society, to facilitate transparent debate on the desirability of a PSI.
9) All IMF facilities should focus much more on efforts to enhance spending on anti-poverty/pro-growth measures and to scale up aid and private investment.
10) IMF Technical Assistance (TA), diagnostic and other advisory services should be delinked from programmes, and based on country need.

Where should the PSI fit in the wider architecture of IMF facilities and instruments to assist low-income countries ?

The current review of the Fund's facilities for low-income countries (IMF 2009a,b,c) is working on the assumption that there are four sets of circumstances in which low-income countries might need Fund support (see the columns in the diagram in Annex 3). Countries might need:

- little or no adjustment, and little or no financing due to low immediate risks, or a precautionary need for financing due to higher risks
- a combination of short-term financing and adjustment to combat exogenous shocks and domestic factors such as policy slippages
- a combination of medium-term adjustment and financing to achieve economic stability
- emergency financing (against exogenous shocks, natural disaster or post-conflict circumstances) without being able to implement upper credit tranche[16] policy adjustments.

As can be seen from the left-hand column of the diagram in annex 3, the first of these is the circumstance in which the Fund sees a place for the PSI; for countries which do not need Fund financing. The most important attribute of this circumstance is that countries already have a strong policy framework (ie are "mature stabilisers"). This is entirely consistent with the recommendations resulting from study that, for countries with strong policies, conditionalities should be minimal. The same minimal conditionality should also apply to countries with strong policy records which need precautionary financing, or short-term financing to combat an exogenous shock. In other words, the Fund must make a far more fundamental tailoring of conditionality a key part of its review of Low-Income Country facilities, if it is to be taken seriously in trying to modernise conditionality and "destigmatise" IMF programme relationships for mature stabilisers.

This would imply that whatever broad option for reform of facilities is chosen – ie whether financing is provided through an ESF, a concessional-stand-by like facility or another mechanism - the financing should have minimal conditionality (ie it should be accessible on the basis of a substantially reformed PSI or a similar minimal-conditionality programme). In addition, access to this financing should be of a similar annual size to PRGF financing, to avoid pushing countries with strong policies to the PRGF to access higher financing. In order to provide an adequate amount of financing to make the programme discussions worthwhile, the IMFs recent decision to double access limits to concessional finance is a first step to bring them back to the same proportion of country trade and GDP as 10 years ago. In this context, the recent pledge by the G-20 to increase the amount of concessional resources available by using gold sales and surplus income is welcome.

However, as one African policymaker put it, *"the most fundamental change needed is in the way the Fund does business with all low-income countries".* IMF engagement in low-income countries should:

- **focus on efforts to enhance growth, poverty reduction and government spending to support these ends,** by working with governments and donors to develop macroeconomic frameworks different scenarios for scaling-up aid and investment to achieve the MDGs, accelerating growth, spending, and fiscal space, and working with governments to mobilise resources to finance the MDGs and highlight gaps or quality problems in donor assistance.

- **support genuine democratic ownership of policies,** by drawing all conditions from the government's own economic programme, limiting numbers of quantitative targets and structural conditions (even more tightly in 'mature stabiliser' countries) and confining them to IMF core areas, allowing governments to write their own letters of intent, and subjecting the decision to take up an IMF program, and its form and content, to consultation with stakeholders including parliamentarians, trade unions and civil society groups.

Ultimately, the IMF's role in low-income countries should be as short-lived as possible, and the best way to ensure this is for countries to design and implement their own accelerated growth and development strategies. As one policymaker put it:

> *"It is an illusion to think that Fund-supported programmes will solve our country's problems and allow it to develop its economy. Our government has to develop its own policies and*

be accountable to its people for their implementation. Everything the Fund does should be judged on the basis of whether it helping that to occur."

Annex 1

Policy Support Instrument: Key Features

The IMF describes the PSI as being voluntary, demand-driven, and intended to be supported by strong country ownership. It summarises the main features as being:

- Programme targets and structural reforms should be based on a country's poverty reduction strategy to help ensure public ownership.
- Programmes should meet the same high standards as under a Fund financial arrangement.
- PSIs will have a fixed schedule of reviews to assess programme implementation, with review normally scheduled semi-annually.
- The provision of timely and accurate information from the PSI country will be essential for the Fund's assessment. A framework for dealing with possible cases of misreporting will be in place to safeguard the integrity of the IMF assessment.
- In the event of a shock, an on-track PSI could provide the basis for rapid access to PRGF resources through the Exogenous Shock Facility (ESF).
- The publication of PSI documents is voluntary, but presumed.

Source: IMF (2007) 'The Policy Support Instrument', October, www.imf.org

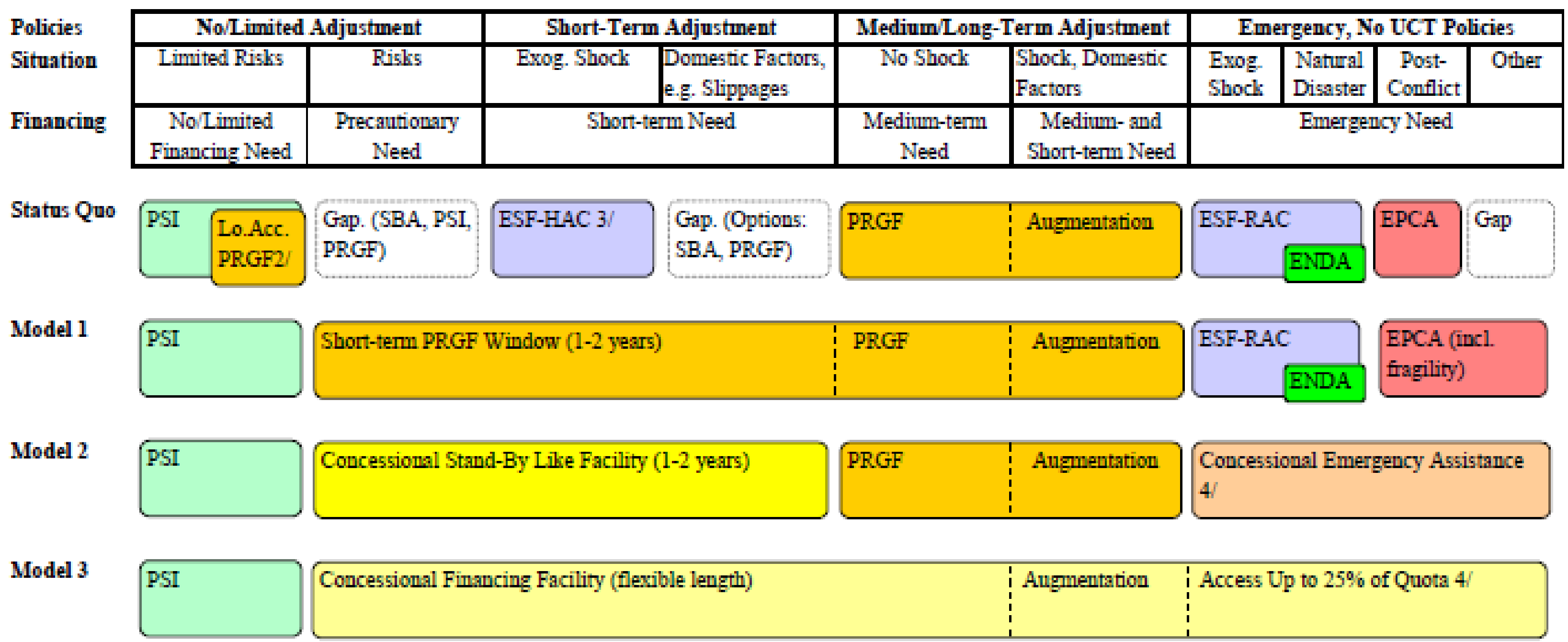
Annex 2: IMF Programmes of Countries Examined in this Study

Countries	Previous PRGF /Stand-by agreements	Latest PSI or PRGF agreement
Countries with PSI		
Cape Verde	Standby: Feb 1998 – March 2000 PRGF: April 2002 – July 2005	PSI: August 2006 –July 2009*
Mozambique	PRGF: June 1996 – June 1999 PRGF: June 1999 – June 2003 PRGF: July 2004 – July 2007	PSI: June 2007 – May 2010
Nigeria	Standby: Feb 1989 – April 1990 Standby: Jan 1991 – April 1992 Standby: Aug 2000 – Oct 2001	PSI: Oct 2005 – Oct 2007
Senegal	PRGF: Aug 1994 – Jan 1998 PRGF: April 1998 – April 2002 PRGF: April 2003 – April 2006	PSI: Nov 2007 – Oct 2010**
Tanzania	PRGF: Nov 1996 – Feb 2000 PRGF: April 2000 – Aug 2003 PRGF: Aug 2003 – Feb 2007	PSI: Feb 2007 –Jan 2010
Uganda	PRGF: Sept 1994 – Nov 1997 PRGF: Nov 1997 – March 2001 PRGF: Sept 2002 – Jan 2006	PSI: Feb 2006 – Nov 2006 PSI: Dec 2006 – Dec 2009
Countries with PRGF		
Mali	PRGF: Aug 1999 – Aug 2003 PRGF: June 2004 – Nov 2007	PRGF: May 2008 – May 2011
Zambia	PRGF: March 1999 – March 2003 PRGF: June 2004 – Sept 2007	PRGF: Jan 2008 – June 2011
Countries with no current programme		
Ethiopia	PRGF: Oct 1996 – Oct 1999 PRGF: March 2001 – Oct 2004	***
Ghana	PRGF: June 1995 – May 1999 PRGF: May 1999 – Nov 2002 PRGF: May 2003 – Oct 2006	
Vietnam	Standby: Oct 1993 – Nov 1994 PRGF: Nov 1994 – Nov 1997 PRGF: April 2001 – April 2004	

* - a 1-year extension of the PSI is currently being finalised
** - in December 2009 an Exogenous Shocks Facility Loan was agreed at the time of the second PSI review.
*** - in December 2008, Ethiopia applied for a disbursement under the Rapid Access Component of the Exogenous Shocks Facility (RAC-ESF)

ANNEX 3: Possible Reform Options for IMF LIC Facilities

Figure 10. LIC Facilities Architecture: Status Quo and Reform Options 1/



1/ Stylized Illustration. Does not include possible overlaps due to multiple events (e.g. a post-conflict country exposed also to a shock).
2/ Low-access PRGF arrangement, normalized at 10 percent of quota.
3/ Exogenous Shocks Facility, High Access Component. Can be used while PSI remains in place.
4/ Includes a Rapid Access Option, with limited or no policy adjustment for temporary shocks such as natural disasters.

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NOTES

[1] IMF (2009), The Fund's Facilities and Financing Framework for Low-Income Countries. see http://www.imf.org/external/np/sec/pn/2009/pn0938.htm (checked by author on June 19, 2008).

[2] IMF, (2007) 'The Policy Support Instrument', October, www.imf.org (checked by author on September 29, 2008).

[3] It is not known how many countries have had discussions about a choice between a PSI and other facilities or no Fund programme. The IMF indicates (2009b) that approximately 15 of the 59 PRGF-eligible countries may be classified as "mature stabilisers", and another 9 are "close to" this categorisation. These countries therefore might have been expected (if interested in a Fund relationship) to be offered a PSI as an option. However, interviews with Fund staff and country authorities indicate that "less than ten" countries have been offered a PSI.

[4] Under the ESF countries can access funds up to 25% of their IMF quota (also called the rapid access component) with limited conditions attached and up to 75% of their IMF quota (also called high level access component) with conditions attached similar to a PRGF programme. The latter is also called "upper credit tranche conditionality".

[5] See note 4

[6] For more detail of these reforms, see www.imf.org/external/np/pdr/fac/2009/032409.htm and www.imf.org/external/np/exr/faq/facfaqs.htm#q6

[7] IMF, (2007) op cit. For countries which do not have PSI or PRGF agreements with the IMF, data and policy information are available from annual Article 4 Consultation reports, which are usually available on the IMF website sometime after the mission. However in some cases countries do not agree to these reports being published. For example, the Ghana 2008 Article 4 report has not as yet been published although the mission took place in April 2008 and the Public Information Notice of June 2008 following the Board meeting provided some data and information.

[8] The PSI for Nigeria clearly had a vital signalling role for debt relief for Nigeria – without a Fund programme such relief would not have been possible in the Paris Club, and Nigeria was not willing to apply for a PRGF. However, in general this is not expected to a PSI role, as countries applying for debt relief would have a PRGF.

[9] IDA is the lending arm of the World Bank for low-income countries.

[10] In the case of Ghana, however, new IDA lending is on 'blend' terms, whereby the maturity of new loans will be 35 instead of 40 years, thereby lowering the grant element. This is in line with IDA's Non-Concessional Borrowing Policy reflecting the fact that Ghana borrowed non-concessionally with the issuance of a US$750 million bond on international capital markets and a US$292 million China Exim Bank loans in September 2007. For more information, see World Bank, (2008) IDA's Non-Concessional Borrowing Policy: Review and Update, June, www.worldbank.org (checked by the author on September 30, 2008).

[11] The Multilateral Debt Relief Initiative (MDRI) provides that three multilateral institutions—the IMF, the International Development Association (IDA) of the World Bank, and the African Development Fund (AfDF) —cancel 100 percent of their debt claims on countries that have reached, or will eventually reach, the completion point under HIPC Initiative. Also see note 12.

[12] Heavily Indebted Poor Countries (HIPC) a group of around 40 poor countries, whose debt is considered to be unsustainable and who are eligible the HIPC debt relief initiative created in 1996 by the World Bank and IMF.

[13] Under MDRI, the African Development Fund, IMF and World Bank cancelled 100% of eligible debt commencing in 2006-07.

[14] Data are drawn from HIPC Initiative reports because data are rarely published in IMF country documents, and their classifications are even less consistent. As a result, comparable data are not available for non-HIPC and MDRI countries, Cape Verde, Nigeria and Vietnam.

[15] The IMF and World Bank have set a standard and codes framework on the institutional environment for fiscal and economic policies. Reporting on these standards and codes regularly takes place via the Report on Observance of Standards and Codes (ROSC) and the Financial System Stability Assessment (FSSA).

[16] See note 4