

Questionnaire to Low-Income Country Authorities

This questionnaire is intended to assess how useful the IMF's Policy Support Instrument (PSI) might be to low-income countries (LICs).

For general information about the PSI, please see the attached, or go to <http://www.imf.org/external/np/exr/facts/psi.htm>.

1. Did you consider, or discuss with IMF staff, possible use of the PSI?
[yes/no]
2. If yes, what factors weighed in favor and against, and why did you ultimately not request a PSI?

3. If you were to consider using the PSI in the future, please rank the following possible motivations in order of importance:
___ to intensify your policy dialogue with the IMF.
___ to reinforce your efforts to maintain fiscal and monetary discipline.
___ to provide a framework for policy reform, including through the requirement for a recent poverty reduction strategy paper.
___ to give confidence to the domestic private sector.
___ to give confidence to donors, and thereby improve prospects for donor support.
___ to give confidence to foreign investors.
___ other. Please specify: _____
4. If you have considered, or were to consider using the PSI in the future, please rank the following possible drawbacks in order of importance:
___ the need for fixed reviews.
___ the lack of financing.
___ the requirement for a recent poverty reduction strategy paper.
___ donors regard signals from other programs as stronger and clearer.
___ foreign investors regard signals from other programs as stronger and clearer.
___ debt concessionality requirements are too stringent.
___ too much structural criteria.
___ other. Please specify: _____
5. If you had little or no need to borrow from the IMF, a PSI-supported program would be an attractive alternative to:
A. a surveillance-only relationship with the IMF.
[strongly agree/agree/neutral/disagree/strongly disagree/not applicable]
B. a low-access PRGF arrangement.
[strongly agree/agree/neutral/disagree/strongly disagree/not applicable]
6. An IMF-supported program is an important input into donor funding decisions.
[strongly agree/agree/neutral/disagree/strongly disagree/not applicable]

7. The fixed review schedule under a PSI would improve the frequency of IMF signals.
[strongly agree/agree/neutral/disagree/strongly disagree/not applicable]
8. The fixed review schedule under a PSI would improve coordination among donors and with country authorities.
[strongly agree/agree/neutral/disagree/strongly disagree/not applicable]
9. The recent modifications to the Exogenous Shocks Facility (ESF) and the PSI to allow concurrent ESFs and PSIs makes the PSI more attractive.
[strongly agree/agree/neutral/disagree/strongly disagree/not applicable]
10. Do you have any suggestions for improvements of the PSI?
(please attach additional pages as needed)

The Policy Support Instrument

The Policy Support Instrument (PSI), introduced in October 2005, enables the IMF to support low-income countries that do not want—or need—Fund financial assistance. The PSI helps countries design effective economic programs 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.

Policy support and signaling

In recent years several low-income countries have made significant progress toward economic stability and no longer require IMF financial assistance. However, while they may not want—or need—Fund financial support, they might still seek ongoing IMF advice, monitoring and endorsement of their economic policies—what is called policy support and signaling.

“Signaling” refers to the information that Fund activities can indirectly provide about countries' performances and prospects. Such information can be used to inform the decisions of outsiders. Outsiders can include *private creditors*, including banks and bondholders, who are interested in information on the repayment prospects of loans; *official donors and creditors*, both bilateral and multilateral, who may be interested in reassurance about the countries they are supporting; and the public at large. In low-income countries, such signals previously have been sent mainly in the context of the IMF's Poverty Reduction and Growth Facility (PRGF), and the related Poverty Reduction Strategy (PRS) process.

As countries' circumstances change, so too must the Fund's support. The PSI, as a complement to the PRGF, and the Exogenous Shocks Facility (ESF), offers an additional way for the Fund to provide policy support and signaling to its low-income members.

Key features of the PSI

The PSI aims to: (i) promote a close policy dialogue between the IMF and a member country; (ii) provide more frequent Fund assessments of a member's economic and financial policies than is available through the regular consultation process, known as surveillance; and (iii) deliver clear signals on the strength of these policies. The PSI is voluntary, demand-driven, and intended to be supported by strong country ownership. Therefore, it will be available only upon the request of a member. Among some of the key features:

- Program targets and structural reforms should be based upon a country's poverty reduction strategy to help ensure policy ownership.
- Programs should meet the same high standards as under a Fund financial arrangement.
- PSIs will have a fixed schedule of reviews to assess program implementation, with reviews normally scheduled semiannually. Only limited flexibility will be allowed in the timing of the reviews, and the Board will conduct reviews irrespective of the status or prospects of program implementation.
- The provision of timely and accurate information from the member with a PSI will be essential for the Fund's assessments. A framework for dealing with possible cases of misreporting will be in place to safeguard the integrity of IMF assessments.
- In the event of a shock, an on-track PSI could provide the basis for rapid access to PRGF resources through the ESF.

- The publication of PSI documents is voluntary, but presumed. This is a similar policy to the one in effect for PRGF documents.

A review of experience with the PSI will be conducted in late 2008.

How does the PSI relate to other instruments for low-income countries?

The PSI will add to the array of instruments from which low-income countries can choose their desired form of engagement with the IMF. The PSI will complement—but not substitute for—the PRGF, which will remain the main instrument for IMF financial support to low-income members with balance of payments needs. In addition, the PSI was designed to facilitate access to resources through the ESF in the event that a low-income member suffers from an exogenous shock. In sum, the PSI gives low-income countries another option for engaging with the Fund.

Who is eligible for a PSI?

The PSI is available upon request to all PRGF-eligible members with a PRS in place. However, the PSI was designed to meet the needs of "mature stabilizers"—countries that have usually achieved a reasonable growth performance, low underlying inflation, an adequate level of official international reserves, and have begun to establish external and net domestic debt sustainability. Some of these countries no longer need IMF financial assistance and have indicated their desire to "graduate" from the PRGF, while wishing to maintain a close relationship with the Fund, including endorsement of their policies and performance. In addition, some PRGF-eligible members that have never had a PRGF arrangement may see benefits in a relationship with the IMF that involves endorsement of their policies.

To date, the Executive Board has approved PSIs for six members: Nigeria on October 17, 2005; Uganda on February 1, 2006 and December 15, 2006; Cape Verde on August 1, 2006; for Tanzania on February 16, 2006; Mozambique on June 26, 2007; and Senegal on November 2, 2007. Other members have also expressed interest.