Statement of the IMF Staff
Principles Underlying the Guidelines on Conditionality
Revised January 9, 2006

1. The IMF provides financing to assist a member country to resolve balance of payments problems. IMF conditionality specifies how the Fund's financing will be linked to the member's implementation of an adequate program of policy adjustments in response to its external imbalances. Conditionality is one element in a broad strategy for helping countries design and carry out programs of strong economic and financial policies.

2. Adoption of new guidelines for conditionality has been motivated by an increasing recognition of the importance of several interrelated principles for successful design and implementation of Fund-supported programs. Chief among these are national ownership of reform programs, parsimony in the application of program-related conditions, tailoring of programs to the member's circumstances, effective coordination with other multilateral institutions, and clarity in the specification of conditions.

3. *National ownership* refers to a commitment to a program of policies, by country officials who have the responsibility to formulate and carry out those policies, based on their understanding that the program is achievable and is in the country's best interest. With commitment, measures are more likely to be implemented and sustained. Conditionality should complement, not substitute for, national ownership; if well designed and established through a mutually acceptable collaborative process, it can promote and strengthen ownership, in particular by demonstrating the authorities' commitment to a course of action. Judgments on the depth and breadth of national ownership of a proposed Fund-supported program are inherently subjective and difficult, and ownership itself is likely to change and develop over time. Nonetheless, ownership—along with the member's administrative capacity to implement reforms—is a key determinant of success, and the guidelines aim to promote ownership by ensuring that conditionality is well designed and Fund-supported programs are formulated through a mutually acceptable process led by the member. The guidelines also note that the need for ownership implies selectivity: approval of the use of Fund resources depends in particular on the Fund's assessment that the member is sufficiently committed to successful implementation.

4. Fund staff and the authorities should establish a common understanding of the nature of the problems facing the country. The elaboration and presentation of clear strategies—which tailor policies to country circumstances and capacity, and clearly link them to program goals in the context of the authorities' broader objectives—can enhance program ownership and implementation. Promotion of ownership depends in part on effective and inclusive processes of program development in which the authorities and Fund staff are both fully engaged. Therefore, in responding to a member's request for access to Fund resources, it is expected that the initial response by the Fund staff will be to ascertain, through dialogue, how the authorities intend to adjust policies. Based on those intentions, Fund staff will endeavor to reach understandings with the authorities on a mutually acceptable means of achieving the program goals, while paying due regard to the domestic social and political

objectives, the economic priorities, and the circumstances of the member, including the causes of the balance of payments problem and the member's capacity to implement reforms in the necessary time frame. Particularly—though not solely—in cases where the member's administrative capacity is weak, the staff will stand ready to advise the authorities on a range of available policy options and implementation plans, and to provide technical assistance as appropriate, so as to support the authorities' efforts to make well-informed policy choices.

5. Program documents, including Letters of Intent (LOIs) and Memoranda of Economic and Financial Policies (MEFPs), are documents of the authorities, and will reflect the authorities' policy goals and strategies. Programs supported by the Poverty Reduction and Growth Facility (PRGF) will normally be based on a Poverty Reduction Strategy Paper (PRSP) resulting from a broad consultative process within the country.

6. *Parsimony* means that program-related conditions should be limited to the minimum necessary to achieve the goals of the Fund-supported program, to monitor its implementation, and to implement specific provisions of the Articles of Agreement or policies adopted under them. The choice of conditions should be clearly focused on these elements. As stated in the conditionality guidelines, the macroeconomic goals of Fund-supported programs are to solve the member's balance of payments problem without recourse to measures destructive of national or international prosperity; and to achieve medium-term external viability while fostering sustainable economic growth. In this context, sustainable growth means growth that is strong, durable, and equitable, with reasonable price stability. Particularly for PRGF-supported programs, the growth objective is linked to the pursuit of higher living standards and a reduction of poverty.

7. Program-related conditions that are not of critical importance for achieving the goals of the program or for monitoring its implementation, or that are not necessary for the implementation of specific provisions of the Articles of Agreement or policies adopted under them, are to be avoided. A judgment that a condition is of critical importance for achieving the macroeconomic goals means that if it were not implemented, it is expected that the goals would not be achieved. Conditions may also be applied in particular to the provision of accurate information, the adequacy of internal controls and procedures in a member's central bank, and other requirements for the safeguarding of Fund resources. Conditions to implement specific provisions of the Articles will include the avoidance of exchange measures subject to Fund jurisdiction and of import restrictions for balance of payments reasons.

8. The principle of parsimony in application pertains to all program-related conditions including the establishment of variables and measures as indicative targets or structural benchmarks. Decisions on whether to recommend waivers will be based on the criteria specified in the guidelines with the aim of avoiding excessive reliance on their use.

9. *Tailoring* of programs implies a recognition that the causes of balance of payments difficulties and the emphasis to be given to various program goals may differ among members. In addition, economic policy understandings should be consistent with the

member's capacity to implement policies. Because conditionality must be aimed appropriately at the achievement of the program goals set out in the guidelines, most Fund-supported programs will include certain common elements. Moreover, Fund policies must be applied consistently so as to maintain the uniform treatment of members. Nonetheless, the specification and timing of policy adjustments and the appropriate mix of financing and adjustment will reflect the member's circumstances and the provisions of the facility under which the Fund's financing is being provided. For example, in some cases the overriding goal of Fund-supported programs has been to restore market confidence, ensure orderly external adjustment, address the weaknesses that had made these countries vulnerable to capital account shocks, and create the conditions for a resumption of growth. In transition economies, completing the transformation into a competitive market economy while restoring or maintaining stable macroeconomic conditions has been the key challenge. PRGF-supported programs seek to promote poverty reduction by removing impediments to strong, sustainable growth and a viable external position. More generally, and without contradicting the principle of parsimony, members' programs addressing deeper structural problems—often supported by longer-term arrangements—will tend to have more extensive structural conditionality, because structural reforms are more likely to be critical.

10. The guidelines note that program-related conditions may contemplate the member meeting particular targets or objectives (outcomes-based conditionality), or taking or refraining from taking particular actions (actions-based conditionality). Outcomes-based conditionality may be beneficial where additional flexibility in policy implementation is desired and may be achieved without unduly weakening the member's assurances of Fund financing. In such cases, conditions will apply to performance objectives that are reasonably within the authorities' direct or indirect control and can be evaluated and verified within the required time frame.

11. *Coordination* with other multilateral institutions is often necessary in order for the Fund to provide consistent and effective assistance to members. Accordingly, the Fund's policy advice, work on program design, and conditionality should strive to be consistent with that of other institutions and, whenever possible, should be integrated within a coherent country-led framework. Responsibility and accountability for all conditions attached to the use of Fund resources reside with the Fund.

12. The primary relationship in this context is between the Fund and the World Bank and is based on a coordination framework that has been agreed between the two institutions.[1] A central element of that framework is the concept of "lead agency," according to which each agency takes the analytical lead within its core areas. When conditions in Fund-supported programs apply to measures that are not clearly within the Fund's core areas of responsibility

[1] See "Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality" August 23, 2001), at http://www.imf.org/external/np/pdr/cond/2001/eng/collab/coll.htm.

as set out in the guidelines, the design and monitoring of those conditions will, to the fullest extent possible, be based on the advice of the World Bank. Each institution should communicate its work and its views systematically to the other institution, in Board documents and meetings, on the substantive areas and conditionality with respect to which it is in the lead. When appropriate, the staff may also draw upon the work and advice of other multilateral institutions. The application of the lead agency framework should be flexible enough to accommodate the substantial areas of overlapping responsibility between the Fund and the Bank as well as differences in country circumstances. These overlapping areas include elements of financial sector work, some elements of public sector reforms, and issues of transparency, governance, corruption and legislative reform, trade policy, and debt management.

13. *Clarity* means that program-related conditions should be transparently distinguished from other elements of the authorities' program both in staff reports and in the member's program documents. In particular, although program documents, if the authorities so wish, may set out the authorities' broad policy agenda for national or international audiences, such documents as well as staff reports should clearly specify the parts of the agenda that constitute understandings on which continued access to Fund resources depends.

14. The guidelines on conditionality are supplemented by separate Board decisions and related documents, such as the guidelines on performance criteria with respect to external debt in Fund arrangements, guidance on the role of the Fund in governance issues, the decision on side letters and the use of Fund resources, and operational guidelines on the relationship between performance criteria and the phasing of purchases under Fund arrangements. In case of conflicts between this explanatory staff statement and the guidelines or other related Board decisions, the language in the relevant decision takes precedence.