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POLICY COORDINATION INSTRUMENT— OPERATIONAL GUIDANCE NOTE

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May 14, 2021

POLICY COORDINATION INSTRUMENT—OPERATIONAL GUIDANCE NOTE

EXECUTIVE SUMMARY

This note provides general guidance on the use of the Policy Coordination Instrument (PCI), a non-financing instrument designed for countries that are seeking to unlock financing from multiple sources and/or to demonstrate a commitment to a reform agenda. Operational issues are grouped into the following areas:

- Purpose, objectives, and eligibility;
- Modalities including duration, extension, cancellation, repeat use, and rules for its concurrent use;
- The applicability of UFR-related policies, such as financing assurances, arrears, and safeguards;
- The design of a PCI-supported program;
- The conditionality framework, including the review-based approach to monitoring and the related misreporting framework;
- The PCI review cycle, including details on the fixed review schedule and noncompletion of reviews;
- The applicability of other relevant policies, such as post financing assessments or Article IV consultations;
- Annexes comparing the PCI with other instruments and corresponding nomenclature, and on documentation and the review process.

The note is an aid to the implementation of the policy and its underlying principles. If there is any instance in which a provision of the guidance note or its implementation conflicts with Board policy, Board policy prevails.

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OBJECTIVES AND ELIGIBILITY

A. Purpose and Objectives

1. **Objective.** The overall objective of the PCI is to support countries in designing and implementing policies through a fully-fledged macroeconomic program to (i) prevent crises and build buffers, (ii) enhance macroeconomic stability, or (iii) address macroeconomic imbalances.
2. **Purpose.** The PCI is a non-financial instrument designed for countries seeking to unlock financing from multiple sources and/or to demonstrate a commitment to a reform agenda. As such, the PCI can enable closer dialogue with countries and regular monitoring of economic developments and policies, including Board endorsement of those policies.
3. **Application.** There are three broad cases under which the PCI is most appropriate:
 - Countries facing external difficulties, where the commitment to a PCI-supported program can help secure adequate market access or access to other layers of the Global Financial Safety Net (e.g., Regional Financing Arrangements (RFAs) or bilateral swap arrangements) or other sources (e.g., multilateral development banks, bilateral creditors or donors).
 - Countries that want to signal strong policies, such as when graduating from a financing Fund engagement or when a new government institutes or announces policy changes.
 - Countries that want to underpin a broader macro-structural reform agenda but do not have a BoP problem of the kind addressed by the Extended Fund Facility (EFF), and for which the PCI can serve as a familiar organizing framework and a commitment device.
 - The PCI may thus be a more appropriate instrument than low-access arrangements treated as precautionary, especially in cases where such arrangements are used to tap RFA resources and/or other layers of the Global Financial Safety Net. Low income countries (LICs) with strong policies or institutions may also see it as an alternative to the Policy Support Instrument (PSI) for PRGT-eligible members. Annex 1 provides a comparison of the PCI with alternative instruments.
4. **Legal basis.** The legal basis is the Board decision No. 16230-(17/62) from July 14, 2017.¹ As a non-financial instrument, the PCI is legally considered to be technical assistance by the Fund that is voluntary for the member and the Fund.

¹ See also the Board summing up, found in the [Press Release 17/299](#) on July 26, 2017. The Board Paper is found here: [Adequacy of the Global Financial Safety Net—Proposal for a New Policy Coordination Instrument](#).

B. Qualification

5. Qualification criteria. The PCI is available to all Fund members, except (i) those with overdue obligations to the Fund² and (ii) those who have a present or prospective Balance of Payments (BoP) need to draw on Fund resources at the time of PCI approval. In other words, a country can have an actual BoP need and qualify for the PCI, as long as covering this need does not require Fund financing.³ Instead, financial assistance could be from other official partners, such as RFAs, multilateral development banks, bilateral creditors or donors. Countries with actual short-term financing and adjustment needs could instead be supported by arrangements under the Standby Credit Facility (SCF)/Standby Arrangement (SBA) or, where the needs are urgent and subject to other applicable qualification requirements, under the Rapid Credit Facility (RCF)/Rapid Financing Instrument (RFI). Countries that face a protracted BoP problem could be supported by an extended arrangement under the Extended Credit Facility (ECF)/ Extended Fund Facility (EFF).⁴

6. Upper-credit tranche (UCT) standard. Programs supported under the PCI must meet the UCT standard (see ¶25). While the PCI has no qualification criteria, the requesting country would have to credibly commit, as well as have the capacity, to implement policies strong enough to constitute the basis for a Fund-supported program (i.e., upper-credit tranche quality policies). Countries that are not currently in a position to credibly commit to UCT-quality program can build a track record for moving to a PCI through a Staff Monitoring Program (SMP) or, in case of urgent financing needs, the RFI/RCF (assuming the applicable policy commitments are in place).

MODALITIES

A. Duration, Extension, Termination/Cancellation

7. Duration. A PCI is expected to have a duration of two to three years, similar to the duration of an SBA. However, there is flexibility to meet the varying needs of countries' reform agendas. In this regard, a PCI can be approved for a duration of six months to four years. PCIs of less than one year require at least one scheduled review.

² This includes arrears to the Fund in the General Resources Account (GRA), or to the Fund as Trustee, including the Poverty Reduction and Growth Trust (PRGT).

³ I.e., a country with a BoP need covered by other sources (e.g., RFAs or bilateral creditors) is eligible for a PCI.

⁴ A protracted balance of payments problem for which the ECF may be appropriate exists when the resolution of macroeconomic imbalances is expected to extend over (normally) three years or more. Countries with a protracted balance of payments problem may experience a combination of present, prospective, and potential needs. Similarly, the EFF is intended for circumstances in which it would be difficult for a member to achieve satisfactory BoP adjustment within a three to five year period, such as economies suffering serious payments imbalances relating to structural maladjustments in production and trade and where prices and cost distortions have been widespread or economies characterized by slow growth and inherently weak balance of payments positions (see Decision No. 4377-74/114), September 13, 1974, as amended).

8. Extension. A PCI can be extended up to an overall maximum period of four years. Extensions must be requested by the member and approved by the Board before the current PCI expires.

9. Termination/Cancellation. The PCI can be cancelled by the authorities at any time, including when the country experiences financing or adjustment needs that are expected to extend beyond the short term or have impacted the authorities' objectives or their capacity or commitment to implement the PCI program. The PCI will be automatically terminated if: (i) no scheduled review is completed within 12 months after Board approval of the PCI request or of the completion of the last review, (ii) the relevant member incurs overdue financial obligations to the Fund (arrears to the GRA or the PRGT); or (iii) approval of Fund financing other than through the SBA/SCF or RFI/RCF.

10. Repeated use. There is no limit on the number of successor PCIs.

B. Concurrent Use and Relationship to UFR Instruments

11. Concurrent use of the PCI with Fund emergency financing. Should a country with an on-track PCI experience an urgent balance of payments need, the member can request an RFI/RCF without the need to cancel the PCI. The RFI/RCF request would typically be on a standalone basis, but could also be combined with a PCI review. Subsequent PCI reviews should follow up on any policy commitments made under the RFI/RCF request.⁵

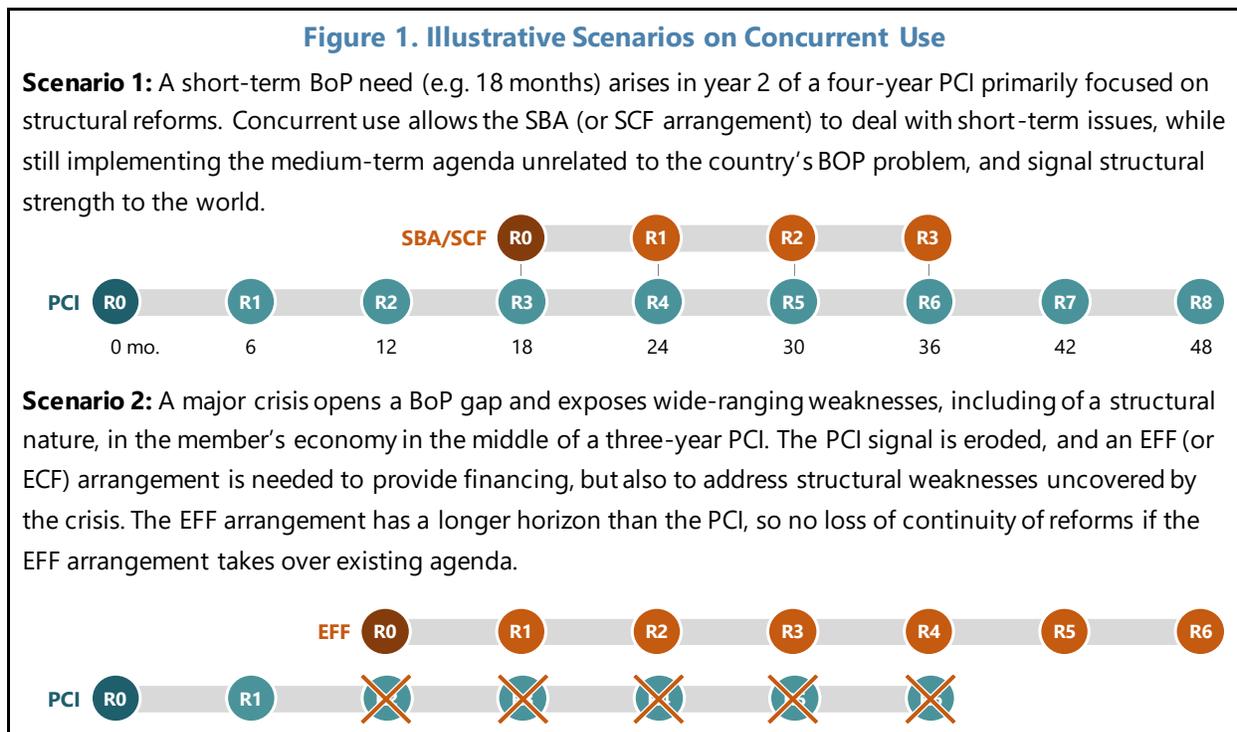
12. Concurrent use of the PCI with a Fund arrangement. Should a country with an on-track PCI experience a BoP need, it can receive financial support under the SBA/SCF without canceling the PCI, but this would involve tradeoffs which require a country-specific approach. In principle, the PCI and the financing arrangement can run concurrently: the PCI can improve the continuity of policy cooperation and maintain the focus on broader medium- and long-term issues, while the financing arrangement focuses on the policy response to the uncovered BoP gap (see scenarios illustrated in Figure 1). However, such concurrent use gives rise to difficult coordination and operational issues. For that reason, concurrent use may be advisable only in a narrow set of circumstances, and country teams are encouraged to reach out to SPR early on to discuss involved tradeoffs and options. Some of the limitations and restrictions on the concurrent use include:

- Concurrent *requests* for a PCI and a financing arrangement (precautionary or otherwise) are not possible, as the country cannot require Fund financial assistance at the time of the approval of a PCI request.
- The PCI cannot be combined with an EFF or ECF arrangement. If the nature of the country's BoP need is best addressed under an EFF/ECF (which is already focused on medium-term issues), the

⁵ Most members with ongoing PCIs at the onset of the Covid-19 pandemic have requested emergency financing under the RCF or the RFI. Of these, Rwanda, Senegal and Cabo Verde have kept programs on track through the time of this writing, while Seychelles' PCI was automatically terminated after the program went off-track later in 2020 (also see Section VI.C).

PCI will need to be cancelled at the time of the EFF/ECF request (as noted in paragraph 9, approval of the an EFF or ECF will cause in any event a termination of the PCI).

- The BoP need addressed under the SBA or SCF arrangement should generally be short in duration (e.g., 6 to 18 months) and, in any event, the financing arrangement cannot extend beyond the end of the existing PCI (see scenario 2 under Figure 1). If it will take longer to address the BoP need than the time that remains under the ongoing PCI, discussions with the member should take place to reach understandings on the cancellation of the PCI.
- Requests from PCI users for an exceptional access financing arrangement are in general discouraged. The need for exceptional access usually signals a fundamental change in the country's economic situation, which weakens the continuity argument underpinning concurrent use. If the country's circumstances call for exceptional access, the typical course of action would be to cancel the PCI as part of the request for the financing arrangement.



13. Access to financing arrangement. An on-track PCI should facilitate quick access to Fund resources if the member experiences a balance of payments problem, subject to normal Fund policies on use of Fund resources. Access to Fund financing should be on an expedited process when there is an on-track PCI. Two cases are distinguished:

- **PCI concurrent with use of Fund resources (UFR) instruments (“concurrent use”).** The request for Fund financing needs to go through the regular processes for requesting Fund financial assistance subject to normal Fund policies on use of Fund resources, but the path towards an SBA/SCF arrangement for countries with an on-track PCI that experience a balance

of payments need is expected to be rapid and smooth. Modification of the PCI (e.g., specific targets) may be warranted when the changed circumstances prevent meeting the program objectives. In case the PCI-supported program is off track, the approval of the concurrent SBA or SCF arrangement would typically occur when appropriate corrective actions (or sufficient commitments to that end) have been taken. The country could decide to cancel the PCI and request a new Fund arrangement (SBA or SCF) at the same time. In such a situation, the country would be expected to take corrective actions for slippages, such as Prior Actions, under the PCI program to obtain support under an SBA or SCF if these measures remain critical to the objectives of the new program supported by the Fund arrangement.

- **PCI terminated upon use of Fund resources (UFR) instruments (“sequential use”).** For the use of financing instruments without the concurrent use of a PCI, prior support under a PCI could reduce the time normally required to design and agree on a financing program, where the broad objectives of the UFR-supported program carry over from the PCI and there is a clear understanding of what concepts, variables and measures should be subject to conditionality.

14. Modalities for concurrent use. The modalities for the concurrent use of the PCI with an SBA or SCF arrangement normally represent a hybrid between the modalities of the two instruments. For all practical purposes, for the duration of the concurrent use, the engagement will be identical to an SBA/SCF in conjunction with the PCI’s fixed review schedule (the latter required to ensure the PCI delivers on its signaling/coordination function). The reduced flexibility arising from a fixed review schedule—compared to a standalone SBA or SCF—may be viewed as undesirable by some authorities, and would need to be well-understood and factored in when contemplating concurrent use of the PCI with an SBA/SCF. Specifically:

- In concurrent use, the reviews under an SBA/SCF-supported program must coincide with the PCI’s fixed review schedule. If staff and the authorities agree that a flexible review is preferable (e.g., because of unusually large uncertainties envisaged related to certain policy measures under the revised program), the PCI should be cancelled as part of the SBA/SCF request. Likewise, the SBA/SCF review cycles must coincide with that of the existing PCI (e.g., quarterly SBA will not be feasible, when the country already has a semi-annual PCI).
- Quantitative Performance Criteria (QPCs) under the SBA/SCF are established for the PCI test dates, and QPCs and the Quantitative Targets normally apply to the same variables and measures. New QPCs can be also introduced under the SBA/SCF (likely to address the causes of the BoP gap that has materialized), but they will automatically also become targets under the PCI. Monitoring of quantitative conditionality under the SBA/SCF reviews are not review-based. For instance, in cases where staff recommends completing a review despite corresponding QPCs not being met, requests for waivers of non-observance are required under the SBA/SCF. Modification of forward-looking QPCs always requires explicit Board approval. Strict adherence to the fixed PCI schedule should ensure that reviews under PCI and the SBA are always based on the same test date, even if one review (the maximum allowed under a semi-annual review schedule; see section VI.C) is not completed. Should the test dates under the two instruments

nevertheless become desynchronized, the natural course would be to discontinue concurrent use by cancelling the PCI, while maintaining the UFR arrangement.

- Structural Benchmarks under the SBA/SCF and the Reform Targets under the PCI are established for the same test dates and apply to the same measures; Prior Actions are also established for the SBA/SCF. If structural measures are tied to reviews, rather than test dates, the established PCI review dates must be used.
- The authorities' program is spelled out in the Letter of Intent (LOI) and the Memorandum of Economic and Financial Policies (MEFP), which will also serve as Program Statement (PS) for the duration of concurrent use.⁶
- Documentation with respect to the conduct of a scheduled review under the PCI is issued to the Board at the same time and combined with documentation for a review under the SBA- or SCF-supported program. In other words, there is only one combined staff report, MEFP and TMU.
- When PCI support is given alongside financial assistance under the SBA/SCF or RFI/RCF, assurances should also be given that the country has a capacity to repay the Fund through (i) discussion in program documents, (ii) medium-term projections of the balance of payments and (iii) the standardized table on indicators of the capacity to repay the Fund. See also ¶47 in case of Post Financing Assessments/Post Program Monitoring.

15. PCI and blending. Countries meeting the criteria that create a presumption for blending⁷ and experience a BoP need during a PCI-supported program are expected to receive financial assistance from the PRGT only in combination with GRA financing. PRGT-eligible countries, including members qualifying for SCF or RCF financing during a PCI, typically use either fully concessional or blended resources, rather than GRA-only financing, although they are always eligible for access to the Fund's general resources on the same conditions as any other Fund member if the relevant policies are met. Practically, such arrangements combining three separate instruments—including for countries that are not presumed blenders but supplement PRGT resources with GRA resources—may be too cumbersome and are therefore generally discouraged.

⁶ For a new PCI program request (not concurrent) and for program reviews, the authorities of the country will need to sign a PS that sets out the policies and measures they intend to pursue in line with their Fund-supported program. See Annex 3 for further details. In the concurrent setting, the LOI/MEFP would also constitute the member's PS under the PCI policy; the MEFP should state so explicitly in an upfront footnote. Moreover, tables of quantitative PCs and structural benchmarks should also stipulate that these measures constitute quantitative and reform targets, respectively, under the PCI.

⁷ See the "[Handbook of IMF Facilities for Low-Income Countries](#)" for a discussion of these criteria.

FINANCING ASSURANCES, ARREARS AND SAFEGUARDS

16. Financing Assurances. The PCI requires the same financing assurances as Fund financial arrangements. This means that, where needed, creditors and donors have provided assurances that they will extend the necessary support to meet the program financing requirements. Specifically, the Fund would need to be satisfied that (i) firm commitments of financing are in place for the first 12 months following approval of the PCI, and, (ii) good prospects are in place that there will be adequate financing for the remaining period of the PCI beyond the first 12 months. Program reviews require assurances of full financing for each successive 12-month period (or whatever period is left under the PCI). PCIs for countries that seek financing from other sources still require assurances that financing is sufficient to support an assessment that the program is fully financed in line with the Fund’s policy on financing assurances.

17. Arrears. The Fund’s policies on external arrears to official and private creditors apply. The Fund’s policy on sovereign external arrears to official multilateral creditors, in which the Fund generally calls for the resolution of existing arrears⁸ and non-accumulation of new arrears during the period of the program, applies to the PCI by analogy.⁹ The Fund’s policies on arrears to official bilateral creditors and on Lending into Arrears (LIA) to private creditors also applies by analogy in terms of enabling PCI engagement, on a case-by-case basis, in a situation of sovereign arrears to either group of external creditors.¹⁰ The resolution of any existing arrears to official creditors should be the normal case. Where this is not possible, a commitment to future arrears resolution to official creditors needs to be consistent with the macroeconomic program assumptions under the PCI, which implies that the authorities and the staff have common understandings on the timing and modalities of arrears clearance. The assumptions on arrears clearance do not prejudice eventual agreements between the member and official creditors. Staff should have reasonable assurances that arrears clearance understandings are realistic. PCIs should also address domestic arrears, if any,

⁸ In the case of arrears to the World Bank, there must be upfront clearance of the arrears or an agreed plan between the member and the Bank.

⁹ Since the PCI does not involve Fund financing, the arrears policies apply by analogy, i.e., they apply in full unless there is a policy justification for a deviation, taking into account consistency and uniformity of treatment. For example, the requirement under the policy on arrears to official bilateral creditors or under the Lending into Arrears (LIA) policy for private creditors that there is a need for prompt Fund financial assistance is not applicable.

¹⁰ For the policy on arrears to official bilateral creditors, see BUFF/15/107. The LIA policy (BUFF/99/71 and BUFF/02/142) applies to both sovereign arrears to external private creditors and non-sovereign arrears arising from the imposition of exchange controls. In cases of use of Fund resources, the Fund can lend only where: (i) prompt Fund support is essential for the successful implementation of the member’s adjustment program; and (ii) the member is pursuing appropriate policies and is making a good faith effort to reach a collaborative agreement with its private creditors (or to facilitate such an agreement between private debtors and their creditors, and good prospects exist for the removal of exchange controls). The first requirement does not apply to the PCI, which does not involve Fund-financing.

as part of the overall program design. The specification of policies related to domestic arrears depends on the country context, in particular, the fiscal framework.

18. Overdue obligations to the GRA and PRGT. A member in arrears to the Fund in the GRA, the Special Disbursement Account, or the SDR Department, or to the Fund as Trustee (including the PRGT), is not eligible for PCI support. Moreover, any existing PCI for a member terminates upon the relevant member incurring the above-mentioned arrears.

19. Safeguards assessment.¹¹ A safeguards assessment is not automatically required for a PCI. However, members with a PCI are encouraged to undertake such an assessment on a voluntary basis as a way of enhancing the accountability, transparency, and institutional strength of their central banks. This would also facilitate quick access to Fund resources in the event that a need materializes. Safeguards-related reforms can also be included as part of structural conditionality, wherever critical to the program's success. Requests for voluntary assessments should be coordinated with FIN.

PROGRAM OBJECTIVES AND DESIGN

A. Program Objectives

20. Objectives in the Program Statement (PS). The PS specifies objectives and policy actions under the PCI, similar to a LOI/MEFP in other programs. The PCI supports countries in designing and implementing policies through a fully-fledged macroeconomic program to (i) prevent crises and build buffers, (ii) enhance macroeconomic stability, and/or (iii) address macroeconomic imbalances and vulnerabilities. The member's program of economic and financial policies and objectives for the period of a PCI should be clearly articulated in the PS and associated staff report for a new PCI and could include:

- **Fiscal policies**, where (i) the fiscal stance is well anchored to help ensure macroeconomic stability and fiscal/debt sustainability, (ii) revenue and spending policies take due account of the country's growth and social objectives, and (iii) budgets are guided by medium-term fiscal frameworks to the extent possible. These could be supplemented by public financial management reforms.
- **Monetary policies** that are consistent with inflation, exchange rate, and reserve objectives, and that take into account the cyclical stance.
- **Exchange rate policies** that ensure a unified exchange rate and a real exchange rate level that is broadly in line with fundamentals and desirable policy settings, ensuring a stable and sustainable external position.

¹¹ See further guidance by FIN, including [Operational Guidelines for Safeguards Assessments](#).

- **Financial sector policies** geared toward financial stability with a view to fostering investment, financial inclusion and preventing financial crises.
- **Other structural reforms** that are critical for achieving the program’s macroeconomic objectives, aimed at enhancing the country’s growth potential, resilience to external shocks (including stemming from climate change), capacity to manage volatility and ability to achieve social goals, including poverty reduction.

B. Design

21. Medium-term debt strategy and fiscal framework. PCI-supported programs should be underpinned by a thorough Debt Sustainability Analysis (DSA) to inform the elaboration of medium-term debt strategies and fiscal frameworks. DSA-related process issues — such as periodicity; engagement with the authorities, with the Fund, and with the World Bank — are guided by the provisions for program countries in the relevant (MAC or LIC) DSA guidance notes.¹²

22. Links to Poverty Reduction Strategies (PRS) and social spending.

- **Social and other priority spending.** For PRGT-eligible members, social and other priority spending should be safeguarded and, whenever appropriate, increased under PCI-supported programs, as in the case of PSIs.¹³ This objective should usefully be monitored, for instance through a memorandum item on social and other priority spending.
- **Poverty reduction.** Where poverty reduction is deemed critical to the program’s success, the PCI should be aligned with the country’s own Poverty Reduction Strategy (PRS).¹⁴ While the PCI is not subject to the same requirements of poverty reduction strategies as is the case of PRGT arrangements and the PSI, cases where poverty reduction is a main objective of the program would be expected to follow similar processes. In particular, a Poverty Reduction and Growth Strategy (PRGS) document (formerly: Economic Development Document, EDD) is encouraged as part of the program, and the PS should state how the PCI advances the country’s poverty reduction and growth objectives. In cases where a relevant PRGS document already exists, this description in the PS for the PCI request should cross-reference the PRGS document. Otherwise, the poverty reduction discussion should be expanded in the PS for a review, once a new PRGS document is produced by the country.

23. Capacity Development (CD) and collaboration with development partners. When capacity gaps constrain the implementation of recommended policies, the implementation of relevant CD should be incorporated into the design of the PCI-supported program. Fund staff

¹² See the [2018 Staff Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-Income Countries](#) and the [2021 Review of The Debt Sustainability Framework For Market Access Countries](#).

¹³ See the [LIC Facilities Handbook](#) for details.

¹⁴ If the country is PRGT-eligible and poverty reduction is a key policy objective, the PSI would be the preferred instrument (bearing in mind the member’s right to request a PCI).

should consult with development partners active in the country when designing and monitoring a PCI-supported program. In PRGT-eligible countries, in addition to this routine collaboration, World Bank and Fund country teams should consult with each other at least once a year in order to identify the country's key macroeconomic and structural reform challenges and coordinate work plans in support of addressing these challenges (see the [LIC Facilities Handbook](#) for details).

24. Interactions with Regional Financing Arrangements (RFAs). Given one of the purposes of the PCI is to facilitate access to financing from other GFSN sources, the mandate and decision-making process of each institution needs to be respected while upholding the Fund's independence and reputation. Interactions with RFAs in the context of a PCI are guided by the Fund's principles of collaboration between the Fund and RFAs.¹⁵ In particular, collaboration should depend on the mandates and technical expertise of RFAs and the Fund: when some division of labor between the Fund and the RFA is possible, it can be based on a "lead agency" model, while still preserving the close involvement of the RFA in the program. For example, in this model the Fund would take the lead on the macroeconomic framework and policies, while the RFA would focus on areas within its comparative advantage. When the division of labor is not possible due to overlapping mandates and technical expertise, early engagement and collaboration based on one coherent program would be called for.

CONDITIONALITY

A. Principles

25. Criticality. Conditionality under a PCI is intended to ensure that a member's policies are strong enough to meet the program objectives. Conditionality is set at the time of approval of the PCI-supported program and updated at the time of program reviews. Consistent with the Fund's [Guidelines on Conditionality](#), conditions will normally consist of macroeconomic variables and structural measures that are reasonably within the member's direct or indirect control and that are, generally, either (i) of critical importance for achieving the goals of the program (or for monitoring program implementation), or (ii) analogous to the UFR context, necessary for the implementation of specific provisions of the IMF Articles of Agreement or policies adopted under them.¹⁶ In some cases, conditions may be outside the Fund's core areas of expertise, in which case a more detailed explanation of their critical importance would be required. Moreover, for non-core but critical measures, staff should, to the extent possible, draw on the advice of other multilateral institutions, particularly the World Bank, or of bilateral donors that can provide the expertise. The design and modalities for these conditions should be consistent with the Fund's Guidelines on Conditionality.

26. Upper Credit Tranche (UCT) standard. PCI-supported programs must meet the UCT conditionality standard, which requires the commitment and capacity by the authorities to

¹⁵ See [Collaboration between Regional Financing Arrangements and the IMF](#) and [Executive Board Assessment](#).

¹⁶ See also [Operational Guidance Note on Conditionality \(July 2014 revision\)](#).

implement a set of policies that is adequate to correct external imbalances, and, in the event that the member uses Fund resources or has any credit outstanding under the GRA or PRGT, enable repayment to the Fund within the specified maturity period. Note that irrespective of credit outstanding to the Fund, a PCI cannot be approved and a review cannot be completed if there are financing gaps forecasted beyond the end of the PCI, as that would indicate the existence of a prospective BoP need for Fund financing, which—unless covered under a concurrent UFR arrangement—is incompatible with the completion of a PCI review. Implementation of the program is monitored as informed by Quantitative Targets (QTs), Reform Targets (RTs), Standard Continuous Targets, Prior Actions (PAs), and other relevant information. Standard Continuous Targets apply to all PCI-supported programs, while some programs can have QTs but not RTs, or vice versa as needed. The targets to be monitored under the program should be defined in a Technical Memorandum of Understanding (TMU), which normally is annexed to the PS in the request/review documentation.¹⁷

B. Specification of Program Conditions

27. Target test dates. Test dates for targets are normally set on a semi-annual basis and correspond to scheduled reviews. At approval of a PCI or at the completion of a review, QTs and/or RTs should be set for the subsequent two reviews (i.e., for a 12-month period in the case of semi-annual reviews) or through the end of the PCI if it is scheduled to expire in less than 12 months.

28. Quantitative Targets (QTs). QTs apply to clearly specified quantitative variables that can be objectively monitored and are of critical importance for achieving the goals of the program or for monitoring program implementation. QTs typically include measures of net international reserves, central bank domestic assets, domestic debt and fiscal balances or financing, limits on external debt, and any other indicators critical to meet program objectives. QTs may be subject to program adjusters that reflect deviations from estimated values driven by unforeseen factors. At the time of a review, QTs associated with the subsequent review can be modified — for instance when basic program assumptions have not been realized or significant developments have occurred that had not been anticipated when the QTs were set — provided that the new targets remain critical to program success.

29. Memorandum items. Variables that might be established as indicative targets in other Fund-supported programs are not included in PCI-supported program conditionality. Since there is only one type of quantitative conditionality in PCI programs (QTs, as opposed to PCs and ITs), and since the misreporting framework applies to all QTs (while it does not apply to ITs), it may not be appropriate to include variables as QTs which would otherwise be included as ITs. Instead, such variables can be included as commitments by the member authorities, and discussed in the PS, without becoming subject to program reviews like QTs. These can be optionally included in the quantitative conditionality table as “memorandum items.”

¹⁷ As the program statement combines the function of both LOI and MEFP in Fund arrangements, the PS should have the standard LOI [consultation clause](#), as required by the [Guidelines on Conditionality](#).

30. Reform Targets (RTs). RTs apply to key structural measures that are needed to meet the objectives of the program. RTs should be used parsimoniously, and their criticality explicitly justified in program documents. The appropriate number of RTs depends on a variety of country-specific factors, including the centrality of structural reforms for achieving the program’s objectives and country capacity. RTs should be set with specific test dates, taking into account the review schedule so that a review allows staff to assess whether the RT was met. To the extent that the implementation of a RT is delayed beyond the relevant test date, such a measure will be found not to have been met but it can be proposed to the Board to establish such a measure as a new RT linked to a new test date, if the target remains critical to the program’s success. If implementing an RT is no longer possible as defined under the program (say, due to a change in the authorities’ reform plans or other changes in circumstances), a new target or a modified version of the original one may be appropriate as long as it remains critical to achieve program goals.

31. Standard Continuous Targets. Standard Continuous Targets will relate to trade and exchange restrictions, bilateral payments arrangements, multiple currency practices and non-accumulation of external payments arrears, analogous to those provided in paragraphs 3(d) and 3(b)(ii), respectively, of Attachment A of Decision No. 10464-(93/130), adopted September 13, 1993 as amended.¹⁸

32. Prior Actions (PAs). Prior Actions are measures that a member is expected to adopt prior to Management recommending to the Executive Board approval of a PCI or completion of a review. Prior Actions before PCI approval or completion of a review would be applied when it is critical for the successful implementation of the program that such actions be taken to underpin the upfront implementation of important measures, and are to be applied parsimoniously and specified in clear, objective, and unambiguous terms. Prior Actions should in principle be implemented at least five working days before the Board discussion.

C. Monitoring

33. Review-based monitoring. Monitoring of PCI conditionality is fully review-based. Under a review-based approach, QTs differ from performance criteria (PCs) or assessment criteria (ACs) in that a failure to meet a QT does not trigger the need for a formal waiver.¹⁹ Rather, deviations from targets serve as indicators that the PCI might no longer be on track for successful implementation (similar to indicative targets and structural benchmarks in current monitoring of Fund arrangements and PSIs). Completion of the review in such a case requires a judgment by the Board that there are compensating factors (e.g., that missed targets are assessed to be the result of minor or temporary

¹⁸ Standard Continuous Targets are always included in the text of all Fund arrangements, and, given their nonquantitative nature, are usually not listed in the table for QTs. As in Fund financial arrangements, members with a PCI are expected not to: (i) impose or intensify restrictions on the making of payments and transfers for current international transactions; (ii) introduce or modify multiple currency practices; (iii) conclude bilateral payments agreements which are inconsistent with Article VIII; (iv) impose or intensify import restrictions for balance of payments reasons; and (v) accumulate external payments arrears.

¹⁹ In contrast, the PSI requires formal waivers of nonobservance for unmet ACs. For further details, please see paragraph 271 in the [LIC Facilities Handbook](#).

factors, or corrective actions have been taken). In case of substantial deviations from target(s) and insufficient commitments to correct slippages, the review cannot be completed. In practical terms, “review-based monitoring” is virtually identical to monitoring under normal programs except that there are no requirements for requesting waivers when targets are missed; the substantive requirements for monitoring conditionality are the same.

34. Missed targets. When targets are missed, the discussion in the staff report needs to remain as comprehensive as under the “traditional” approach to monitoring of conditionality:

- The program performance section (or equivalent) needs to discuss missed targets and ascertain that the program remains on track despite these deviations (i.e., deviations were small, temporary, or corrective actions taken). The PS should also refer to missed targets.
- The staff appraisal section reiterates why staff considers the program on track and recommends completing the review.
- The PS includes tables of quantitative and reform targets, with clear indication of status for past targets.

D. Misreporting Framework

35. Principle. A tailored misreporting framework applies to the PCI. The PCI does not entail the use of Fund resources, and the Fund’s misreporting framework has not been applied to targets that are not binding (in the sense that missing the targets would not prevent completion of a review absent a Board waiver). However, the credibility of the data is critical for the monitoring and signaling objectives of the program. Therefore, despite using a review-based approach to monitoring conditionality, any decision approving a PCI or completing a review will be conditional upon the accuracy of information provided by the member regarding implementation of Prior Actions or performance under associated Quantitative Targets or Standard Continuous Targets.

36. Procedures. Misreporting procedures are similar to those applied to the PSI.²⁰ When evidence comes to the attention of the staff indicating that the country’s reporting of information on performance under QTs, Standard Continuous Targets, or PA’s was inaccurate in relation to a PCI approved or a review completed within the preceding three years, the Managing Director (MD) shall promptly inform the member concerned. If after consultation with the member, the MD finds that, in fact, the member has reported such inaccurate information to the Fund, the MD shall promptly notify the member of this finding. In any case where a PCI was approved, or a review was completed, no more than three years prior to the date on which the MD informs the member, the Executive Board shall decide whether misreporting has occurred. In the case of the PCI, there are no waivers

²⁰ In addition, while the misreporting framework under Article VIII, Section 5 does not apply to information provided to the Fund solely for the purposes of a PCI, these procedures would apply in the context of a PCI when such information is otherwise subject to Article VIII, Section 5. See also paragraph 18 (a)(ii) of Decision No. 13849-(04/10), as amended.

for misreporting, and the Board shall reassess program performance in the light of that determination including the revised information associated with the misreporting. Such a reassessment of past program performance in the light of a misreporting will not lead to the Board retroactively reversing its decision completing a review, which subsequently had become associated with a misreporting. If the Board determines misreporting has occurred (and it is not found to be *de minimis*), the member would be required to take corrective action, if necessary to ensure that the cause of the misreporting does not hinder future program implementation or monitoring, as a condition for continued PCI support, and the relevant information would be published.

37. *De minimis* procedures. Misreporting procedures are streamlined in cases that are deemed *de minimis*, which is defined as so small as to be trivial with no impact on the assessment of performance under the relevant member’s program.²¹ In particular, when Management determines that the possible misreporting is *de minimis* in nature:

- the communications referred to in above paragraph may be made by a representative of the relevant Area Department;
- the Executive Board shall be informed of the misreporting in a staff report on a review under the relevant PCI or, if no such review is provided for, a staff report which deals with issues other than the misreporting, and shall include a recommendation that the Executive Board find that the misreporting was *de minimis* in nature and had no effect on program performance under the PCI. In those rare cases in which no review is provided for, and no other such staff report on the member is to be issued to the Board promptly after the MD concludes that misreporting has taken place, the MD shall consult with Executive Directors and if deemed appropriate, may decide to issue a stand-alone report on the misreporting to be considered by the Executive Board, normally on a lapse-of-time basis.

Whenever the Executive Board finds that misreporting was *de minimis*, (i) it shall also find that the misreporting had no effect on program performance; and (ii) the fact of misreporting shall not be published by the Fund.

PROGRAM REVIEWS

A. Purpose of Program Reviews

38. Assessment of program performance. Program reviews evaluate whether the program is on track to achieve its objectives. A country’s past performance under the PCI would be assessed in the context of periodic reviews. Reviews are based on a backward-looking assessment—taking into account performance against Quantitative, Reform and Standard Continuous Targets, as well as Prior Actions—and a forward-looking assessment of the prospects for successful program implementation, in particular whether policy capacity and commitments are adequate for

²¹ See examples in Table 1 of [Making the Misreporting Policies Less Onerous in De Minimis Cases](#).

implementing the UCT-quality program and achieving the program’s objectives. Reviews establish policy understandings for the future, including updates to program design and conditionality in cases of changed conditions or prospects. Completion of a review by the Board would signify the Fund’s assessment that policies and commitments are on track to meet program objectives, in accordance with the standard of UCT quality policies.

39. Update the program design. Reviews also update the program design, in particular by specifying forward-looking policies and conditionality, and modifying previously established conditionality, as may be necessary to achieve the program’s objectives in changing circumstances. Just like at approval, at the time of each review, the authorities’ PS updates their policy program, and a staff report provides an overall assessment of performance and policy commitments.

B. Fixed Review Schedule and Test Dates

40. Schedule. Reviews are on a fixed schedule, with a limited time buffer to provide some flexibility (see Figure 2 for illustrative examples). The timing of all reviews and test dates is summarized in a staff report table at the time of the PCI approval, and — to ensure the PCI provides a timely and regular signal — the schedule cannot be modified during subsequent reviews.²² Reviews by the Board would normally be conducted on a semi-annual basis, although a more frequent review schedule (e.g., quarterly) could be applied in the case of an urgent and wide-ranging reform agenda and/or when doing so could improve coordination with other financing partners. At the time of the PCI request, there is scope for some flexibility in setting review and test dates (e.g., shifting from a quarterly to a semi-annual schedule, or timing the first review such that the entire review schedule is aligned with the statistical data publication calendar), but normally they are scheduled at most six months apart. Each review can be completed within three months (in the case of semi-annual reviews) following the review date specified in the PCI request; this period represents the review window (or “buffer”). If the review is not completed within three months (in the case of semiannual reviews) from the schedule review date, an interim performance update by staff would be provided to the Board for information (see ¶41 below). For more frequent review schedules, the review window is shortened proportionally, and closes at the midpoint between the two reviews.²³

41. Test dates. Each review is linked to a particular test date for quantitative and reform targets²⁴ and each review would need to be associated with its own set of QTs and/or RTs. The test dates for QTs and RTs must be set such that all scheduled reviews can take place before the end of the PCI, taking into account reporting lags and preparation and circulation periods for staff reports. Similarly, the review dates that are specified in the PS and the Decision for approval should be set

²² While the term of the PCI could be extended, it is not possible to change the dates for reviews once established, unlike in the case of rephasing in UFR arrangements.

²³ For programs on a more frequent review schedule, the period after which a performance update is required would be adjusted downward (e.g., 1 ½ months for programs on a quarterly review schedule), but the twelve-month rule for the automatic termination of PCIs would be the same.

²⁴ As in the PRGT, but unlike GRA arrangements, where the most recent test date is controlling for each review.

such that all data needed to confirm observance of targets at the related test dates would have become available. As the PCI uses review-based conditionality without any waivers, there is no possibility of a waiver of applicability where data for targets is not available. In the event that data is not available for a PCI review, the review cannot be completed. When designing the schedule of test dates, careful consideration should be given to alignment with the country's budget cycle.

C. Noncompletion of Reviews and Automatic Termination

42. Interim performance update. If the review is not completed within the review window, an interim performance update by staff is required to be provided to the Board for information.²⁵ The goal of the performance update is to reduce uncertainty as to why the review has not been completed. The document, expected to be somewhat more succinct and focused than a program review staff report, will provide an overview of the economic situation and program performance, indicating the sources of delay, and highlighting the corrective actions, if any, needed in order to bring the program back on track.²⁶ Since non-completion of review could signal a difference of views between staff and the authorities, staff should engage in policy discussions if possible and reflect the authorities' views in the document. Since the performance update is sent to the Board for information only, it cannot be used to adjust targets.

43. Procedure. Interim performance updates should be issued to the Board within 2 weeks of the end of the review window. In order to avoid uncertainty in signaling, it is important that updates not be delayed beyond this buffer period. The internal review process for performance update is the same as for staff reports.

44. External communication. A brief factual statement in the form of a press release stating the issuance of the performance update would be published, and the performance update report should be published subject to the member's consent (see Annex 3 for an example). If the report is published, the press release could also summarize staff views set out in the update. Where a member does not provide consent to publication of a performance update report, Management will take this into account when determining whether to recommend that the Executive Board approve a subsequent review of the member's PCI.²⁷

45. Bringing PCI back on track. The procedure for indicating that an off-track program has been brought back on track is through completion of the next scheduled review (as conditionality for that review has already been set as required under the PCI; see ¶26). A review cannot be completed after the requirement for a performance update has been triggered. Unlike in the PRGT (or PSI), where reviews must generally be completed sequentially, in the case of the PCI, a review

²⁵ Management could propose an ad-hoc Board briefing on the update, or Executive Directors could request it.

²⁶ There are no guidelines on the length of the document, but it could be as short as a couple of pages, supported by a selection of charts and tables, at least including the Selected Economic and Financial Indicators table, the Quantitative Targets table, and the Reform Targets table.

²⁷ This is in line with the general expectation, pursuant to the Transparency Policy decision, that members will consent to publication in all Fund-supported programs.

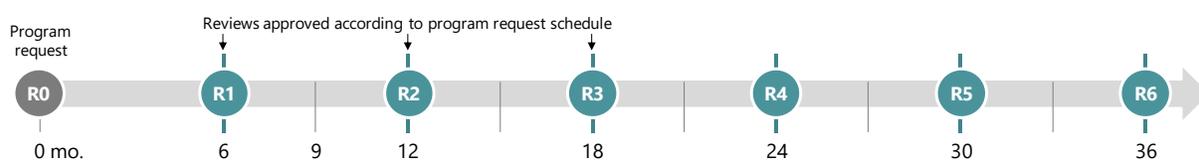
delayed beyond the review window is “dead” and the program moves onto the subsequent review. To the extent that performance was not sufficiently strong to complete a particular review, bringing a PCI-supported program back on track requires corrective action.

46. Automatic termination of the PCI. Non-completion of a review for a twelve-month period since the Board date of the most recently completed review or since Board approval of the PCI signifies lack of Board endorsement on the member's policies and results in an automatic termination of the PCI. A factual statement in the form of press release stating the termination of the PCI is to be relayed for information to the Board via SEC and then published. In cases of concurrent use with an SBA or SCF, the automatic termination of the PCI has no implications on the status of the financing arrangement, which continues through expiration or until canceled by the authorities.

Figure 2. Illustrative Scenarios Under a Three-Year PCI

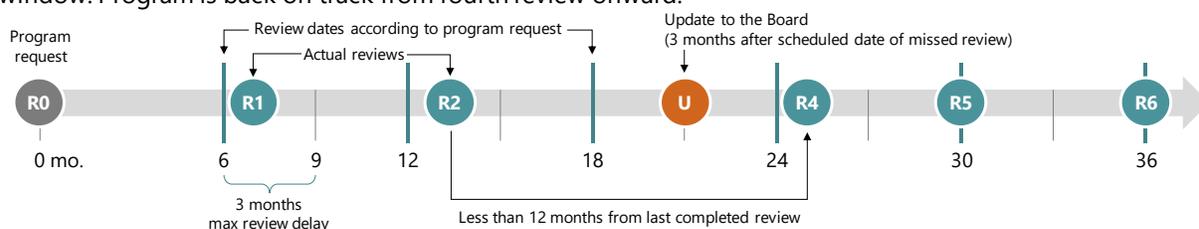
PCI on track throughout the program duration

Reviews take place every six months in accordance with the schedule set by the Board at the time of the request for the PCI.



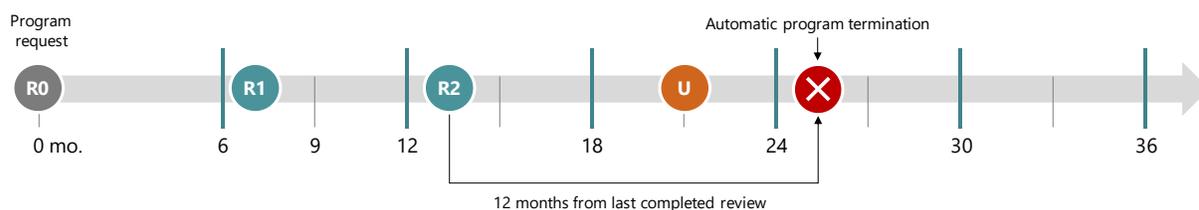
PCI off track for one review, plus minor delays for a number of reviews

First and second reviews are completed with slight delays. The third review is not completed within three months from scheduled date, triggering an update to the Board within two weeks of the end of the review window. Program is back on track from fourth review onward.



PCI terminated automatically twelve months after the last completed review

First and second reviews are completed with slight delays. The third review is not completed within three months from scheduled date, requiring a performance update to the Board within two weeks of the end of the review window. As the fourth review is not completed within 12 months from the completion of the second review, the program is automatically terminated.



OTHER RELEVANT POLICIES

47. Post Financing Assessment (PFA).²⁸ A PCI provides an alternative vehicle for PFA for members that are, in principle, subject to such monitoring in light of their outstanding obligations to the Fund.²⁹ For the purpose of the PFA, members with a PCI are treated similarly to members with programs supported by a Fund financial arrangement or SMP. In such cases, PCI staff reports should include a section on the member's capacity to repay the Fund and other elements as specified in PFA/PPM guidance.³⁰

48. Article IV consultation cycle. The 24-month cycle for Article IV consultations applies to members with a PCI. An Article IV consultation can also be combined with a PCI program review. Specifically, Article IV consultations with members that have an on-track PCI arrangement in place are expected to be completed within 24 months after the completion of the previous Article IV consultation. In cases where a program review is not completed by the date for completion specified in the PCI, the next Article IV consultation is expected to be completed by the later of (i) six months after the scheduled review date and (ii) 12 months plus a grace period of three months after the previous Article IV consultation, *unless* the program review has been completed prior to the later of these two dates, in which case the 24-month cycle continues to apply. A member that has completed a PCI by completing all reviews remains on the 24-month cycle, if it does not meet any of the criteria specified in paragraph 2 of [Decision No. 14747-\(10/96\)](#). At the time of the final review under the PCI, staff should assess whether the consultation cycle should be shortened back to 12 months, based on the criteria mentioned above. When this is the case, the staff report for the final review should recommend the Board approve transition to the 12-month cycle. Where the PCI is cancelled by the member or expires with uncompleted reviews, the member will remain on the existing cycle, unless the Executive Board determines, based on the criteria specified in paragraph 1 of [Decision No. 14747-\(10/96\)](#) that a different cycle will apply.

49. Other UFR policies. The PCI is generally subject to the same policies as UFR, with those policies being applied by analogy to the PCI. This includes, for example, the Transparency³¹ and the Open Archives policies, Guidelines on Public Debt Limits in IMF-Supported Programs, Lapse of Time Procedures for Completion of Program Reviews, and policies on use of side letters. The PCI is also subject to the same data reporting framework for the PSI under the Decision on Strengthening the Effectiveness of Article VIII, Section 5. The PCI cannot be used to establish a track record for a HIPC decision or completion point, as the PCI is not included in the list of instruments that can be used for this purpose.

²⁸ Known as Post Program Monitoring (PPM) prior to the May 2021 reform.

²⁹ On PPM, see [SM/17/23](#).

³⁰ See [2017 Guidance Note on Post Program Monitoring](#).

³¹ Although paragraph 7(a) of the Transparency Policy decision refers to PCs/ACs and SBs, it applies by analogy to QTs, RTs, and Standard Continuous Targets for PCIs.

50. Administrative costs. Any generally applicable policies on the financing of technical assistance also apply to the PCI, as it is considered TA, including charging policies or expectations of self-financing. According to current TA policy, advanced economies are generally expected to self-finance Fund technical assistance, and therefore advanced economies would generally be expected to self-finance the administrative costs of the PCI.

Annex I. Comparison of the PCI with Other Instruments

	Policy Coordination Instrument (PCI)	Low Access EFF (Extended Fund Facility)	Precautionary Stand-By Arrangement (SBA)	Policy Support Instrument (PSI)	Standby Credit Facility (SCF)	Staff Monitored Program (SMP)
Objective	Support countries in designing and implementing policies through a fully-fledged macroeconomic program to (i) prevent crises and build buffers, (ii) enhance macroeconomic stability, or (iii) address macroeconomic imbalances. The PCI may serve as a substitute for low-access precautionary arrangements.	Provide support in circumstances where it would be difficult for a member to achieve satisfactory BOP adjustment within a 3 to 5 year period, such as countries experiencing serious payment imbalances over an extended period because of structural impediments or slow growth and an inherently weak balance-of-payments position	Support policies to help resolve underlying BoP vulnerabilities and improve resilience; supplement external buffers in case BoP risks materialize	Support low income countries with broadly stable and sustainable macro position to consolidate economic performance	Achieve, maintain or restore stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth	Policy monitoring to implement the authorities' economic program, with a view to establish track record towards UCT-quality. No board endorsement
Eligible members	All Fund members	All Fund members	All Fund members	PRGT-eligible members with strong macroeconomic positions and institutions	PRGT-eligible members	All Fund members
BoP need at approval	No present or prospective BoP need	Actual medium-term BoP need ^{1/}	Short- to medium-term potential BoP need for Fund financing	No present or prospective BoP need for Fund financing	Present, prospective, or potential short-term BoP need	No BoP need required
Duration	6 months to 4 years	2 to 4 years	6 months to 3 years	1 to 4 years, may be extended up to 5 years	1 to 3 years	Duration normally 6-18 months.
Repeated use	No restrictions	No restrictions	No restrictions	No restrictions	No more than 3 SCFs in any 6 years. No restrictions when SCF use is precautionary	No restrictions
Access limit (percent of IMF Quota)	No financing, but expedited process for requesting disbursing arrangement	Subject to overall GRA annual and cumulative access limits; above these limits, is subject to exceptional access criteria		No financing	Subject to overall PRGT annual and cumulative access limits; above these limits subject to exceptional access criteria (and up to a hard cap)	No financing
Costs for members	Follow TA charging policies, According to the current policies, advanced economies usually need to cover administrative costs	Progressive commitment fee structure: 15 bps for first 115 percent of quota 30 bps on 115 to 575 percent of quota 60 bps above 575 percent of quota Refunded pro-rata when amounts drawn		None	The SCF's interest rate setting mechanism has been aligned with that of the ECF. Currently at zero percent until end-June 2021. 15 bps availability fee on undrawn portion of precautionary SCF during each 6-month period.	None

^{1/} The Executive Board agreed that "extended arrangements should generally not be formulated on a precautionary basis as circumstances where potential BOP balance of payments difficulties are likely to turn out to be longer-term are likely very rare" (BUFF/00/145).

	Policy Coordination Instrument (PCI)	Low Access EFF (Extended Fund Facility)	Precautionary Stand-By Arrangement (SBA)	Policy Support Instrument (PSI)	Standby Credit Facility (SCF)	Staff Monitored Program (SMP)
Review schedule	Normally semi-annual; shorter possible. Fixed schedule (with a buffer) to provide regular and uninterrupted signal	Normally semi-annual; shorter possible	Normally semi-annual; shorter possible	Fixed semi-annual review schedule.	Normally semi-annual; shorter possible	Quarterly or semi-annual; reports circulated on for information basis, unless review coincides with Article IV
Automatic termination	No completion of a review for a 12-month period.	None	None	Non-completion of two consecutive PSI scheduled reviews	Automatically terminates if no program review is completed over an 18-month period. Procedures available to delay termination.	None
Conditionality	UCT-quality, may contain Quantitative targets (QTs), Reform Targets (RTs), and standard Continuous Targets, as well as Prior Actions (PAs), as needed	UCT-quality, contains Quantitative periodic and continuous Performance Criteria (QPCs), Indicative Targets, Structural Benchmarks (SBs), as well as Prior Actions (PAs), as needed	UCT-quality, contains Quantitative periodic and continuous Performance Criteria (QPCs), Indicative Targets, Structural Benchmarks (SBs) as well as Prior Actions (PAs), as needed	UCT-quality, contains Quantitative periodic and continuous Assessment Criteria (ACs), Indicative Targets, Structural Benchmarks (SBs) as well as Prior Actions (PAs) as needed	UCT-quality, contains Quantitative periodic and continuous Performance Criteria (PCs), Indicative Targets, Structural Benchmarks (SBs), as well as Prior Actions (PAs) as needed	Normally not UCT-quality, contains Quantitative Indicative Targets (QT), Structural Benchmarks (SBs), as well as Prior Actions (PAs) as needed
Monitoring of conditionality	Review-based monitoring of QTs and RTs. No waivers if missed, but substantive requirements for completing reviews same as under PC-based monitoring	QPCs require waivers if missed; review-based monitoring of SBs	QPCs require waivers if missed; review-based monitoring of SBs	ACs require waivers if missed; review-based monitoring of SBs ¹	QPCs require waivers if missed; review-based monitoring of SBs	No board review, no requirement for waivers if QT missed; review-based monitoring of SBs
Concurrent use	With SBA/SCF or RFI/RCF (not EFF/ECF or other arrangements); cannot request simultaneously	Blending with ECF possible for some PRGT-eligible countries	Blending with SCF possible for some PRGT-eligible countries	With SCF or RCF (not ECF).	With PSI (not ECF) and RCF (under certain conditions)	With RCF
Financing assurances	Firm financing commitment for next 12 months; good prospects for adequate financing for remainder of arrangement	Firm financing commitment for next 12 months; good prospects for adequate financing for remainder of arrangement	Firm financing commitment for next 12 months; good prospects for adequate financing for remainder of arrangement	Firm financing commitment for next 12 months; good prospects for adequate financing for remainder of arrangement	Firm financing commitment for next 12 months; good prospects for adequate financing for remainder of arrangement	Standards for financing assurances do not apply fully, but staff should seek to examine financing situation
Safeguards assessment	Not required, but encouraged	Required by the time of 1st review	Required by the time of 1st review	Not required, but encouraged	Required by the time of 1st review	Not required
Misreporting	Tailored misreporting framework applies to PAs, QTs and CTs	Standard GRA misreporting framework	Standard GRA misreporting framework	Tailored misreporting framework applies to PAs, ACs and CTs	Standard PRGT misreporting framework	None

Annex II. Comparison of Nomenclature

GRA/PRGT	PCI	PSI
Prior Action	Prior Action	Prior Action
Periodic Performance Criterion	Quantitative Target	Periodic Assessment Criterion
Continuous Performance Criterion	Continuous Target	Continuous Assessment Criterion
Indicative Target	n/a (memo item)	Indicative Target
Structural Benchmark	Reform Target	Structural Benchmark

Annex III. Documentation and Review Process

This Appendix briefly summarizes documentation requirements and the chronological steps for a typical mission cycle in a PCI.¹

A. Pre-Mission Work

1. **Early consultation.** Mission teams are encouraged to consult informally with SPR (and if relevant FIN or LEG) at an early stage to get information on relevant Fund PCI policies and technical requirements.
2. **Policy Note (PN).** In preparation for the PCI policy discussions with country authorities, area departments will prepare a PN. Among others, program tables should include (a) a table with Quantitative Targets (QTs) that covers (i) previously established targets and outturns (QTs) since program approval or over at least the past 12 months, (ii) QTs for the subsequent two reviews (i.e., for a 12-month period in the case of semi-annual reviews) or through the end of the PCI if it is scheduled to expire in less than 12 months (from the expected Board date), (iii) memo items, optionally, as ITs are not included in PCI program conditionality, and (iv) continuous targets that relate to trade and exchange restrictions, bilateral payments arrangements, multiple currency practices and non-accumulation of external payments arrears; (b) a Reform Target (RT) table covering (i) the implementation status of previously established RTs, (ii) RTs covering the next two reviews, highlighting their timing and macro criticality, and (iii) any Prior Actions (PA). A preliminary DSA and other annexes normally found in UFR request PNs should also be included.
3. **Policy Consultation Meetings (PCM).** A PCM should be held approximately two to three weeks prior to missions. The PCM should establish a firm idea of what the final PN will look like, discussing issues and ideally reaching an agreement.
4. **Cover memorandum for PN.** The PN should be sent to Management for clearance with a cover memorandum. The cover memorandum should provide concise and candid information on the following: (i) key issues—economic situation, including vulnerabilities to an external or financial crisis; (ii) staff’s main recommendations; (iii) main issues raised in the review process, including reconciliation of diverging departmental views as appropriate; and (iv) any controversial aspects.

B. On Mission

5. **Program Statement (PS).** For new requests and for program reviews, the authorities of the country will need to sign a PS that sets out the policies and measures they intend to pursue in line with their Fund-supported program. The PS is presented in the form of a letter and includes an accompanying memorandum (also titled “Program Statement”), and an annexed Technical Memorandum of Understanding. Specific policy objectives should be clearly articulated in the PS (and associated staff report) for a new PCI and would typically include the following policies and reform areas: Fiscal, monetary, exchange rate, financial sector, public financial management and

¹ For more details, please also refer to Appendix I of the [LIC Facilities Handbook](#), as applicable.

other structural reforms. As the program statement combines the function of both LOI and MEFP in other Fund arrangements, the PS should have the standard LOI [consultation clause](#), as required by the [Guidelines on Conditionality, and tables on the implementation status of e.g. QTs and RTs](#). A draft letter/PS should be discussed during the mission, and the authorities should be advised that these understandings are reached with staff *ad referendum*; i.e., subject to Fund Management approval. The authorities should therefore not sign the letter prior to Management approval.

6. Technical Memorandum of Understanding (TMU). A TMU is annexed to the PS. The TMU clearly and precisely defines the program conditions, including the definitions of indicators, the coverage of public debt of the government and the monetary authorities, exchange rate valuation for program purposes, program adjustors, data submission requirements, etc. Standard language on the definition for external debt should also be included.

7. End-of-mission Press Release. It is often useful for missions to issue a press statement at the end of a mission, especially when understandings on a new PCI financing request or program review are reached.² Such press statements can provide an opportunity to focus the attention of the local media and key stakeholders on the main policy issues and build an understanding for the role of the Fund in the country. Staff should inform the authorities of their intention to issue a press statement. Missions are encouraged to inform the COM country press officer or Media Relations of press plans early on, and should clear the written statement before its release. The mission should also give the authorities an opportunity to review the draft press statement.

C. Post-Mission Work

8. Back-to-Office Report (BTO). The mission chief should send a BTO to Management within two working days of the mission's return to headquarters. The BTO should be short (up to two pages) and should mention the nature of the mission (with mission members listed in a footnote) and the key issues, with an attached Selected Economic Indicators table.

9. Staff Report (SR). A staff report is required for an initial PCI request, and at the time of each program review. The SR provides an overall assessment of performance and policy commitments. The timing of all reviews and test dates is summarized in a SR table at the time of the PCI approval. When targets are missed, the discussion in the staff report needs to remain as comprehensive as under the "traditional" approach to monitoring of conditionality. The program performance section (or equivalent) needs to discuss missed targets and ascertain that program remains on track despite these deviations. The staff appraisal section reiterates why staff considers the program on track and recommends completing the review. The reports (or its annexes) should include tables of quantitative and reform targets, with clear indication of status for past targets. Regarding annexes:

- **Debt Sustainability Analysis.** Staff reports should be underpinned by a thorough DSA to underpin medium-term debt strategies and fiscal frameworks. DSA-related process issues—such

² When the PCI discussion is combined with an Article IV consultation, the press release is replaced by a concluding statement, which also summarizes the discussions between country authorities and the IMF staff team. See the [2014 Review of the IMF's Communications Strategy](#).

as periodicity; engagement with the authorities, with the Fund, and with the World Bank—will be guided by the provisions for program countries in the relevant (MAC or LIC) DSA guidance notes. The main conclusions of the DSA should be discussed in the body of the staff report.

- **External Sector Assessment.** An updated exchange rate assessment should be included.
- **Informational Annex.** An informational annex is not required for PCI staff reports, except when combined with Article IV staff reports.

10. Interim Performance Update. If the review is not completed within the review window, an interim performance update by staff is required to be provided to the Board for information. Interim performance updates should be issued to the Board within 2 weeks of the end of the review window. A brief factual statement in the form of a press release stating the issuance of the performance update would be published, and the performance update report would be published subject to the authorities' consent.

11. Management Clearance Memo. Management clearance of staff reports is based on a clearance note that states the main issues addressed in the report, lays out any differences in views among departments, explains clearly any significant deviations from the PN, and highlights potentially controversial issues. A copy of the staff report's Executive Summary should be attached.

12. Summing Up/Chairman's Statement. All stand-alone PCI discussions and combined PCI with Article IV discussions require both a Summing Up and Chairman's Statement. SEC prepares the Chair's Statement. For questions regarding Lapse of Time procedures, staff should check with SEC.

13. Press Release. COM issues Press Releases for new arrangements and reviews, containing the Chairman's statements. Area Departments prepare the background section, to be reviewed by SPR upon demand. COM prepares the initial draft, including the Chairman's statement, and requests comments from the area department, LEG and FIN (as needed), and the executive director of the country in question. Box 1 provides an example.

14. Publication regime for PCI-related documents. The Board documents for both requests for the PCI and completion of reviews under the PCI, after being sent to the Board for approval, are published pursuant to the Transparency Policy, subject to the authorities' consent, together with a Press Release containing the Chairman's Statement. Program performance updates prepared by staff would be issued to the Board for information and a brief factual statement to that effect would be published. The performance update would also be published, subject to the consent of the authorities. While publication of PCI-related documents would be voluntary, they would be subject to the stronger publication presumption as applied to the PSI and UFR documents, so as to provide a clear and transparent signal.

Box 1. Example for a Press Statement on Performance Update

Staff has sent to the Executive Board a performance update concerning the [3rd] Review under the [Country name] PCI-supported program. A performance update is issued to the Board when a review cannot be completed within [3] months from the scheduled date. It provides an overview of the economic situation and program performance, indicating the sources of delay in completing the scheduled review, and highlighting the corrective actions needed in order to bring the program back on track. [Summary of the performance update and link to the full document, if the authorities have agreed to its publication.]

15. Staff Statements or Supplement. Staff statements or supplements should be prepared as needed if new or additional information becomes available after the submission of the staff report to the Board and before the Board meeting. The statement/supplement should explicitly mention whether the new information changes the thrust of staff's assessment in the staff report. Staff supplements are used when there is significantly new material information that can change staff appraisal. They are subject to management clearance. Staff statements provide factual updates without changing staff appraisal. They are subject to SPR review and no management clearance is required. However, it is good practice to share the statement with Management for information. The statement/supplement should be sent to SEC for Board circulation at least four days before the Board meeting.

D. Other Documents

16. Poverty Reduction and Growth Strategy (PRGS) document. For PRGT-eligible countries whenever poverty reduction is considered critical to program success, a Poverty Reduction and Growth Strategy (PRGS) document (formerly Economic Development Document), while not required, would be encouraged as part of program conditionality. In such cases, the PRGS would be expected to meet the same minimum standards as those required by PRGT arrangements and the PSI.

17. Safeguards Assessment. A safeguards assessment is not required for a PCI. However, countries with a PCI are encouraged to undertake such an assessment on a voluntary basis (see ¶19).

E. Length of Country Documents

18. Word limits. On July 22, 2014, Management approved the current limits on document length for PNs and staff reports, which apply for all notes/reports sent to Management. In addition, Management requested that, to ensure traction, all documents subject to word limits indicate both the actual word count and the applicable limit in the cover note, and that staff indicate the reasons for significant deviation in the cover note. The word length follows that of the PSI.³

³ See Appendix I of the [LIC Facilities Handbook](#) for details.