



RECOMMENDATIONS

Based on the foregoing analysis, the evaluation proposes five recommendations that aim to improve the usefulness of the EAP. The recommendations cover both strategic and technical elements and seek to improve the balance between rules and flexibility and to strengthen transparency and accountability, while ensuring that higher access is accompanied by adequate safeguards, consistent with the Fund’s lending guidelines.

Recommendation 1. Exceptional Access Policy Review: The Fund should conduct a dedicated review of the EAP and schedule subsequent reviews on a regular basis. EAP reviews should take due account of strategic considerations, including the adequacy of existing access limits and the balance between rules and flexibility within the policy.

Some suggestions include the following (see also Recommendations 2–5):

- ▶ *Regular reviews.* Regular, thorough, and inclusive reviews should be the main vehicle for making changes to the EAP, to be applied in a uniform and effective manner. These reviews could take stock of how the policy is serving the Fund’s objectives in a changing global environment and assess performance with respect to the policy’s objectives, relevance, and effectiveness; the working of the various EAP elements (criteria, procedures, and EPEs); the higher substantive standards provided by the EACs relative to NA; the coherence between the EAP and related policies and facilities in the IMF’s lending framework (including between the GRA-EAP and PRGT-EAP/PS-HCC).
- ▶ *Adequacy of existing access limits.* Notwithstanding periodic access limits reviews, EAP reviews should take due account of how effectively existing access limits serve members’ BOP needs, the evolving circumstances and needs of the membership, and quota erosion. The assessment should consider the consistency between the design of the EAP and the types of crises to which it is applied, including whether certain financing (such as emergency financing) may be carved out from the access limits (so-called “additionality”).
- ▶ *Transparent use of flexibility.* The Fund may face urgent situations when strategic or political considerations may call for decisions on EA programs that do not meet all of the EAC. To enhance the transparency of these decisions and protect the credibility of the EAP framework, the Fund may consider the use of an EC clause in rare, well-justified cases with adequate safeguards, including a strong program and possible additional third-party safeguards, and with clear disclosure of enterprise risks to the Board. The subsequent EAP review could consider if the use of the EC clause warrants any change to the policy.

Recommendation 2. Program Design: The Fund should clarify the fundamental role of sound program design in providing higher safeguards in EA cases relative to NA. Program staff reports should provide justification for the policy choices and trade-offs embedded in program design and how they support reasonably strong prospects for program success, including the authorities' political and institutional capacity to implement the program. Related risks should be clearly disclosed to the Board.

Some specific suggestions are as follows:

- ▶ *Justification of program design.* Program staff reports should clearly articulate the reasons for key policies chosen, how trade-offs were treated, including the risks of not having an EA program, and the consistency of program design with reasonably strong prospects for program success and adequate safeguards. Program design should address the expected path to debt sustainability, the impact of changes in growth assumptions (for example by better integrating the DSA realism tools in macro-frameworks), and how the Fund's catalytic role is expected to operate. Given that EA arrangements typically are designed and implemented in conditions of fundamental uncertainty, a clear disclosure of risks to the Board will be important in internal discussions.
- ▶ *Refocusing of EAC4.* To acknowledge the criticality of program design in providing adequate safeguards, an enhanced EAC4 focusing on the key elements that underlie a "reasonably strong" prospect of program success could be moved up in the list of criteria emphasizing the coherence of all program components and the interrelation of the different EACs.
- ▶ *Guidance on political and institutional capacity.* Staff should develop clearer guidance for assessing authorities' political and institutional capacity to deliver on the program and program ownership. This includes assessing the impact on the most vulnerable, the adequacy of social protection measures, and political developments foreseen

during the program (further research would be useful to analyze political risks to programs).

- ▶ *Program duration and phasing.* The duration, phasing and frontloading of programs needs to be calibrated to members' needs and the nature of the BOP problems. Such considerations should pay attention to strengthening debt sustainability under the program and maintain flexibility over the appropriate type of lending instrument.
- ▶ *Guidance on communications.* Integrating the elements above, and to protect the prospects of program success, the EAP could recognize the criticality of public communications in EA cases. Building on the current guidance for conditionality and program design, the EAP could point to the key dimensions to be taken into account when publicly presenting an EA program, covering both staff's own messaging and communications to be handled jointly with the authorities.

Recommendation 3. Exceptional Access Criteria 1-3: To address technical gaps in the EACs, facilitate better alignment with the policy's objectives, and enhance evenhandedness the Fund should (i) increase the level of scrutiny for access decisions; (ii) clarify expectations when debt is in the "gray zone," revisit its terminology to strengthen signaling, and clarify the distinct roles of the different types of debt and creditors for debt sustainability; and (iii) develop consistent analytical guidance to assess market access prospects.

Some specific suggestions are as follows:

- ▶ *EAC1.* Possible enhancements to staff reports include the following: presenting cross-country comparisons of access as well as country-specific comparisons of access levels with alternative metrics (complementing the use of quotas as the formal basis for determining access limits); greater scrutiny of access decisions for cases with debt in the gray zone to reflect how EA may affect the member's future BOP stability and its effects on catalytic financing and repurchase obligations; and

a discussion of options for how the member could respond should financing needs turn out to be significantly greater or smaller than envisaged. For better analysis of evenhandedness, area departments should keep track internally of countries that express interest in EA.

- ▶ *EAC2 and EAC3.* Measures to improve these criteria could include: for EAC2, clarifying the distinct roles of domestic and external public debt and of the different types of creditors in assessments of debt sustainability, building on experience gained with the SRDSF; clarifying expectations that gray zone cases would return to sustainability with high probability by the end of the program in order to ensure adequate incentives for strong program design (and for restructuring where needed); revisiting the terminology and signaling of “debt sustainability with high probability”; and, for EAC3, developing more consistent forward-looking guidance to support assessments of market access prospects—such guidance should not be about binary yes/no assessments but could help clarify a more consistent basis for expectations with respect to international and domestic market coverage and the terms (maturities, prices) on which market access can be considered to be (re)gained.

Recommendation 4. Exceptional Access Policy Procedures and Ex Post Evaluations: The Fund should strengthen the application of the EAP’s enhanced procedures and adopt measures to better leverage EPEs for risk mitigation, accountability, and learning.

Some specific suggestions include the following:

- ▶ *Enhanced decision-making procedures.* Contributing to the legitimacy and clarity of EA

decisions, measures to strengthen the application of EA procedures by staff and management should include: adhering to the requirement to consult the Board before concluding discussions on an EA program and before any public statement on a proposed level of access; better meeting the expectations for additional informal sessions as needed (with flexibility on the timing, content, and format based on circumstances); increasing time for circulation of the materials for the informal sessions (to at least 24 hours, in order to recognize the diversity of time zones); and seeking to enhance the information provided to the Board while preserving management’s room for maneuver and staff’s flexibility in negotiations, and respecting authorities’ prerogatives.

- ▶ *Ex post evaluations.* EPEs would benefit from more systematic follow-up by staff, fuller focus on their mandates, and greater attention by the Board to enhance their designated role and justify the resources devoted to them. Specific measures could include: ensuring that EPEs assess the appropriateness of program design, question fundamental assumptions, and evaluate alternative approaches; discussing EPEs in standalone Board meetings sufficiently ahead of any new program approvals; and systematic stocktaking and follow up of their recommendations in the EAP reviews. Management and staff should ensure that EPE leaders and teams have adequate independence, including by revisiting the roles of area departments in team selection, timing, and clearance of EPEs; and the role of SPR in clearing both the EPEs and program documents. For example, a roster of candidates for EPE leads could form the basis for appointing leaders, and an interdepartmental group could be formed to review EPEs.

Recommendation 5. Enterprise Risk Management: The Fund should establish greater coherence between the EAP and the IMF’s ERM policy. It should seek to ensure a common institutional understanding of how the EAP serves to mitigate enterprise risks consistently with the Fund’s risk tolerance in lending.

Specific suggestions include the following:

- ▶ *Consistency.* EAP provisions should be consistent with the Fund’s ERM and, conversely, the ERM policy should take account of the risks associated with EA and their mitigation by the EAP. For example, they should confirm and clarify how application of the EAP mitigates residual risks within the Fund’s established risk tolerance in lending, which is guided by the Fund’s role to help resolve members’ BOP problems with adequate safeguards.
- ▶ *Risk analysis in program documents.* EA program proposals should build on recent progress to enhance the presentation of enterprise risks in EA program cases, including with an enterprise risk assessment provided ahead of Board decisions as well as improved and more timely financial risk supplements (for example, at the time of the informal Board consultations).
- ▶ *Office of Risk Management.* From a risk management perspective, as ORM develops its capacity over time, it could be given greater responsibility for the supplements as the second line of defense.

BUDGETARY IMPLICATIONS

A dedicated review of the EAP would need to be adequately resourced. While acknowledging the high work pressures in a real flat budget environment, addressing the issues raised in the evaluation would involve new work relative to plans. In part this owes to the build-up of issues during the long period since the last review: future reviews, undertaken on a more timely basis, should involve lower

marginal cost. The initial review could encompass several of the recommendations, including a plan for regular reviews, a consideration of strategic options for use of the EAP, and improvements to the criteria, procedures, and EPEs. Closer Board engagement and attention to EPEs would add work for both staff and the Board.

Where relevant, some recommendations could be taken up in already-planned policy work to benefit from synergies. The reviews of access limits, conditionality, and GRA facilities and policies should be complementary with the recommendations, as the EAP review could help to avoid duplication and lighten some of the load of these reviews. Some recommendations reflect a need for the EAP to catch up with practice—such as with respect to the circulation time of the concise notes for informal consultations—and should be low cost. Achieving closer alignment between the EAP and the ERM policy could be taken up as part of the ongoing efforts to strengthen ERM across the Fund, including the ERAs initiated more recently for EA (and other) programs, but these may require work beyond what is currently envisioned by staff and management.

ENTERPRISE RISK MANAGEMENT

The recommendations would help to mitigate key enterprise risks associated with the EAP as currently formulated and implemented. In turn, addressing them would entail related risks and leave the Fund with residual risks to address within the framework of its ERM policy (Annex 8). The risks associated with the lack of regular reviews can undermine the legitimacy of the EAP and have a significant business impact by weakening the Fund’s lending framework. The identified gaps and weaknesses in the design and implementation of the EACs, procedures, and EPEs carry major business, reputational, and strategic risks—given their scope to weaken the safeguards provided by the EAP and the Fund’s credibility. The recommendations would also help improve the Fund’s consideration of risks associated with not going ahead with an EA program or review. Implementing the recommendations may have some budgetary costs, as noted, and a key mitigation for these risks would be to consider them in already-planned facilities/policy reviews.