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MAIN FINDINGS

The rationale of the EAP and the relevance of any changes will remain linked to the evolution of quotas and access limits. The quota-based nature of the Fund makes quota the formal basis for measuring access to Fund resources, but the relevance of quota-based access limits for members' BOP needs must be regularly examined. An effective EAP will depend on a sensible definition of access limits that recognizes members' changing financing needs relative to their quota shares and is mindful of the erosion of quotas relative to relevant metrics for several countries. At the same time, in the context of individual EA programs it will remain important for program documents to discuss access relative to a range of metrics in order to assess the relevance of proposed access levels for members' BOP needs.

The EAP marked an improvement on the Fund's previous ad hoc approach to EA. While retaining some flexibility for the Fund to help members resolve their BOP problems, it provided more guardrails to the wide discretion under the previous approach. In particular, it required the institution to consider deliberately and systematically key aspects of EA programs and related safeguards before moving ahead with approval of programs or reviews. The EACs provided a clearer basis for the Fund's decisions in EA cases, the enhanced procedures represented a more inclusive and systematic method of consulting the Board, and the EPEs provided a vehicle for learning and accountability.

Overall, while it has served a useful purpose, the EAP has not fulfilled its potential to provide stronger ex ante assurances in EA programs relative to NA programs. Due to design and implementation issues, such as gaps in clarity and guidance concerning some of the criteria and questions about some of the assessments, the EAP has only achieved partial success in delivering on that potential. It has been unable to fully achieve its objectives in terms of shaping expectations, providing clear benchmarks for program design and EA, safeguarding the Fund's resources by controlling risks, and ensuring uniformity of treatment. EA program completion and compliance rates were comparable to those of NA programs and, similar to NA programs, only a third of EA programs were successful.

The shortcomings in the design and implementation of the EAP have had costs for the Fund and for members. Key findings in this regard relate to the need for regular reviews of the EAP, perceptions of a lack of evenhandedness, a need to clarify in the EACs the higher standard relative to NA as well as the central role of program design, and the need to further strengthen EAP procedures, EPEs, and the alignment and coherence between the EAP and ERM. The use of the EAP at times may have led to delaying debt resolution problems and it has not catalyzed private financing to the extent the Fund envisaged when it was adopted. Like NA cases, EA programs have often been associated with successor programs or the repeated use of Fund resources, which in turn has resulted in a concentration of Fund exposure to a small group of countries with EA in recent years (Argentina, Egypt, Ukraine), with implications for how the Fund interacts with these members (to avoid arrears), its overall financial position, and its technical credibility.

Attempts to improve the EAP will require achieving a balance in the continuum between rules and flexibility and a recognition that any such choice will entail a cost-benefit trade-off. In adopting the EAP in 2002, the Fund avoided extreme solutions: it decided to move away from a largely discretionary framework while retaining flexibility for the Fund to play its mandate in the global financial safety net. For example, the Fund rejected the notion of adopting hard caps on EA, incorporated a measure of judgment in assessments of the EAC, and for some years kept open the option of using the EC clause when not all of the criteria were met. However, the analysis of the experience under the EAP, a largely rules-based framework, reveals that it has often led to certain tensions when flexibility was needed to address broader strategic considerations. Thus, there seems to be merit in the idea of improving the design and applicability of the criteria that guide EA decisions, while adopting a mechanism that provides for flexibility in a manner that is transparent and subject to sufficient justification. Any framework will entail a trade-off between costs and benefits, and it will depend crucially on decision-makers' willingness and capacity to implement it.

EVENHANDEDNESS AND TRANSPARENCY

The lack of dedicated reviews of the EAP since 2004 missed opportunities for the Fund to consider experience with the policy in a comprehensive manner. In 2004, Directors agreed that future reviews of the EAP should be undertaken at the same time as regular reviews of access policy in the credit tranches. The modifications of the EAP on several occasions, as well as reviews of related policies, have involved deliberation over particular aspects of the EAP (such as the debt sustainability criterion). But, by not periodically reviewing the EAP, the Fund has missed opportunities to examine how the policy as a whole is working relative to its objectives, those objectives themselves, EAP implementation, the coherence of the policy's various components, and its relevance and effectiveness. It has also led to a situation where the EAP has been adjusted not on a regular basis but in response to the circumstances of particular countries, giving rise to perceptions of un-evenhandedness.

There has been a tension between the rules represented by the EACs and the flexibility that the Fund has needed to address members' different circumstances and to accommodate higher-order strategic considerations. These tensions have been resolved by ad hoc changes to the EAP (for example, the systemic exemption in 2010), adjustments in related policies (for example, the higher access limits in 2022–23 that allowed some programs to keep within NA limits and not be subject to EAP), or reviews of the EAC (for instance, the introduction of the gray zone, which effectively relaxed EAC2). However, at times they have been harder to resolve, and doubts have arisen about how the Fund reached judgments that the EAP was being met. Before 2009, the Fund used the EC clause to approve EA in the event that one or more EACs were not met. After 2009, however, the EAP became binding across EA cases.

A pervasive criticism has been that, in the face of internal or external pressure, staff had to "reverse engineer" the assessment of the EACs. Even without such pressure, staff's professional incentives may have led to biases in favor of moving ahead with programs. In some cases, there were strong disagreements within staff on the diagnosis on EACs' fulfillment and concerns about how the decision-making processes were handled. While internal and external perceptions of biased assessments have persisted, eroding the credibility of programs and the Fund's reputation, this evaluation did not find direct evidence of reverse engineering. The evidence suggests that when staff and management presented programs to the Board for approval, they judged the programs to have reasonable chance of success and presented the risks involved clearly and explicitly.

The Fund would be well served to develop options for achieving more evenhanded and transparent application of the EAP. Doing so would require balancing better the Fund's need for adequate flexibility and pursuing the objectives of the EAP. Any effective solution would entail a transparent recognition of the risks and trade-offs involved in program design, clearer ownership of decisions across the Executive Board, management, and staff, as well as closer involvement of the Board in decision-making on EA programs as originally envisaged. Ideally, regular reviews would be the appropriate vehicle for adapting the EAP in response to experience and emerging circumstances. However, in between regular reviews, there may be situations when a member does not clearly meet all of the EACs but strategic considerations may warrant the

Fund providing EA. In this context, stretching the flexibility within the EACs can provide a false sense of security, set difficult precedents for the interpretation of the EAP criteria, and raise risks for the credibility and evenhandedness of the EAP and related decisions.

An option in such circumstances is to conduct an interim review of the policy. With this alternative, any changes to the policy would be well defined, explained, and justified through a Board paper and then applied consistently to all other members. While an interim policy review would help transparency, there may not be time for due deliberation in times of crisis, also given the current context of a shock-prone global economy. It can also generate credibility and uniformity of treatment issues—if the policy is perceived to be changed only for high-stakes cases and pressures from part of the membership—and lead to too many changes in the policy if modifications are later perceived as ad hoc (for example, the experience with the introduction and later removal of the systemic exemption clause).

Another option is use of an EC clause in rare, well-justified cases as a way to preserve the strengths of the EAP, enhance transparency, and mitigate reputational risks. In cases where the Fund may wish to consider an EA request for strategic reasons even if one or more of the EACs are not met, an EC clause would provide a more transparent way to do so. This option would need to be invoked rarely, with each case being justified on its own terms, having appropriate safeguards, including sound program design and capacity to repay the Fund, and clearly disclosing related enterprise risks before approval by the Board. Pressures from the membership would be made more explicit as the majority of the Board would have to approve the program with an EC clause, possibly with additional safeguards provided by some of its members. The Fund will need to pay careful attention to evenhandedness and to communications that mitigate adverse market reactions. The 2002–09 experience with concurrent use of the EC clause and EAP may provide useful lessons.

EA PROGRAM DESIGN AND OUTCOMES

Policy choices in EA programs did not differ significantly from NA programs. The policy framework for EA program design, like that for other programs, reflected the broader professional consensus in terms of fiscal and monetary policy, as well as structural reforms, for promoting macroeconomic and external stability. However, while initial conditions differed across EA cases, the policies adopted were broadly similar, comprising fiscal adjustment, monetary tightening and greater exchange rate flexibility where relevant, and structural reforms to lift potential growth; while largely avoiding debt restructuring, CFMs, and macro-prudential policy changes. The EACs seemed to have had little effect on program design. The ex ante justification for EA policy choices provided in staff reports often relied on the argument that they would restore investors' confidence, and thus capital inflows, although the argument was usually asserted rather than explained analytically. Similarities in program design across countries in different circumstances may contribute to perceptions of lack of evenhandedness.

Program outcomes in EA programs were little different from NA programs. While the EAP is about ensuring adequate ex ante safeguards, it is also instructive to examine program outcomes. Completion and implementation rates of EA programs were similar to those of NA programs. Using the 2018 ROC definition of program success (which is defined in terms of no successor disbursing program in the years immediately after the program nor high remaining vulnerabilities), about one-third of programs can be considered successful and another third partially successful. The pattern suggests that BOP problems were often not fully resolved, leaving high remaining vulnerabilities after EA programs and a need for successor programs. The fact that high implementation rates did not lead to high success rates suggests a need to reexamine the adequacy of program design. The greater overoptimism in EA programs' growth and fiscal forecasts relative to NA programs represents a potential design issue. EA programs also had weaker, and even negative, catalytic effects. Some of the country evidence suggests that the build-up of IMF credit may have deterred private investors whose claims are subordinate to Fund and other official claims and prolonged members' BOP needs.

The succession of programs raises questions about lending instrument and program phasing. While success rates have not been systematically different by type of lending instrument, some country cases have raised issues of short program duration relative to the BOP problems being addressed, resulting in successor programs. Further, the extension of the EAP in 2009 to non-capital account BOP crises raises questions about length and frontloading of programs. While the original EAP was designed for capital account crises, which often required frontloading of disbursements to address confidence effects, the need for frontloading is less clear in non-capital account crises, where there is a larger need to address structural problems. Normally, the phasing of disbursements and adjustment should be broadly aligned in order to ensure that the member benefits from Fund support as it undertakes adjustment measures. Where the two are not aligned—for example, if disbursements are frontloaded but adjustment is backloaded—the justification needs to be clearly articulated and the risks laid out (see, for example, Alfaro and de Las Casas, 2024). In addition, EAC4 assessments prove particularly difficult when the program's phasing involves frontloaded disbursements but backloaded adjustment, as they may go beyond the concurrent political cycle.

Program design in EA cases would benefit from a clearer disclosure of trade-offs and risks. Given that EA arrangements typically are designed and implemented in conditions of fundamental uncertainty, they should require an explicit recognition and explanation of the risks involved, matching them with adequate measures in coherent program design—including in terms of phasing and frontloading, type of facility, and length of program. In building and explaining strong programs, staff should more clearly articulate and justify the specific policy choices and related trade-offs, including the ways in which debt sustainability will be achieved or maintained. This extra layer of ex ante justification would not necessarily imply additional fiscal adjustment or more demanding conditionality, but it would provide an ex ante corroboration of program adequacy and ownership.

EAP CRITERIA AND PROCEDURES

The EACs have served a useful purpose by compelling a considered deliberation of key safeguards, but their usefulness for fulfilling the objectives of the EAP has been undermined by gaps in both design and application. Key gaps include: (i) on EAC1, once the BOP need has been determined to be above NA limits, there is little additional scrutiny of the access level to assess related risks and uniformity of treatment; (ii) on EAC2, the acceptance of debt being in the gray zone beyond the program period may be associated with less urgency for restructuring and for stronger program design although, at the same time, this allows the Fund flexibility to remain engaged in difficult cases where problems may be extended; (iii) the terminology for EAC2 in the gray zone—"sustainable but not with a high probability"—has been confusing for many stakeholders; (iv) the linkage between EAC2 and EAC3 is not sufficiently analyzed, as EAC2 can effectively be met by a reliance on market access assumptions (EAC3) that are not grounded in any consistent framework; and (v) the absence of frameworks or sharper guidance for assessing EAC3 and EAC4, and a lack of clarity about how they provide a substantive higher standard relative to NA programs. In this respect, EAC3 lacks clarity on whether market access refers only to external or also to domestic market access and on the terms at which market access can be considered regained (for example, access at unsustainably high rates should not be deemed consistent with EAC3). Finally, the application of EAC4 is assessed on an ad hoc basis driven by country circumstances with a strong focus on assessing the institutional and political capacity to deliver the adjustment rather than on a clear explanation of the policy program and its prospects for success.

Once a program is underway, assessments of the EACs during program reviews have rarely changed. For example, increases in BOP needs have led to program augmentations, but positive BOP surprises have only rarely led to reductions in access or exits from programs with little change in assessments of EAC1. More generally, with a few notable exceptions, assessments of the other EACs also have generally remain unchanged, raising a question about whether they continue to provide the higher standard associated with EA programs once the program is underway.

The enhanced decision-making procedures under the EAP have helped provide additional information to the Board, but overall they have fallen short in facilitating the intended level of Board involvement. Informal sessions with the Board were held promptly after staff had informed management that a member needed a Fund program with EA, and the Board was provided with a concise note ahead of these sessions. However, overall, the Board has not been given enough information and time to provide meaningful inputs, nor has it always been consulted as the policy intended. While due regard needs to be paid to staff and management's room for maneuver in negotiations, the authorities' prerogatives, and confidentiality, the application seems to have fallen short of expectations.

The timing and procedures for the separate analysis of financial risks for EA cases may have limited its usefulness for decision-making. The financial risk supplement provides considerable additional information relative to staff reports for NA cases. However, its impact on the Fund's access decisions is limited because it is prepared toward the end of the program cycle rather than at the outset, when the informal Board consultations are held. Also, the supplement has generally been circulated to the Board after, not before, the program documents. In terms of signatory authority, the supplement is cleared by SPR, which also clears the program documents. A similar practice applies to the ERAs that recently have started to accompany EA program documents. In all such cases, ORM provides comments in the course of the internal review process but that falls short of the challenge function a second line of defense could play to ensure robust ERM.

The analysis of EA cases under the EAP shows the importance of careful management of communications for program credibility and effectiveness and for the Fund's reputation. The evaluation shows how communications problems—such as those that lead to uncertainty regarding the status of negotiations, the nature of the program, or access levels and phasing—can undermine program credibility, execution, and success. By contrast, careful and well-coordinated communications can contribute to program goals. Good communications are important beyond EA cases but, as arrangements grow larger and riskier, the sensitivity to communications grows. This points to the need for clear guidance, maybe within the EA framework, to help ensure successful program communications between staff and authorities, and joint communications of the authorities and the Fund with third parties.

The Fund has not used EPEs to their full potential. The sample studied includes several strong EPEs, but in aggregate EPEs' effectiveness has varied. EPEs assessed relatively well programs' consistency with IMF policies and performance against program objectives. But generally, they are weaker at assessing the appropriateness of program design because there is insufficient questioning of fundamental assumptions and limited evaluations of the pros and cons of alternative approaches. Typically, EPEs do not influence the design of subsequent programs, they do not successfully identify common issues across countries, and they do not inform the development of IMF policies and procedures. Even when EPEs are strong and present clear lessons, the lack of an adequate follow-up mechanism diminishes their usefulness and effectiveness. The role of area departments in selecting the EPE team lead and of SPR in clearing EPEs may limit the independence and candor of the evaluations.

ENTERPRISE RISK MANAGEMENT

The EAP and the Fund's ERM policy are complementary but came into being at different times and are not yet fully coherent and aligned. While the rationale and design of the EAP include elements of ERM, such as the mitigation of financial risks through associated safeguards, and of reputational risks through enhancing expectations and uniformity of treatment, these were not articulated in terms that are consistent with the Fund's ERM policy adopted in 2022. Conversely, the ERM policy does not articulate how application of the EAP affects risk mitigation and the level of residual risks associated with EA programs as well as their comparison with the Board-approved risk tolerance statements. The linkage between these risk tolerance statements and assessments of financial and other enterprise risks in EA cases needs to be clarified and quantified. The policies also need to reflect the risks associated with the Fund not providing EA support, especially when there may be doubts about whether the EACs are met.