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The IMF's Policy Support Instrument: "Helping hand or more thumb screws?"¹

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EXECUTIVE SUMMARY

The Private Support Initiative (PSI) was announced in 2005, a year that was also marked by the launch, by the G7 leaders in Gleneagles, of the Multilateral Debt Relief Initiative. Building on the Fund's gatekeeping and signalling roles, the declared aim of the PSI, a non-funded programme, was to address the needs of well-performing post-PRGF countries who, although no longer required the Fund's financial support, needed the IMF imprimatur for their policies with a view to facilitating their graduation to MIC status.

2. PSI, essentially a policy support and signalling device, contains many interesting features, including the need to be voluntary, demand driven, country-owned, thus raising expectations that the Fund was approaching its relations with these countries in a new frame of mind, willing to allow them a greater degree of latitude and flexibility in determining their longer term policies in order to tackle poverty in a looser macroeconomic framework.

3. A review of different key aspects of the six existing PSI arrangements shows that this early optimism is somewhat premature. It is true that, in some instances, the Fund has signalled its willingness to be somewhat "more accommodating" in allowing some degree of real fiscal space. It is also true that well-performing LICs stand to benefit from the signal of an on-track PSI, essentially to attract targeted TA from bilateral and multilateral development partners. Nevertheless, PSI, at least in its present form, does not live up to the countries' expectations when it comes to looser structural conditionalities, greater country ownership, flexibility in determining economic policy and alternative scenarios and in facilitating access to private capital markets.

4. This year's scheduled review by the IMF Board of the PSI experience is a unique opportunity to build on the successes of the early PSIs, with a view to developing an integrated dynamic approach to the Fund's involvement in LICs, that will provide a clear long-term perspective to well-performing LICs anxious to graduate to the next stage of economic development.

INTRODUCTION

In 2005, the role of the International Monetary Fund in low-income countries (LICs) was coming under increasing criticism by many member countries. It was felt that the Fund was becoming irrelevant to a big portion of its membership. At the same time, a number of LICs that had graduated from the Highly Indebted Poor Country Initiative (HIPC), and had thus successfully cleared the policy hurdles required by the PRGF process, were facing fresh policy challenges maintaining their debts at sustainable levels. The same year, and in response to increasing pressure from Civil Society and public opinion, the G7 leaders at their Gleneagles meeting decided to cancel the remaining multilateral debt for those LICs that have reached Completion Point of the HIPC or were on track of doing so, under the Multilateral Debt Relief Initiative (MDRI).

2. At about the same time, the IMF Executive Board announced the launch of a new, non-funded programme, aimed at those LICs that have made significant progress toward macroeconomic stability and no longer require IMF financial assistance but still seek the IMF technical assistance, expertise and endorsement of their economic policies. In that sense, PSI was marketed as a “helping hand” to those countries.

3. However, this move by the Fund was seen by most of its critics, especially NGOs, as another way of safeguarding its legitimacy and keeping under its control countries that were trying to free themselves from the straight-jacket of Fund programmes; in other words, more “thumb screws”.

4. This paper is an attempt to clarify whether, and to what extent, PSI really constitutes a helping hand, or indeed just more IMF thumb screws. Although a full-fledged assessment is expected later this year which, presumably, will be discussed at the IMF’s October 2008 Annual Meeting, there is already sufficient evidence available to make an informed, albeit incomplete, evaluation.

5. This preliminary review is, nevertheless, a useful exercise, given that several Commonwealth MDRI countries have already entered, or are considering entering or re-entering this process, and would like to know what has been the experience of others. This overview should also be useful to those who would like to use the 2008 review as an opportunity to constructively contribute to the discussions, with a view to making PSI more in tune with the needs of its intended beneficiaries. Ultimately, one should be able to decide whether the programme, in its present form, offers enough benefits to warrant the effort.

6. At the outset, it is certainly clear that experience so far shows that a PSI arrangement should not be entered into lightly, or simply “to keep up with the Jones”. In order to get the maximum benefits from this exercise, countries should be ready to commit the necessary resources and effort to implement the policies and reforms contained in the PSI. PSI should be part of a clear road map to graduating permanently from IMF funded programmes.

7. The paper begins by reviewing the main aims and features of PSI, before trying to answer the following question: is PSI the beginning of a new role for the Fund in LICs? The following section focuses on the issue of market access and the road to Middle Income Country status, before drawing the main conclusions of the analysis and sketching a possible way forward.

POLICY SUPPORT INSTRUMENT: KEY AIMS AND FEATURES

8. The IMF created the Policy Support Instrument (PSI) in 2005, primarily as a non-lending instrument aimed at complementing two existing lending instruments, namely, the Poverty Reduction Growth Fund (PRGF), established in 1999, and its Exogenous Shock Facility (ESF), also established in 2005³. For the IMF Board, the former remained the main instrument of financial assistance to low-income countries experiencing balance of payment difficulties, while the latter, established within the PRGF Trust, provides concessional financial support to low-income member countries facing exogenous shocks, such as adverse commodity price swings, natural disasters, and conflict and crises in neighbouring countries and who wish to “graduate” from a continuous engagement in PRGF programmes, a kind of safety net.

9. The primary purpose of PSI is to fill in a gap in the toolkit of support instruments that the Fund offers to some of its LIC members who, although don’t need or want IMF financial assistance, nevertheless, seek Fund advice, monitoring and endorsement of their economic policies.

10. More specifically, PSI was conceived, primarily, as a “signalling” device, namely information that Fund activities indirectly provide about countries’ performances and prospects, with a view to informing the decisions of private creditors as well as official donors and creditors, bilateral and multilateral, interested in the Fund imprimatur⁴.

11. The declared original aims of PSI are to:

- Promote close policy dialogue between the IMF and member countries;
- Provide more frequent Fund assessment of economic and financial policies than through regular surveillance;
- Deliver clear signals on the strength of economic policies.

12. It is important to note that, for the Fund, PSI is a voluntary and demand-driven programme with a view to strengthening growth prospects, macroeconomic policy frameworks and governance structures. In addition, the Board insists that the policies to be implemented within the context of a PSI should be supported by strong country ownership and that, “as much as possible, policy strategies and objectives draw on domestically-produced documents”⁵. Therefore, PSI is only available upon the explicit request of a member. Furthermore, it is also worth pointing out that on, at least, one occasion, there is reference in official IMF documents, to the fact that “PSI countries have the flexibility to specify policy objectives and design reform strategies that are tailored to their economic conditions”⁶.

13. By the same token, and in order to safeguard the signalling power of the PSI, and thus the reputation of the IMF as a gatekeeper, only “mature stabilisers” are eligible to apply for a PSI. Although the concept of “mature stabilisers” is not rigorously defined, the Fund generally understands it as meaning: post-PRGF countries, with “reasonable growth

³ See IMF (2005), Implementation of the Policy Support Instrument, September.

⁴ See, IMF (2007), The Policy Support Instrument, A Factsheet.

⁵ See, MacFarlan, M and J. Green, (2007), “IMF’s PSI Framework Offers Flexibility”, IMF Survey, April 11.

⁶ See supra.

performance”, “low underlying inflation”, “adequate level of official international reserves”, “who begun to establish external and net domestic debt sustainability”.

14. The fact that its launch coincided with the decision of the G7 countries in Gleneagles to cancel the multilateral debt of a number of LICs, known as the Multilateral Debt Relief Initiative (MDRI), led some critics to argue that PSI is, in fact, another way for the Fund to “tend its flock”, by keeping MDRI countries within the IMF camp⁷. That said, the first country to actually negotiate a PSI was Nigeria, a non-MDRI country.

15. PSI’s salient features include:

- To ensure country ownership, the targets and reforms included in a PSI have to be based on the country’s Poverty Reduction Strategy (PRS).
- To ensure the quality of policies, they must meet the same high standards as Fund programmes, i.e. Upper Credit Tranche Conditionalitys.
- To ensure continuous engagement, there are regular fixed review schedules to assess implementation (semi-annually) and limited flexibility in the timing of reviews; furthermore, a review would take place irrespective of the status of implementation.
- To ensure the integrity of the process, PSI countries undertake a firm commitment for the provision of timely and accurate information, and to an agreed, albeit “abridged and simplified”, framework for dealing with possible cases of misreporting.
- In case of an external shock, an on-track PSI could provide rapid access to ESF;
- The duration of a PSI is one to three years, with the normal period of two years and a possibility for an extension to a fourth year.
- A PSI country is placed on a 24-month Article IV consultation cycle;
- That PSI-supported programmes must be fully funded.
- The publication of PSI document is voluntary but presumed.
- The Fund’s Board will review the entire PSI experience three years after its implementation, i.e. in 2008.

16. So far, March 2008, six countries have chosen to negotiate a PSI arrangement namely, Nigeria (in 2005), Uganda (in 2006 and 2007), Cape Verde (in 2006), Tanzania (in 2006), Mozambique (in 2007), and finally Senegal (in 2007).

17. Furthermore, it is worth pointing out that Ghana, whilst already meeting all the above selection criteria of a mature stabiliser and with the expressed political will to doing so, has yet to finalise its PSI arrangement with the Fund⁸; Bangladesh, on the other hand, under pressure from NGOs and the Central Bank, has decided not to go down that route. In addition, there are several Commonwealth MDRI countries, such as Guyana, Cameroon, Zambia and Sierra Leone, which could potentially be or become eligible for a PSI, and haven’t as yet rejected that option.

⁷ See S. Ambrose (2006), “Tending Their Flock: Is the Policy Support Instrument Keeping Countries in the IMF Camp?”, *Economic Justice News*, Vol. 9, No.1, September.

⁸ It is indeed puzzling to the outside observer why, whilst as far back as the release of the 2007 budget report to parliament in November, the Ghanaian Minister of Finance was saying that “the government sees this [PSI] as a major turning point in the economic history of Ghana and will be approaching it with all the necessary precautions”, a PSI agreement has not as yet been finalised.

PSI: A NEW ROLE FOR THE FUND IN LICs OR MORE OF THE SAME?

18. The launch of PSI in the wake of MDRI, coupled with sustained criticisms from several key member countries on its future role in LICs, has raised expectations that PSI could herald a new role for the Fund in these countries⁹. Clearly, the announced internal review of the programme later this year will give a clearer indication on how the Board assesses the success of this instrument, but also and more importantly, to what extent it will approve the continuation of the programme in its present form, or whether some reforms will be necessary to make more it responsive to the needs of targeted constituents, namely the mature stabilisers among the LICs.

19. It is not difficult to predict that any assessment of PSI must be driven by a simple question: how different is PSI from passed or existing programmes, funded or otherwise? The six PSI arrangements negotiated so far provide sufficient food for thought to give a preliminary informed answer to this important question.

20. Clearly, by its very nature, a PSI arrangement encompasses a very wide set of issues relating to the Fund's engagement in a country. Therefore, a full assessment would have to account for each country's special circumstances, and will require a more extensive and detailed analysis of the national historical, political and economic conditions surrounding the development and implementation of each agreement.

21. Nevertheless, by analysing the experience of the six PSI already in place, it is possible to draw some early overall conclusions on three clusters of issues that have attracted the attention of many observers.

22. The first cluster is whether PSI has ushered in any significant change in the way the Fund performs its Signalling and Surveillance role (S&S), and its "gatekeeping" function. The second cluster is whether PSI has led to, either a loosening of structural conditionalities and/or a reinforcement of country ownership. The third cluster is whether countries with a PSI have benefited from greater flexibility in the definition of their economic policy in general, resulting in more (fiscal) policy space and have been able to consider alternative macroeconomic scenarios than in the past.

First Cluster: S&S and Gatekeeping

23. Although strictly speaking coming under Article IX, i.e. a form Technical Assistance, PSI is seen by many observers as the latest in a series of IMF non-lending S&S instruments ranging from Article IV consultations, Staff Monitored Programmes (SMP) to Enhanced Monitoring Procedure (EMProc) and "Intensified Surveillance"¹⁰.

24. That said, PSI has come some way from the "one-size-fits-all" approach to signalling as it combines the very strong signals you would expect from a funded programme, such as an "on/off"-type feature, coupled with longer term, "nuanced" staff assessments and a

⁹ See Lombardi D. (2007), The Development Dimensions of IMF Lending Policies, The International Spectator, Vol. XLII, No.1, January-March.

¹⁰ For a useful and comprehensive historical review of the Fund's Signaling activity, albeit excluding PSI, see IMF (2004), Signaling by the Fund: A Historical Review, July 16.

willingness for more “accommodation”¹¹. At the same time, and in addition, PSI contains easy to monitor, simple and clear assessment criteria and quantitative structural benchmarks which are approved and regularly assessed and up-dated by the IMF Board¹². Furthermore, its signalling role is reinforced by the fact that, as mentioned above, an on-track PSI could, if need be, facilitate access to ESF.

25. Regarding the Fund’s Gatekeeping role, observers agree that PSI is a clear reaffirmation of the Fund’s role as the only credit rating agency for most of the targeted countries. Clearly, this is driven by many factors, including the political benefits of IMF kudos, the paucity of analysis from alternative, private sector, rating agencies and the fact that for many bilateral and multilateral development partners, PSI forms the basis for Official Development Assistance and engagement by International Financial Institutions in the countries concerned¹³.

Second Cluster: Structural Conditionalities and Country Ownership

26. It is recalled that PSI performance is reviewed semi-annually by the Board, based on up-dated information provided by the country concerned, on three sets of data:

- Assessment criteria, namely strict conditions and requirements, which are subject to waiver if missed, applied to clearly-specified quantitative variables and/or structural measures;
- Indicative targets and structural benchmarks, i.e. mere indicators of progress, which, nevertheless are also quantitative;
- Prior actions, namely measures to be taken prior to the Executive Board’s completion of the review.

27. It is worth noting that these assessments include elements that are both backward-looking and forward-looking. The former is based on the member’s performance against the above elements for the specific review, while the latter “starts with a determination that the conditions for approval of the PSI remain in place; it also extends to assessing the prospects for successful program implementation...”¹⁴.

28. Also worth pointing out is the fact that in the event of a PSI being “off-track”, the programme is considered temporarily “incomplete” and the member country gets another opportunity to bring it “back on track” at the next review, under the guidance of steps elaborated by the IMF staff.

29. There is an ongoing discussion between the Fund and its critics to what extend Conditionalities attached to PSI are in any way lighter than those of attached to its closest relative, PRGF. Although there is yet no systematic comparison of all PRGF and PSI programmes in this regard, two separate NGO studies comparing the number and content of conditions, albeit based of different subsets of PSI countries, agree that “PSI compares

¹¹ See the Transcripts of IMF Staff conference call with Action Aid to discuss the PSI in November 2007, www.imf.org/external/np/tr/2007/tr071127.htm.

¹² See the next cluster for details.

¹³ See Lombardi D. and N. Woods (2007), *The Political Economy of IMF Surveillance*, Brookings Global, Economy and Development, October.

¹⁴ IMF (2005), *supra*, pp.5-6.

unfavourably to the review of PSI¹⁵, and that “in most cases where quantitative comparisons are possible, the PSI represents a continuation of PRGF standards: targets and ceilings are usually incrementally more ambitious”¹⁶.

30. Turning to the other issue in this second Cluster, namely country ownership, the verdict so far seems even harsher on the Fund! The fact that PSI is based on the country’s own PRSP is of little comfort to the Fund’s critics. Indeed, experience shows that in most cases PRGF shaped the PRSP rather than the other way around¹⁷.

31. In addition, NGOs in Tanzania, Ghana, Kenya and Bangladesh are very sceptical of PSI on the grounds that country ownership is “very narrowly” defined by the Fund, and is limited to the notion of compatibility or relevance to the local economic conditions, rather than responding to the true aspirations and needs of the people of these countries. Indeed, many NGOs are suspicious that their own governments are over zealous to please the Fund, and often formulate their PSI with a view to satisfying the Board rather than true country priorities.

32. In this regard, three examples are often cited, indicating that not much has changes from PRFG:

- In Nigeria, where PSI was in fact a precondition for a Paris Club debt write-off rather than a demand-driven, country-owned exercise;
- In Uganda, where the Fund is reported to have questioned the government’s Bonna Bagagawale (i.e. prosperity for all) US \$ 42 million programme aimed at providing cheap credit to small farmers, on the grounds that it was a non-sustainable subsidy;
- In Mozambique, where critics claim that wage-bill ceilings and very low inflation targets introduced by the Government in the context of a PSI, with a view to pleasing the Fund, were in fact effectively thwarting attempts to significantly increase badly needed funding and investment in education, the recruitment of new teachers and thus the achievement of the MDGs.

33. Not surprising, the Fund challenges these claims. On the first point, in a recent meeting with Civil Society, Fund staff hinted that Nigeria is in fact seriously considering entering into a second PSI arrangement with the Fund; on the claim that the Fund had vetoed Bonna Bagagawale, at the same meeting, R. Nord from the African Department, dismissed the claim saying: “Frankly, the IMF has never challenged this”; finally, on the issue of education spending in Mozambique, the same official at the same meeting is quoted as saying: “education spending in Mozambique...has increased from 4.5 % to 6.5 % of GDP over the last three years”, and if this is not enough, he advised CSOs to “make powerful arguments” directly with the Government of Mozambique¹⁸.

¹⁵ See Bretton Woods Project (2007), Reading from the script the IMF’s PSI invades Africa”, 31st January.

¹⁶ See ActionAid (2007), The IMF’s Policy Instrument: Expanded Fiscal Space or Continued Belt-Tightening?, Policy Brief, October.

¹⁷ See IEO(2007), An Evaluation of Structural Conditionality in IMF-Supported Programs, November. An interesting read in its own right and a refreshing auto critic of the Fund.

¹⁸ See the transcripts of the discussion of the IMF with Action Aid, footnote 8 above.

34. Whatever the merits of these specific criticisms, the overall point remains valid which is that, prime facie, PSI has made very little progress, if at all, on the issue of either looser conditionalities or greater country ownership.

Third Cluster: Flexibility, Policy Space, Alternative Economic Scenarios

35. There is no doubt that, in some cases, the Fund is beginning to exhibit the willingness to be “more accommodating” in its assessment of macroeconomic conditions for the mature stabilisers in Africa, and especially in allowing more real (as opposed to nominal) fiscal space¹⁹.

36. That said, we have yet to witness a radical departure from earlier practices. In particular, many observers feel that the Fund needs to acknowledge, explicitly that:

- Policy space in LICs (real or nominal) can not be neatly partitioned between poverty-reducing and “traditional” macroeconomic policies; and that macroeconomic policies affect the efficiency with which economic growth translates into poverty reduction²⁰, and vice-versa!
- It needs to be more sensitive to the social impact of key macroeconomic policies that it prescribes, and the trade-offs involved in the various policy mixes embedded in the PSI.
- Despite the Board’s recent resolution to that effect, its own Poverty and Social Impact Analysis (PSIA) does not as yet systematically inform the distributional aspects in the programme design in general, and PSI in particular.

PSI, MARKET ACCESS AND THE ROAD TO MIDDLE INCOME COUNTRY (MIC) STATUS

37. While facilitating access to private financial markets and the road to MIC status, are not explicit aims of PSI, there would be very little point in the Fund developing a signal which would not do just that. Certainly, as far as the mature stabilisers themselves are concerned, better access to financial markets and MIC status would be a highly anticipated and indeed highly valued benefit resulting from this exercise²¹. Therefore, it is legitimate to ask whether PSI has had a significant impact on how the markets respond to the PSI signal.

38. Recall that the intended recipients of the “nuanced signal” that is an on-track PSI, are bilateral and multilateral donors, but also private capital markets.

39. So far, there is no direct proof of improved market access as a result of a PSI. Rather there is sufficient evidence that development partners, both multilateral and bilateral (especially G7), are very receptive to this signal. Nigeria’s experience with the G7 debt first comes to mind. But also, both these sets of donors have indicated that in the wake of an on-

¹⁹ See IMF (2007), Regional Economic Outlook: Sub Saharan Africa, October, especially the very useful discussion on creating fiscal space in Chapter 2 using as case studies two PSI counties, Tanzania and Uganda.

²⁰ See Lombardi D. (2007), The Role of the IMF in Low-Income Countries: Recent Issues, World Economics, December.

²¹ This is certainly the case for Ghana, whose Minister of Finance, the Hon. Kwadwo Baah-Wiredu, in a recent press release said: “accessing the international capital markets comes with flexibility in policies but it also comes with the market discipline which requires that we are able to maintain good policies for macroeconomic stability and debt sustainability”.

track PSI, technical assistance is likely to be forthcoming in such areas as Public Financial Management and Debt Sustainability Analysis.

40. That said, Ghana's recent successful issue of US\$ 750 million government bonds, which was over subscribed by more than four times, clearly shows that PSI is not a necessary condition for market access. The question then becomes, is it a sufficient condition?

41. There is no direct evidence of this either, but a number of recent empirical studies show that PSI could have a beneficiary indirect effect²².

42. We know that, at least on the demand side, a sovereign's ability to access markets (i.e. issue bonds), depends both on its "willingness" and its "ability" to repay. The key incentive for the former is the high cost of default resulting from a damaged reputation and the threat of sanctions; the latter is clearly determined both by the government's long-term solvency and its short-term liquidity.

43. An IMF empirical study²³ on sovereign borrowing by Developing Countries, which included Emerging Market Economies and LICs, concludes that access is influenced by:

- Perceived quality of policies (as measured by the World Bank's CPIA) and Institutional Investor Index, positively.
- The vulnerability to external shocks, inflation, and a PRGF programme, negatively.

44. However, more surprisingly, the study also concludes that market access is not influenced by such factors as: liquidity indicators (reserve coverage), other standard indicators of macroeconomic policy, the trade links with the Rest of the World, the presence of an IMF Stand By Arrangement (SBA) or Extended Fund Facility (EFF); and default the previous year. Thus, the authors interpret these results as meaning that, for the countries involved, the "willingness" to pay is more important than the "ability" to pay.

45. However, another more recent IMF empirical study²⁴ of Emerging Economies shows that when seeking to re-enter the sovereign bond market, although the "willingness to pay" matters (measured by sound domestic policy and IMF programme on track), what matters most is the "ability" to pay and international investor demand. That said, the study also shows that "willingness to pay" becomes again important if the sovereign has defaulted by restructuring its debt, whereas if it avoided default (through negotiated exceptional support) then "ability" to pay matters most.

²² The Fund reports that this is not confined to Ghana, where foreigners were already reported to hold, at the end of June 2007, i.e. before the above issue, 11 percent of Ghana's domestic government debt, and that more investors are now turning to Sub-Saharan Africa. This is the also the case in Zambia, where foreigners hold more than 14 percent of local currency government debt, but also in Tanzania and Uganda where overseas investors hold "significant" shares of local currency government debt.

²³ See Gelos G. R., R. Sahay and G. Sandleris (2004), *Sovereign Borrowing by Developing Countries: What Determines Market Access?*, IMF Working Paper, WP/04/221, November.

²⁴ See Zanforlin L. (2007), *Re-Accessing International Capital Markets After Financial Crises: Some Empirical Evidence*. IMF Working Paper, WP/07/136, June.

46. Another IMF empirical study of Developed and Emerging Market Economies²⁵, this time focusing on the factors affecting total capital flows, shows that over the medium term, in addition to strong market fundamentals, total capital inflows and volatility depend on:

- Growth and growth prospects;
- Financial market (i.e. equity market) liquidity, depth and openness;
- Only (partly) on external demand factors (i.e. global liquidity);
- Institutional quality (i.e. corporate governance, accounting standards, regulatory quality, the rule of law);
- Transparency in relation to both macroeconomic policy and the availability of financial data (including Risk Management Systems).

47. Finally, and in the same vein, for the Fund, the road to MIC-status is determined by three dimensions²⁶:

- The need for a financial sector, and financial policies for growth, i.e. that capable of increasing the quality and quantity of investment, productivity, real wages, incomes and ultimately growth.
- The effective management of development aid, and in particular, how to manage both its scaling-up and, eventually, the scaling-down.
- The effective management of the transition to MI status: namely, the adoption of those exchange rate and capital accounts policies to promote competitiveness and avoid the risks of volatility.

48. Thus, given the above discussion it remains to be seen how an on-track PSI contributes to the markets' perceptions of both the country's "willingness" and "ability" to pay.

CONCLUSIONS AND WAY FORWARD

49. There is no doubt that in launching PSI, the IMF has raised, perhaps unintentionally, expectations that this will signal a significant shift in the way it does business with, at least, well-performing LICs. More than two years into the process, perhaps sensing that the upcoming three-year review is likely to disappoint those who hoped that PSI heralds a new role for the Fund, it is trying to dampen these expectations.

Indeed, for the Fund staff, it is "best to think of PSI as a way to credibly commit to good policies"²⁷, i.e. just a signal:

- To anchor fiscal policy and structural reform in medium term framework.
- As a mechanism of internal discipline.
- A framework of targeted TA.

50. If this turns out to be the case, then the Fund would have missed a great opportunity to become more relevant to an important segment of its constituency. Indeed, we concur with

²⁵ See IMF (2007), Financial Market Turbulence: Causes, Consequences, and Policies. Global Financial Stability Report. October,

²⁶ See the speech by Tom Bernes, Director of IEO, in a meeting Accra organized by Bank of Ghana on its Golden Jubilee in August 2007, entitled: The Road to Middle-Income Country Status: Evaluation Lessons about the Role and Performance of the IMF in Assisting Low-Income Countries.

²⁷ See footnote 8 above.

Steven Radelet²⁸ for whom, it will be a mistake to see PSI in isolation. Rather, it should be seen, by the Fund and the affected member countries, as part of continuum of IMF interventions in LICs, ranging from the less flexible/funded programmes to the fully flexible interventions, confining the Fund to a purely surveillance and monitoring role. Clearly, LIC at different stages of macroeconomic stability, economic performance and development should expect to be placed at different positions on this continuum.

51. In particular, eligible Pre-stabilisers should expect to be offered a PRGF-type intervention, which is a stringent funded programme, focusing on macroeconomic stability. Further along the continuum, Early-stabilisers should move to a Low-Access PRGF, with small amounts of funding but continuous strong Fund involvement. Mature stabilisers, should be placed in a non-funded PSI-type programme, aimed at consolidating stability and building capacity to deal with tough policy trade-offs in a non-ODA framework. Finally, for the last, Pre-MIC status, there should be a “non-dominant” Fund engagement with a flexible, pure, surveillance and monitoring programme, which comprises: intensified surveillance, coupled with detailed regular assessment letters and regular advice to Governments, plus “graduated signals” (in the form of LIC ratings) to the markets to attract FDI and facilitate access to private capital markets.

52. Such an integrated dynamic approach to Fund involvement in LICs, would provide a clear long-term perspective to aspiring low-income countries, with clearly defined stages and benchmarks in the graduation process. As such, it will go a very long way in responding to the critics of the Fund who question its relevance in these countries, by legitimising it in the eyes of a big portion of its constituency, and at the same time, reinforcing its traditional roles as a gatekeeper, a trusted partner and building on its unique expertise in surveillance and monitoring.

53. Governments should be ready to commit to such a strategy following a sustained and frank dialogue with all stakeholders. They also should be aware that it entails a serious effort and they should be ready to commit the necessary resources and political will to follow through sometimes painful reforms.

54. It is also clear from the above analysis that, ultimately, entering into such an engagement will only yield its full benefits if its part and parcel of a well thought-out long term strategy which will get the country to the next stage of economic development, namely Middle Income Country status.

²⁸ See Radelet S. (2006), The Role of the IMF in Well-Performing Low-Income Countries. Working Paper no. 83, Center for Global Development, February.