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Strengthened Decision-Making Procedures Under Exceptional Access Policies

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ABBREVIATIONS

BOP	Balance of Payment
EA	Exceptional Access
EAP	Exceptional Access Policy
EFF	Extended Fund Facility
FIN	Finance Department (IMF)
GRA	General Resources Account
HAC	High Access (PRGT) Cases
LIC	Low-income Country
NA	Normal Access
PLL	Precautionary and Liquidity Line
PN	Policy Note
PRGT	Poverty Reduction and Growth Trust
RFI	Rapid Financing Instrument
SBA	Stand-By Arrangement
SLL	Short-term Liquidity Line
SPR	Strategy, Policy and Review Department (IMF)
SRDSF	Sovereign Risk and Debt Sustainability Framework
UFR	Use of Fund Resources

EXECUTIVE SUMMARY

Strengthened decision-making procedures for exceptional access (EA) in the General Resources Account (GRA) were first adopted in 2002, while similar procedures for the Poverty Reduction and Growth Trust (PRGT)-EA were adopted in 2009. These additional procedural steps were intended to ensure adequate care was exercised in decision-making given the increased risks involved. These decision-making procedures rest on three pillars: early informal Board consultations; a greater burden of proof in program documents; and an ex post evaluation. This background paper examines the first two pillars, while another background paper (Chopra and Li, 2024) examines the third pillar.

As required under the EA Policy (EAP), a concise note with a preliminary assessment using the relevant EA criteria, was “promptly” circulated to the Board after staff had informed Management of a member’s need for a Fund-supported program with EA. The circulation period prior to the informal Board meeting averaged about 2½ days, but in nearly half the cases, the period was one day or less, which made it difficult for Executive Directors to obtain inputs from their capitals as envisaged under this policy. The topic coverage of these staff notes was in line with the subject areas established in the EAPs, although about one-third of the GRA-EA cases did not specify the proposed access level even though an access proposal was made to management in a contemporaneous Policy Note (PN). The PN prepared for Management was typically triple the length of the concise note provided to the Board. As a consequence, the Board was not as well informed by staff as was Management, producing decision-making based upon asymmetric information.

After the initial informal consultation, additional consultations would “normally be expected” during program negotiations. Utilizing SEC’s electronic Board calendar, the IEO only found such additional consultations in about 20 percent of the EA cases. The GRA-EA policy also specifies that Management will consult with the Board before concluding discussions on a program and any public statement on a proposed level of access. Again, based upon SEC’s electronic Board calendar, the IEO was only able to find such consultations in less than one-third of the EA cases. Even when these informal sessions did take place, it was typically on the same day as the public announcement, which did not give sufficient time for effective consultation by Executive Directors with their capitals.

This inconsistent policy application suggests an uneven treatment of members. Even where the policy was consistently applied, the Board’s decision-making role was frequently hampered by too little information and too little time to consult with capitals. Consequently, their impact on program design, conditionality, and access/phasing, were difficult to discern.

A higher burden of proof in use of Fund resources (UFR) documents was mandated for EA programs. This higher burden related to discussions of proposed access, to a rigorous analysis of debt sustainability, and to assessment of the Fund’s credit and liquidity risks. In reviewing the UFR staff reports for GRA-EA and for GRA-NA cases, it was difficult to discern a significant

difference in the tables or textual presentation related to the external financing requirement and proposed level of access, except that the corresponding balance of payments (BOP) need was exceptional. Turning to the debt sustainability analysis, the same tools were utilized by staff for EA and NA programs, but the risk-based sustainability threshold since 2015 has been set higher (80 percent) for EA cases than for NA cases (50 percent). In addition, all UFR documents regardless of proposed access are required to assess program ownership and implementation risks including those related to technical and institutional capacity constraints. The analytical presentations made related to the timing, and volume, of future access to capital markets is also not noticeably different between EA and NA documents. Finally, the Guidance Note on Program Design and Conditionality does not explain how the higher burden of proof is to be concretely met in EA documents compared to evidence provided in NA documents.

The higher burden of proof related to the risks facing the Fund’s GRA exposure and liquidity has been met by a separate supplement prepared by Finance Department (FIN) and Strategy, Policy and Review Department (SPR). These supplements have broadly similar formats and provide indicators that are not typically provided in UFR staff reports for NA programs. While risk assessments are made, the linkage to these indicators is not straightforward and a rubric explaining their usage, such as exists for a Board summing up, would be highly useful. This detailed financial risk analysis is prepared only at the end of the program cycle (formal Board meeting) rather than at the outset (informal Board session or policy note). Thus, its impact on decisions related to access, program design, and conditionality, is clearly limited. Its impact could also be enhanced by having a clear challenge function, for example by having the Office of Risk Management (ORM)—the second line of defense in the Fund’s risk management framework—prepare such a supplement supported by FIN rather than having a supplement prepared jointly by FIN and SPR, who cosigns the other UFR documents with the area department.

The Board only adopted in 2022 a formal policy on Enterprise Risk Management, twenty years after the framework for the GRA-EAP was first approved. The GRA—and PRGT—EA policies have not been updated to integrate them into the new Enterprise Risk Management framework. In this context, EA programs appear to be no more successful (30 percent) than NA programs when success is defined as in the 2018 Review of Conditionality in terms of reducing vulnerabilities and resolving BOP problems (evidenced by the absence of a follow-up disbursing arrangement).

I. INTRODUCTION

1. **This thematic study examines the strengthened decision-making procedures adopted during 2002–04 to mitigate the additional risks associated with exceptional access (EA) to General Resource Account (GRA) resources and to enhance accountability.**¹ The evolution of Exceptional Access Policy (EAP) is examined in a background paper (Abrams and Arora, 2024). Enhanced decision-making procedures for exceptional, as well as high, access to the Poverty Reduction and Growth Trust (PRGT) were introduced in 2009 (IMF, 2009) and upgraded in 2019 (IMF, 2019). This paper reviews these decision-making procedures from the time that they are triggered to the time that the Executive Board approves the request to use Fund resources (UFR). It attempts to shed light on whether these procedures were followed with sufficient rigor and evenhandedness and worked as intended; did the Board have sufficient and timely access to comprehensive information; and were the procedures fit-for-purpose in practice?

2. **To address these and related questions, this paper conducted a desk review of relevant policy and country documents,** such as Policy Notes (PNs), studied staff statements on EA prepared for informal Board sessions and transcripts or memoranda for files of such sessions, interviewed current and former staff and Executive Directors, and benefited from past IEO evaluations (IEO, 2004 and 2016), especially the two background papers for 2016 evaluation (de Las Casas, 2016; Kincaid, 2016). The other thematic papers and the country studies for the evaluation also informed this background paper. The objectives and design of the strengthened decision-making procedures are examined in the next section before turning to their implementation. Conclusions are presented in the final section.

II. OBJECTIVES AND DESIGN OF DECISION-MAKING PROCEDURES

3. **In the wake of the 2000–01 crisis in Argentina, the IMF drew lessons quickly related to crisis management and decision-making processes** (for example see, Collyns and Kincaid, 2003; Daseking and others, 2004; and IEO, 2004). One common conclusion was that the oversight role of the Executive Board needed to be strengthened in cases of EA by enhancing the flow of timely and candid information to the Board, albeit with safeguards to maintain strict

¹ Exceptional GRA access means access above normal annual or cumulative limits established for the lending instrument (e.g., currently Stand-By Arrangement (SBA), Extended Fund Facility (EFF), Rapid Financing Instrument (RFI), Short-term Liquidity Line (SLL), and Precautionary and Liquidity Line (PLL)). Exceptional Access Policy/procedures are not applicable to the Flexible Credit Line (FCL), which has no access limit as it relies instead on ex ante eligibility criteria; six countries have thus far been granted FCLs (Chile, Colombia, Mexico, Morocco, Peru, and Poland), but only one (Colombia) has drawn upon its FCL.

confidentiality.² Indeed, it was intended that the Board should then become the decision-making locus, rather having critical decisions “taken outside the Board in direct interactions between Management and major shareholders” (IEO, 2004). Also, more attention needed to be given to the implications of EA for IMF liquidity and its balance sheet risks.

4. As a result, strengthened decision-making procedures were first adopted in 2002 (IMF, 2002a; b).³

Procedures for “early and more formal Board consultations on program negotiations” were formalized in 2003 (IMF, 2003a; b) and the strengthened decision-making procedures were extended to any case of EA—“even when the member is not experiencing a capital account crisis.”⁴ In such an event, Executive Directors are still informed of staff’s assessment regarding the remaining exceptional access criteria (EAC). These practices were further enhanced in 2004 by adding more in-depth scenario analyses of the financial impact on the Fund and explicit recognition of costs to borrowers and creditors of members incurring arrears to the Fund (IMF, 2004a; b).

5. These new decision-making procedures rest on three pillars (Box 1). One, requirements for early informal Board consultation on program negotiations were formalized. According to the summing up (IMF, 2003b), this meeting would “provide the basis for consultations with capitals and the issues that emerge would be addressed in a further informal session.” Two, a greater burden of proof was to be provided in program documents sent to the Board. These documents should have a thorough discussion of the need and appropriate level of access, including a table to gauge access levels against broader metrics; a rigorous debt sustainability analysis, an assessment of credit and liquidity risks to the Fund, including in-depth scenario analysis; systematic and comprehensive information on capacity to repay the Fund; and an explicit recognition of costs to borrowers and creditors of members incurring arrears to the Fund. Three, an ex post evaluation (EPE) was mandated within a year after the end of the EA

² Strengthened EA decision-making procedures should be benchmarked against the usual decision-making procedures employed for negotiating IMF-supported programs with normal access (NA). After a country’s authorities approach the IMF, staff in the relevant area department prepare a policy note (PN) that is reviewed by designated functional departments. A revised PN, incorporating departmental comments along with a memo cosigned by SPR flagging any unresolved issues, is sent to Management for its approval and/or adjudication of unresolved issues. The Board is not normally involved in program negotiations (but the Executive Director representing the country is involved), and typically the Board first learns of program details when a press release announces that a staff-level agreement on an IMF-supported program has been reached *ad referendum*. In due course and after Management’s approval, a staff report requesting the use of Fund resources (UFR) is circulated to the Board. Such UFR requests only very rarely are not approved by the Board, owing to damaging implications for the Fund’s credibility and the country’s adjustment strategy.

³ As was recognized in the 2002 Summing Up, “the exceptional circumstances clause may continue to be needed occasionally also for balance of payments problems in the current account.” This clause permits lending above established access limits “under exceptional circumstances” (IMF, 2002b). The EAP was an effort to structure and constrain use of this clause. One implication of the exceptional circumstances clause is that if any of the four EA criteria are not met, GRA lending is still permissible.

⁴ In 2009, the first EA criterion was changed to potential, as well as actual, BOP needs stemming from current account, as well as capital account, pressures. Prior to that change precautionary lending with EA and EA lending related to current account pressures was granted under the exceptional circumstances clause.

arrangement. Experiences with the EAC and with the EPEs are examined in separate background papers (respectively, Bal Gunduz; Erce; and Chopra and Li, all 2024). These procedural steps were intended to ensure that adequate care was exercised in decision-making for EA and to “give more credibility to the necessary judgment about whether the increase in Fund exposure is prudent in view of the exceptional risks involved.”

Box 1. Informal Board Consultation Procedures for GRA Exceptional Access

These procedural modalities had several features:

- (1) Once Management decides that EA may be appropriate, it will consult with Board promptly in an informal meeting that will provide the basis for consultation with capitals and help identify issues that would be addressed in a further informal session.
- (2) Directors are to be provided a concise note circulated at least two hours before the informal meeting that includes as fully as possible: (i) a tentative diagnosis of the problem; (ii) the outline of the needed policy measures; (iii) the basis for judgment that EA may be necessary with a preliminary evaluation of the four substantive criteria, and including a preliminary analysis of external and sovereign debt sustainability; and (iv) the likely timetable for discussions.
- (3) Before the Board’s formal consideration of the UFR staff report additional consultations will normally be expected to keep the Board abreast of program-financing parameters including: (a) assumed rollover rates; (b) economic developments; (c) progress in negotiations; (d) any substantial changes in understandings; and (e) any changes to the initially envisaged timetable for Board consultation.
- (4) In this connection, staff will provide the Board with a separate report evaluating the case for EA based on further consideration of the four substantive criteria, including debt sustainability. Where time permits, this report will be provided to the Board in advance of the circulation of program documents. In all cases, this report will be included with the program documents.
- (5) Management will consult with the Board specifically before concluding discussions on a program and before any public statement on a proposed level of access.
- (6) Strict confidentiality will need to be maintained and public statements by members, staff, and management should take special care not to prejudge the Board’s exercise of its responsibility to take the final decision.

Sources: IMF (2003b; 2004b).

6. While this evaluation and background paper focuses on GRA lending, some comparisons to PRGT-EA framework are useful. In July 2009, the Executive Board adopted a comprehensive of the framework for the Fund’s concessional lending to low-income countries (LICs).⁵ While the PRGT had a provision to exceed normal access (NA) limits in exceptional circumstances, the nature of those circumstances was not defined until 2009. (Exceptional PRGT access before 2009 was granted only in the context of arrears clearance by Zambia (1995).) The Board established four criteria for eligibility for PRGT EA and set procedures for high (PRGT) access cases (HAC)⁶ and for exceptional PRGT access (see Box 2). As the latter is above the HAC

⁵ Concessional lending instruments currently include Standby Credit Facility (SCF), Extended Credit Facility (ECF), Rapid Credit Facility (RCF), and Resilience and Sustainability Facility (RSF).

⁶ Initially, high access cases were defined as 180 percent of quota for a PRGF arrangement, or 90 percent of quota for an ESF, and for PRGT augmentation of more than 60 percent of quota. Now these procedural safeguards are triggered at 180 percent of quota over a 36-month period (“flow trigger”), or credit outstanding of 225 percent of quota (“stock trigger”).

threshold, all PRGT-EA cases must meet HAC procedures. To safeguard the Fund's concessional resources and allow for timely appraisal of potential debt vulnerabilities, procedures related to the early involvement of the Executive Board were approved. These PRGT procedures and criteria were related to, but distinct from, those applicable to GRA-EA. This paper will not examine the HAC procedural safeguards, but rather discuss those safeguards that apply to cases of exceptional PRGT access. Owing to the scarcity of the Fund's concessional resources, exceptional PRGT access was made subject to hard caps (applying across all concessional facilities) that were defined on a flow basis (initially, 150 percent of quota per year) and a cumulative basis (initially, 450 percent of quota per year).⁷

Box 2. Informal Board Consultation Procedures for PRGT Exceptional Access*

An early informal Board meeting should normally take place as soon as Management concurs that a new request involving exceptional, or high, access, could be appropriate and before the negotiation mission. A new DSA is required when a financing request under the PRGT involves EA. The informal meeting would alert staff to Directors' concerns on key aspects of the prospective program. Information supplied to the Board would typically be contained in a short note explaining:

- the factors underlying the large balance of payments need, taking into account financing from donors;
- a brief summary of the main policy measures and macroeconomic framework;
- the expected strength of the program and an assessment of capacity to repay the Fund including an updated capacity-to-repay table;
- an analysis of debt vulnerabilities, including preliminary assessment of the risk of debt distress facing the member (reflecting all projected debt financing, including from the Fund), along with discussion of any deficiencies in the quality/transparency of public debt data;
- the impact on the Fund's concessional resources (drawing on the latest available paper on concessional resources);
- the likely timetable for discussions with the authorities;
- a selected indicators table; and
- standard debt sustainability assessment (DSA) charts

Additional consultations with Executive Directors will normally be expected to occur between the initial informal meeting and the Board's consideration of the staff report. The briefings will aim to keep the Board abreast of program-financing parameters, including assumed rollover rates, economic developments, progress in negotiations, any substantial changes in understandings, and any changes to the initially envisaged timetable for Board consultation.

Source: IMF (2024).

*The four eligibility criteria are: (i) actual, or potential exceptional BOP pressures on current or capital account that result in need for Fund financing beyond normal limits; (ii) LIC-DSF with low or moderate debt distress or adjustment and non-Fund financing, which may include debt restructuring, that restores debt sustainability with high probability; (iii) member does not meet criterion for presumed GRA blending; and (iv) policy program provides a reasonably strong prospect of success including with respect to the member's adjustment plans and its institutional and political capacity to deliver that adjustment.

7. The respective GRA/PRGT eligibility criteria must be assessed by staff in their note to the Board for its informal session. The first eligibility criteria for EA in the GRA or PRGT are virtually identical—a BOP need that cannot be met within their respective NA limits. Both sets of eligibility criteria require a preliminary debt sustainability analysis (DSA) to evaluate debt

⁷ The hard cap on PRGT EA was removed in 2021 (IMF, 2021), making it consistent with unbounded GRA-EA.

sustainability, albeit different techniques and standards are applied, and both require a policy program with “a reasonably strong prospect of success.” Both policies also give heightened attention to a country’s capacity to repay the Fund. This criterion for countries with a high risk of debt distress (defined by the joint Bank-Fund DSA) requires policy and/or debt relief actions to reduce this risk to a moderate, or low, level. One major difference in these criteria relates to expected access to international capital markets.⁸ For the GRA, the member is to have good prospects for access to international capital markets, while for the PRGT, the member cannot have had sustained past, or prospective, access to international financial markets.

8. There are two key differences in the substantive content of the GRA-and PRGT-EA concise notes. For the PRGT-EA program, the impact of access on concessional resources is assessed as part of the staff note for the informal Board meeting, while for GRA cases, the impact on Fund liquidity is assessed only later. Procedurally, these two EA policies have one major difference: under the GRA-EA policy, the Board is informed prior to an announcement of a staff level agreement, while the PRGT-EA policy has no similar requirement. Indeed, the GRA-EA stresses that “Strict confidentiality will need to be maintained and public statements by members, staff, and management should take special care not to prejudge the Board’s exercise of its responsibility to take the final decision.” Nonetheless, both GRA and PRGT procedures envisage that additional consultations with Executive Directors “will normally be expected to occur” to keep the Board abreast of developments following the initial consultation.

9. Prior to 2020, EAPs for GRA and PRGT resources operated independently of each other. Specifically, this meant that PRGT-eligible countries could request access to a mix of resources from the GRA and PRGT at levels that, on a combined basis, exceed the levels that constitute EA in the GRA and the PRGT, yet do not individually constitute EA. Such individual requests, though large in scale, would not be subject to the scrutiny of either of the EA frameworks. To redress this gap that was revealed in the case of Ethiopia (2019), procedural requirements were put in place in September 2020 that apply to situations where combined GRA and PRGT resources exceeded specified thresholds (“high-combined credit exposure” (HCCE)). These procedures drew on the GRA/PRGT Board consultation practices, as well as the GRA-EA requirements for the content of staff reports and EPEs.

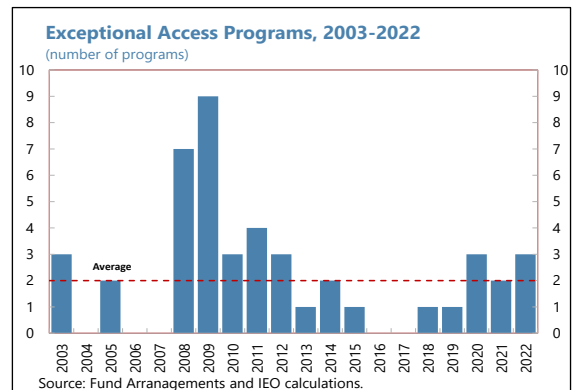
10. In March 2021, additional safeguards were introduced related to debt vulnerabilities and Fund credit exposure for high access financing under the PRGT. The aim of these additional safeguards is to limit the risks to PRGT resources from high volume lending to countries with serious debt vulnerabilities and corresponding risks to their capacity to repay the Fund. In particular, program documents for such countries need to: (i) discuss the structure of public debt and its evolution over the program period; (ii) compare on a cross-country basis outstanding Fund credit relative to key economic metrics; and (iii) analyze external debt tables

⁸ Amendments to this policy were approved in 2021 (see IMF, 2021) and do not apply to the PRGT-EA cases included in the scope of this evaluation. For a complete list of EA cases, refer to Table 1.

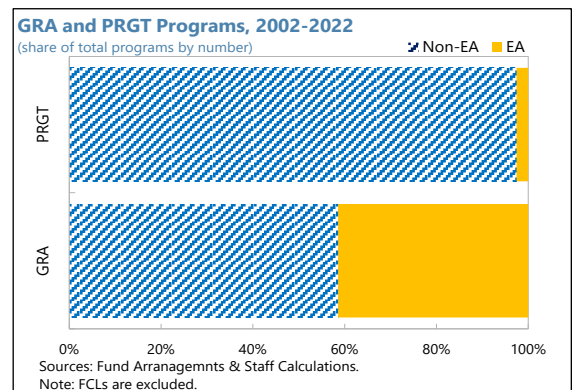
with breakdowns related to *de facto* senior debt including collateralized debt, multilateral debt, official bilateral, and private sector. A Guidance Note on Enhanced Safeguards for Debt Sustainability and Capacity to Repay was circulated to staff and the Executive Board in April 2022. This guidance note (IMF, 2022a) usefully explains how to implement these enhanced safeguards and their interconnection with safeguards for EA, Policy Safeguard for High Combined Credit (PS-HCC), and High-Access Procedure (HAP). These new safeguards are too new to be assessed in practice as part of this evaluation.

III. IMPLEMENTATION

11. **From 2003 to 2022, EA was approved by the Board in 46 cases involving 34 countries (Table 1).** These 46 cases include: 38 GRA-EA arrangements;⁹ 3 PRGT-EA arrangements; one RFI purchase (Egypt); and 3 ongoing EA programs (Argentina, Benin, and Egypt). Average annual usage was slightly more than twice per year (text chart). These procedures have been employed as many as nine times in one year (2009) and as few as zero in five years (2004, 2006, 2007, 2016, 2017).



12. **Over this period, EA arrangements represented 15 percent of all arrangements (excluding FCLs which are EAP exempt) approved by the Board.** However, the GRA-EA arrangements accounted for about 41 percent of GRA arrangements (excluding FCLs), while PRGT-EA arrangements were only 3 percent of all PRGT arrangements (text chart). The share of precautionary GRA-EA programs (24 percent) was two-thirds of the share of precautionary programs with NA (37 percent), notwithstanding the fact that the EAP did not formally permit precautionary arrangements until 2009.



⁹ This count excludes the EA EFF for Liberia (2008). This EFF was approved in connection with the clearance of arrears to the IMF by Liberia. The entire EFF (265 percent of quota) was disbursed in one drawing upon approval of this GRA arrangement and the EFF lapsed following that purchase.

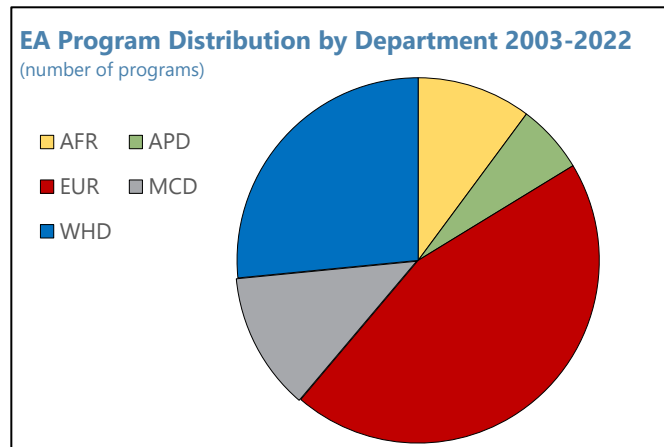
Table 1. Exceptional Access Cases, 2002–22¹

2003	Brazil, SBA, (Augmentation SDR 4.5bn, 150% of Quota) Argentina, SBA, (SDR 2.2bn, 102.7% of Quota) Argentina, SBA, (SDR 9bn, 424.2% of Quota)
2005	Turkey, SBA, (SDR 6.7bn, 691.1% of Quota) Uruguay, SBA, (SDR 0.8bn, 250% of Quota)
2008	Georgia, SBA, (SDR 0.7bn, 497.1% of Quota) Ukraine, SBA, (SDR 11bn, 801.7% of Quota) Hungary, SBA, (SDR 10.5bn, 1014.8% of Quota) Iceland, SBA, (SDR 1.4bn, 1190.5% of Quota) Pakistan, SBA, (SDR 7.2bn, 700% of Quota) Liberia, EFF-ECF (SDR 0.6bn, 457% of Quota) under GRA EAP Latvia, SBA, (SDR 1.5bn, 1200% of Quota)
2009	Belarus, SBA, (SDR 2.3bn, 587.3% of Quota) El Salvador, SBA, (SDR 0.5bn, 300% of Quota) Serbia, SBA, (SDR 2.6bn, 560% of Quota) Armenia, SBA, (SDR 0.5bn, 580% of Quota) Mongolia, SBA, (SDR 0.2bn, 300% of Quota) Costa Rica, SBA, (SDR 0.5bn, 300% of Quota) Guatemala, SBA, (SDR 0.6bn, 300% of Quota) Romania, SBA, (SDR 11.4bn, 1110.8% of Quota) Sri Lanka, SBA (SDR 1.7bn, 400% of Quota)
2010	Greece, SBA, (SDR 26.4bn, 3211.8% of Quota) Ukraine, SBA, (SDR 10bn, 728.9% of Quota) Ireland, EFF, (SDR 19.5bn, 2321.8% of Quota)
2011	Macedonia, FYR, PCL, (SDR 0.4bn, 599.4% of Quota) Romania, SBA, (SDR 3.1bn, 300% of Quota) Portugal, EFF, (SDR 23.7bn, 2305.7% of Quota) St. Kitts and Nevis, SBA, (SDR 0.1bn, 590% of Quota)
2012	Greece, EFF, (SDR 23.8bn, 2158.8% of Quota) Jordan, SBA, (SDR 1.4bn, 800% of Quota) Morocco, PLL, (SDR 4.1bn, 700% of Quota)
2013	Romania, SBA, (SDR 1.8bn, 170% of Quota)
2014	Ukraine, SBA, (SDR 11bn, 800% of Quota) Morocco, PLL, (SDR 3.2bn, 550% of Quota)
2015	Ukraine, EFF, (SDR 12.3bn, 900% of Quota)
2018	Argentina, SBA, (SDR 40.7bn, 1277.4% of Quota)
2019	Ethiopia, EFF-ECF (SDR 2.1bn, 700% of Quota) under PRGT EAP
2020	Somalia, EFF-ECF (SDR 0.3bn, 179% of Quota) under the PRGT EAP Egypt, RFI, (SDR 2.1bn, 100% of Quota), exceeded cumulative GRA limit Egypt, SBA, (SDR 3.8bn, 184.8% of Quota) Ecuador, EFF, (SDR 4.6bn, 661.5% of Quota) Chad, ECF (SDR 0.4bn, 280% of Quota) under the PRGT EAP
2021	Panama, PLL, (SDR 1.9bn, 500% of Quota)
Excluding Ongoing Programs	
2022	Argentina, EFF, (SDR 31.9bn, 1001.3% of Quota) Benin, EFF-ECF (SDR 0.5bn, 391% of Quota) under the HCCE Egypt, EFF, (SDR 2.4bn, 115.4% of Quota)

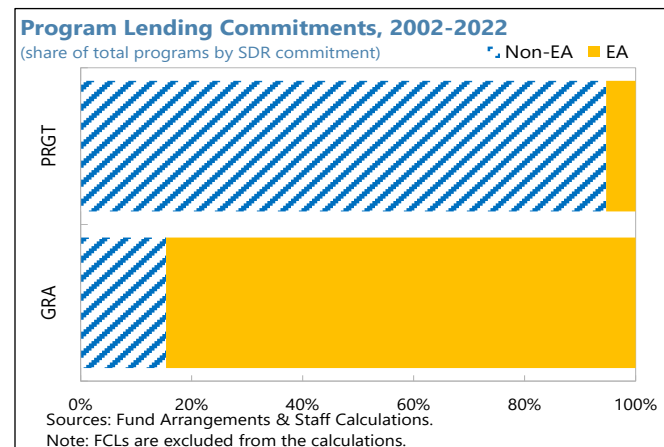
¹ The EAP was adopted by the Board in September 2002, which marks the starting point of this table.

13. **Usage of EA procedures was significantly less frequent during 2016–22 (11 cases over 7 years) than in the prior period (35 cases over 14 years).** The PRGT-EA policy was triggered three times during 2016–22 (or one-third of that total), while the PRGT-EA policy was never activated during 2009–15. The combined high combined credit exposure policy was triggered once (2022).

14. **In terms of geographical distribution, EUR and WHD accounted for 71 percent of the EA-cases during 2003–22 (text chart).** However, shares shifted sharply within this period. Specifically, EUR and WHD accounted for 81 percent of the cases during 2002–15, but their share was nearly halved (to 46 percent) during 2016–22. This shift is explained by the rise of PRGT-EA/HCC cases in AFR (to 31 percent from zero earlier) and the rise of cases in MCD (23 percent from 8 percent earlier).



15. **As a share of lending commitments, GRA-EA cases were about 85 percent of all GRA lending commitments (excluding FCLs), while PRGT-EA commitments were only about 5 percent of all PRGT lending commitments during 2002–22 (see text chart).** The smaller share for PRGT-EA commitments compared to GRA-EA commitments should hardly be surprising as the PRGT-EA policy was adopted 7 years (2009) after the GRA-EA policy and the PRGT-EA then had a hard cap for much of



the time. The first PRGT-EA program only took place in 2019 (Ethiopia), which was 17 years after the adoption of the GRA-EA policy, and 10 years after adoption of the PRGT-EA policy. The share of PRGT-EA commitments in total PRGT commitments rose to 18 percent during 2019–22.

16. **Not all 46 cases of EA will be evaluated in this study; three EA arrangements approved in 2022 (Argentina, Egypt, and Benin) are excluded because they are ongoing Fund programs.** On the other end of our time period, the 2002 Brazil program with EA, which utilized the exceptional circumstances clause, is also excluded because it was approved by the Board on September 6, 2002, or the same day as the EAP was adopted. This means that this Brazil program was negotiated, and the staff report issued to the Board, prior to EAP adoption.

This arrangement with Brazil was augmented by 150 percent of quota in late 2003; therefore, the EA procedures were followed, and this augmentation is included in this analysis (see below). The 2003 (January) “transitional” program with Argentina is also not included because EAPs were also not followed and instead the exceptional circumstances clause was utilized.¹⁰ Indeed, subsequently staff characterized the EA framework as only becoming “fully operational in February 2003” (IMF, 2004a).

17. **Against this background, 43 cases are available to study the implementation of EAP for this background paper.** Within this total, the PRGT-EAP was applied three times (of which one case (Somalia) related to arrears clearance), while the GRA-EA procedures were applied 39 times, of which one related to a RFI purchase (Egypt 2020) that triggered GRA-EA procedures owing to the cumulative access limit being exceeded.

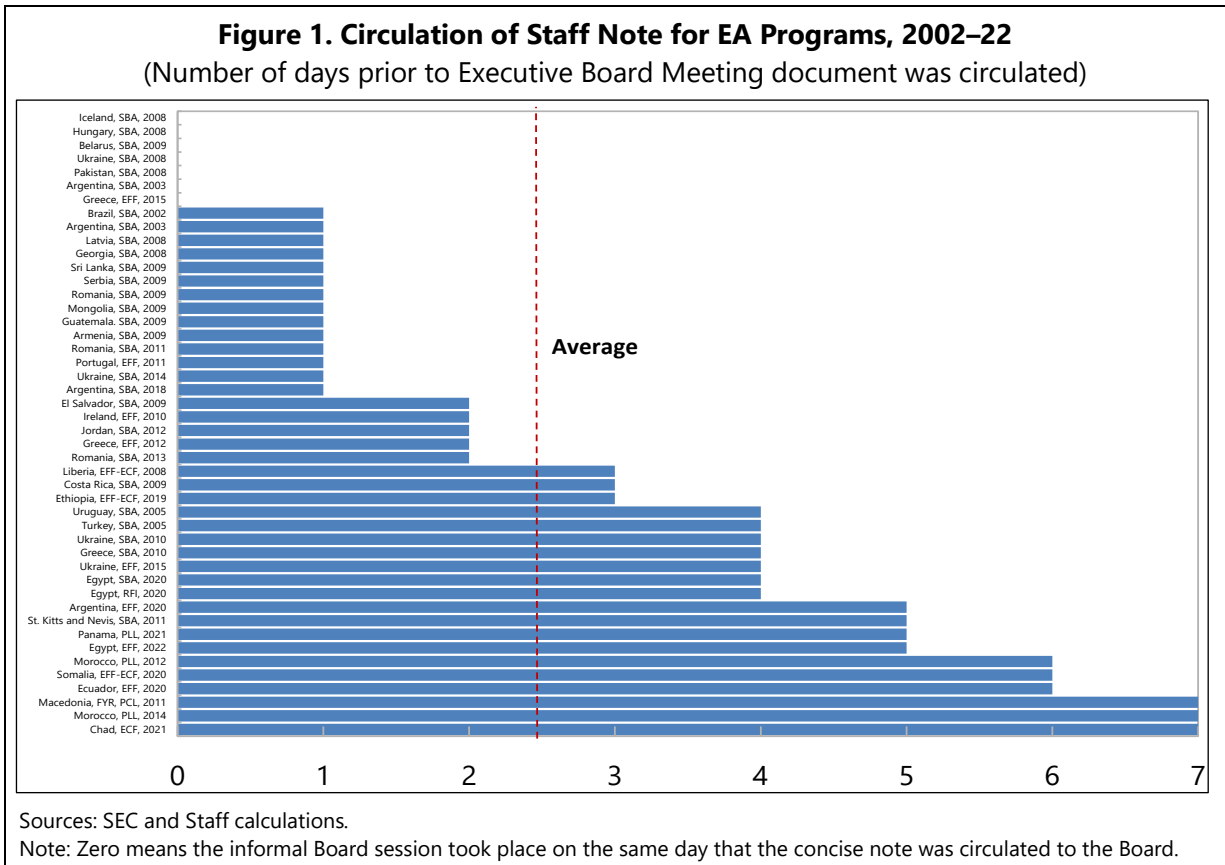
18. **While the EA framework was designed with cases of actual capital account crises in mind, it was recognized that not all pre-2003 cases of EA involved capital account crises.** Indeed, staff “expects that the possibility cannot be precluded that other [than capital account crises] circumstances could arise that might require EA. In those other cases, the substantive criteria would not be relevant although the procedural requirements would be followed” (IMF, 2003a). This warning was prescience as later in 2003, the EA programs with Argentina and Brazil would both employ the exceptional circumstances clause. In the case of Argentina (September 2003), none of the four EACs were met, while for Brazil (augmentation, December 2003), EAC1 and EAC3 were not met as it was the first precautionary EA program for a country that could still borrow on international capital markets. During 2004–09, the exceptional circumstances clause was invoked in five additional cases of EA (Turkey, 2005; Uruguay, 2005; Liberia, 2008; El Salvador, 2009; and Belarus, 2009). These cases were not experiencing actual capital account crises. With the modification of EAC1 in 2009 to include non-capital account crises and potential, as well as actual BOP need (see Abrams and Arora, 2024), there was no further use of the exceptional circumstances clause. Prior to this 2009 modification, the exceptional circumstances clause had been invoked in half of the EA cases (7 of 14).

(a) Informal Board Consultations

19. **The formal EAP requirements were followed during this period with respect to the timing of initial informal Board consultations.** Specifically, an initial informal Board session was held “promptly” (within 1-2 days) after staff had informed Management—typically via a PN—that a member sought a Fund-supported program with EA. As required under the EAP, a concise note (staff statement) was circulated to Executive Directors (at least 2 hours prior) to their informal meeting in all cases and was circulated in a highly confidential format to avoid leaks. The average circulation period was 2.6 days (Figure 1); considerable variability was exhibited in circulation periods, ranging from the same day to 7 days. About 48 percent (20) of these initial

¹⁰ Staff did not recommend Board approval of this 9-month arrangement because, inter alia, the program contained insufficient steps to enable staff to make a positive assessment of capacity to repay the Fund. The Managing Director issued a statement to the Board giving the MD’s reasons for seeking Board approval.

staff statements had a circulated period of one day or less. The longest circulation periods (6–7 days) were for precautionary arrangements such as the PCL and PLL, and clearance of Fund arrears (Somalia). Excluding these outliers, the average circulation period was 2 days.



20. **These staff statements were typically 11 pages in length including two one-page tables, usually of selected economic indicators and the balance of payments, and one chart.** Length, however, varied markedly. The longest note was for a PLL (at 66 pages including 10 tables and 9 charts); on average, staff notes for PCLs/PLL were more than double the length of the remaining notes. Excluding PCLs/PLLs, the average length of such notes for GRA and PRGT EA were shown little difference. The PNs for all these cases (which were sent contemporaneously to Management) averaged 37 pages in length with 11 tables and frequently included DSAs, suggesting an asymmetrical information base for decision-making. More information could have been made available, and at times was provided in some staff notes (notably, PCLs/PLLs). The reasons why more information was not provided to Executive Directors is not obvious but may be related to the policy requirement calling for “concise” notes, staff concerns about possible leaks of confidential information, the need for staff to maintain sufficient flexibility in program negotiations with the authorities, and a preference among staff and authorities to discuss policy positions before these are presented to the Board.

21. **The topic coverage of these staff notes was in line with the subject areas established in their respective EAP (see Boxes 1 and 2), although the substantive depth was seemingly constrained.** These notes typically provided a clear description of recent economic developments with a preliminary diagnosis of the BOP problems. A high-level outline of the policy prescriptions was also presented in these initial notes with some quantification, particularly in a table on selected economic indicators. The longer notes were more detailed and quantified, which is also the case for more recent notes. One surprising area of weakness was the absence of a preliminary program access level or range. For GRA-EA cases (excluding PCL/PLLs), staff notes in 13 cases (or about one-third) did not give a preliminary estimate for even a range of access even though a specific access proposal had been made to Management. All the PRGT-EA cases included preliminary access figures, perhaps because those cases were required to discuss the impact of the prospective PRGT EA on the Fund's concessional resources. Even when proposed access was disclosed, the presentation was largely an adding-up exercise—closing the estimated financing gap—rather than providing a substantive analysis of the financing trade-offs (adjustment/restructuring/Fund access/etc.). The analytical/empirical basis for staff's proposed EA was not precisely articulated to the Board.

22. **All initial staff notes provided a preliminary assessment of the EA criteria.** The final assessments contained in the UFR staff report were typically little changed from these preliminary assessments. The one exception was Greece (2010). EAC2 (related to debt sustainability with a high probability) was initially deemed as met during informal Board sessions but was not deemed as met at the time of the UFR staff report. To permit Fund lending under the EAP, this criterion was amended by introducing a systemic exemption clause (for details, see IEO, 2016). Staff preliminary assessments of EAC2 typically were not supported by a DSA, although DSAs were typically provided in the PN sent contemporaneously to Management. For the three PRGT-EA cases, all their initial staff notes judged that all PRGT-EA criteria had been met, providing tables on DSAs.

23. **According to interviews with Executive Directors, a one-day circulation period made it difficult to obtain inputs from their capitals given the compressed timetable and differences in time zones.** In this connection, the one-day circulation period for Argentina (2018) was frequently mentioned. Complaints were not voiced when circulation periods were longer. Directors were often of the view that, while the parameters specified in this element were mentioned, the information provided by management and staff was too general and lacked crucial details. In the context of the euro-area programs for Greece, Ireland, and Portugal, the process of informing the Board was seemingly approached as a "box-ticking exercise" (de Las Casas, 2016). The IEO (2016) judged that "the Executive Board played only a perfunctory role in key decisions related to IMF's engagement in the euro area crisis." The IEO expressed the view that "while the letter of the [exceptional access] framework was complied with, the spirit was not fully respected."

24. **After the initial informal Board consultation, additional consultations are “normally expected to keep the Board abreast” of developments in program negotiations, design, and financing.** Rather than being the normal practice, such additional consultations were unusual events, except in high profile cases. The IEO found evidence from SEC’s electronic Board calendar of only 8 (of 43 cases, or 20 percent) additional informal sessions prior to the announced of a staff-level agreement. Five of these cases related to euro-area programs (de Las Casas, 2016: Greece (2); Ireland (1); and Portugal (2)); the three remaining cases were Romania (2009), Ukraine (2015) and Argentina (2018). None of the PRGT-EA cases had additional informal Board sessions. (No search was conducted for contacts by Management and staff with individual EDs or small groups of EDs because such contacts were not in the spirit, or letter, of the EAP and are difficult to document.)

25. **Why didn’t more Board consultations take place? Several factors appear to be at play.** One, usual Fund practices provide staff and Management with considerable operational and decision-making powers in negotiating Fund-supported programs. Board involvement is minimal. Exceptional access procedures were intended to strengthen the Board’s role, but staff may have fallen into business-as-usual practices. Directors also may not have requested additional meetings or pushed hard enough for more information. Two, as foreseen by the EA framework, decisions had to be made in a fast-evolving context, subject to a high degree of uncertainty that might have made it difficult to provide additional timely and comprehensive information. Three, in an environment of market sensitivity, potential leaks were considered a significant risk to be avoided. The IEO was not provided with evidence related to the frequency, magnitude, or source of leaks of confidential information, particularly those related to EA-supported programs. Thus, it is not possible to gauge how warranted this concern has been or possible remedies. Moreover, as the application of EAP moved from strictly actual capital account crises to encompass exceptional current account imbalances and precautionary programs (post-2009), the need for speed and market sensitivity may have diminished substantially (particularly in PCLs/PLL cases).

26. **A central question is whether these informal Board consultations procedures were fit for purpose in practice.** Or alternatively, what was their impact on actual decision-making? Examining the transcripts and/or memoranda of these informal sessions and subsequent PNs or UFR staff reports, it is difficult to discern the impact of these sessions on program design, conditionality, or access/phasing. How is this result to be interpreted? If the initial problem diagnosis and policy prescriptions by staff were highly accurate, then the scope for impact would be small. But if that were not the case, the impact could be small because the procedures were implemented as a “box-ticking” exercise rather than in their intended spirit. Also, the Board was often not given enough information and enough time for it to provide meaningful inputs. Even when the Board was given with enough time, the impact was still small, suggesting that information shortcomings or the procedures themselves were the problem.

27. **The GRA-EA policy (but interestingly, not the PRGT-EA policy) specifies that Management will consult with the Board before concluding discussions on a program and before any public statement on a proposed level of access.** Indeed, strict confidentiality is to be maintained to avoid possible prejudgment of the Board's decision. Examining only the GRA-EA cases, the IEO found evidence in SEC's electronic Board calendar of such informal Board sessions in less than one-third of these cases (13). Typically, these informal sessions took place on the same day as the public announcement of reaching a staff level agreement on a program with EA. Such short notice did not give Executive Directors sufficient time to engage in effective consultation with their capitals. In one case (Egypt), the authorities' requests for an RFI purchase and SBA involving were publicly announced by Management before the informal Board meeting on EA; this breach of strict confidentiality was criticized by several Executive Directors during the informal consultation session.

(b) Raising the Burden of Proof in Program Documents for Exceptional Access

28. **While the four EACs were expected to more clearly and narrowly define the proper use of EA, an "additional layer of protection" was to be achieved by more extensive treatment and substantial justification in staff reports of program issues, especially risks to the IMF, than was typical for programs with NA (IMF, 2008).** Accordingly, this higher burden of proof in EA program documents was to be accomplished by a thorough discussion of BOP need and the proposed level of access, including use of metrics other than quota, a rigorous analysis of debt sustainability, and an assessment of the risks to the Fund arising from the exposure and its effect on liquidity (see Box 3 for details).¹¹ To address this last higher burden of proof, a separate financial risk analysis has been prepared by the Finance Department (FIN) along with the Strategy, Policy and Review Department (SPR), which is discussed in the next subsection.

29. **For this study, 39 UFR staff reports for GRA-EA cases were reviewed with a focus on delivery of this higher burden of proof;** this count includes the 2008 arrears clearance operation with Liberia. As regards the EACs, it is important to observe that the assessments in these UFR staff reports were typically in line with the preliminary assessments contained in the staff note for the informal Board session.¹² All UFR documents—normal or EA access—include a table of Gross Needs and Sources of External Financing and demonstrate the need for and the role of Fund resources. This table, and the accompanying text description, is intended to facilitated diagnosis, prescription, and communication of policies, and helps shed light on the causes of vulnerabilities (IMF, 2024). The proposed level of access whether normal or exceptional, is justified in this manner. Consequently, it is difficult to say that such discussions were significantly more extensive in EA cases, except for adding the EAC1 assessment, than the discussions contained in staff reports for programs with NA.

¹¹ Since 1990, all UFR staff reports are required to include assessments of capacity to repay the Fund.

¹² The notable exception was the assessment of debt sustainability (EAC2) for Greece (2010). In that case, the UFR staff report, unlike earlier staff notes for informal Board sessions, voiced the view that it was difficult to state categorically that public debt was sustainable with a high probability. Staff opined that Fund financial support was justified given the high risk of international systemic spillover effects, creating the so-called systemic exemption.

30. **A rigorous analysis of debt sustainability in the program documents was expected to underpin the assessment related to EAC2, in particular the high probability judgment.** All EA staff reports examined in this study presented analysis of both external and fiscal/public debt sustainability; in contrast, DSAs were presented in only about one-third of the staff notes prepared for earlier informal Board sessions. When comparing DSAs in EA staff reports with those in NA staff reports prepared at similar time periods, it is difficult to find significant differences in their rigor or techniques. However, the sophistication (rigor) of DSA tools employed by Fund staff has increased since 2002 (for details see Erce, 2024). Initially, staff utilized a simple deterministic DSA¹³ before developing a risk-based approach in 2012 for Market Access Countries (MAC DSA). In 2015, Fund staff began to utilize an internal (HP) tool to assign probabilities to debt sustainability with a threshold of 80 percent set for high probability and of 50 percent for a positive debt sustainability assessment. The MAC DSA was replaced by the Sovereign Risk and Debt Sustainability Framework (SRDSF) in 2022. This tool has become the required standard. Indeed, according to the Guidance Note on Program Design and Conditionality (2024) all requests for IMF financing must be accompanied by a SRDSF; for normal-access Fund arrangements, a SRDSF is to be presented annually to the Board, while in the case of EA programs, a SRDSF needs to be presented with each program review to verify compliance with EAC2. As all Board documents that request UFR now contain a SRDSF, the question arises: what fulfils a higher burden of proof for supporting EA?

31. **A higher burden of proof was also expected pertaining to assurances of forward-looking financing.** Future financing on a scale and timing to allow repayment of the IMF is crucial for capacity to repay and therefore access decisions. Because EA is upwardly unbounded, a greater burden of proof on projections of future financing would provide an “additional layer of protection.” EAC3, as modified in 2016, made this linkage explicit by adding “within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund.” But as shown in Erce (2024), staff lacks a systematic modelling of current and prospective market access, although the SRDSF has a realism tool that uses historical evidence to inform judgment related to gross financing needs. The SRDSF is also utilized for NA programs; no separate (higher) realism threshold for market access applies to EA (IMF, 2022 and 2024) as it now does for debt sustainability.

¹³ In 2002 (IMF, 2002a), staff referenced a newly strengthened DSA framework with three main elements: (i) a set of standard indicators of debt and debt service; (ii) staff’s baseline medium-term projections with clearly presented assumptions; and (iii) standard sensitivity tests around the baseline; these new tests comprised six basic shocks and two composite shocks. Only two of eight prior EA cases contained any sensitivity analysis of their DSAs.

Box 3. Raising the Burden of Proof in EA-Program Documents

The EAP sets out four criteria that need to be met under this policy. UFR staff reports for EA provide a staff assessment of each individual criterion. These criteria were intended to define more clearly and narrowly the conditions under which EA was appropriate and thereby assure that “exceptional access remains exceptional” (IMF, 2003a).

As EA is potentially upwardly unbounded, additional safeguards or “layers of protection” were deemed prudent. Consequently, the Board (IMF, 2002b) also “agreed to the following measures: (i) *Raising the burden of proof required in program documents as set out in the staff paper.* This would include thorough discussion of need and the proposed level of access, a rigorous analysis of debt sustainability, and an assessment of the risks to the Fund arising from the exposure and its effect on liquidity.” In that same Summing Up, “Turning to prudential considerations regarding exceptional access cases, Directors agreed that more systematic and comprehensive information regarding the member country’s capacity to repay the Fund and the Fund’s exposure to the member country is needed to underpin judgments about the appropriateness of the proposed access levels in individual cases.” In the absence of access limits, the role of capacity to repay the Fund in determining proposed access level in EA cases was emphasized further.

The documentation requirements described in the 2002 staff paper (IMF, 2002a) were: “**(1) an extensive treatment of the factors that staff consider relevant for assessment of need and the level of access, a justification for the scale of access and the associated path of reserves, and a forward-looking assessment of financial assurances; a self-contained standardized analysis of external and fiscal debt sustainability; and an assessment prepared by the Policy Development and Review and Treasurer’s Departments with a focus on the risks to the Fund arising from the exposure and the Fund’s liquidity position.**”

The Board reaffirmed these requirements in 2003 (IMF, 2003b), while Directors agreed that program documentation include “a standard table that would gauge proposed access levels against a broader set of metrics and complement quota-based metrics.” Nonetheless, Directors indicated that “Fund access would not be constrained to, or evaluated against,” these broader metrics. In the summing up for the 2004 review (IMF, 2004b), Directors stated that procedures for “the provision of additional information have work well....”

A higher burden of proof was mandated to more thoroughly justify the proposed level of access for EA programs than was expected for programs with normal access (NA). This enhanced justification addresses the increased risks associated with removing the guardrails associated with access limits and was intended to supplement the 4 EAC. For example, EAC1 is satisfied (tautologically) whenever proposed use of Fund resources is above NA limits (and initially when owing to a capital account need). However, EAC1 does not clarify how access proposals are to be made beyond the principles that apply for NA (i.e., BOP need, capacity to repay, and outstanding credit coupled with the member’s track record of past use); all else being equal, higher access would generally be associated with a stronger program, stronger track record of policy implementation, and stronger capacity to repay (IMF, 2024).

It is important to remember that assessments of capacity to repay the Fund take into account the member’s policy plans, adjustment effort, commitment to implement the program, institutional capacity, and country circumstances such as vulnerabilities, imbalances, and debt sustainability. Commitment/ownership to the program by the authorities and the member’s institutional capacity are also evaluated by EAC4, while debt sustainability is evaluated by EAC2. Lastly, the scale and timing of private capital flows is directly linked to Fund obligations falling due from the member by EAC3. Viewed from this perspective, the four EACs in the EAP draw additional attention to the same elements of capacity to repay the Fund that are presented in programs with NA. However, the documentation for EA programs supposed to be more extensive and to meet higher thresholds (in particular, EAC2), than for NA programs—higher access is associated with stronger program, stronger track record, stronger capacity to repay. Thus, by raising the burden of proof in UFR documents, a “belts and suspenders approach” was adopted to handle more effectively and transparently the increased risks associated with EA.

Source: Fund documents.

32. **All UFR programs regardless of proposed access are required to assess program ownership and implementation risks including those related to technical and institutional capacity constraints.** Implementation capacity and program ownership are important elements in judgments concerning capacity to repay the Fund and therefore related to program access. EA programs are supposed to have a “reasonably strong prospect of success” (EAC4), but it is not clear how this EA standard differs from the standard applied in normal-access programs (e.g., “sufficiently committed to successful implementation” (IMF, 2024). In addition, the Guidance Note on Program Design and Conditionality does not explain how the higher burden of proof for EA cases is to be met in their UFR documents. Without a concrete framework, it is difficult to evaluate these purely judgment driven assessments.

33. **In sum, program documents for EA arrangements do not clearly demonstrate a materially higher burden of proof.** That is, they do not clearly provide a stronger justification relative to program documents for NA arrangements with respect to financing need, the proposed level of access, analysis of debt sustainability, prospects for market access, and program success.

34. **As regards PRGT-EA, their UFR staff reports covered the same substantive content as specified for informal Board sessions (see Box 2) and abide by the requirements established (in 2009) for high access PRGT programs.** The staff reports for the three PRGT-EA cases considered for this evaluation implemented these policy requirements in full, albeit with the issues related to demonstrating the higher burden of proof that were noted above for GRA-EA cases. In 2021, new enhanced safeguards were introduced, calling for greater scrutiny of debt and capacity to repay risks in requests for new PRGT arrangements or augmentations in cases involving countries at high risk of debt distress or in debt distress. Specifically, program documents must include a discussion of the explicit program objective to reduce debt vulnerabilities.

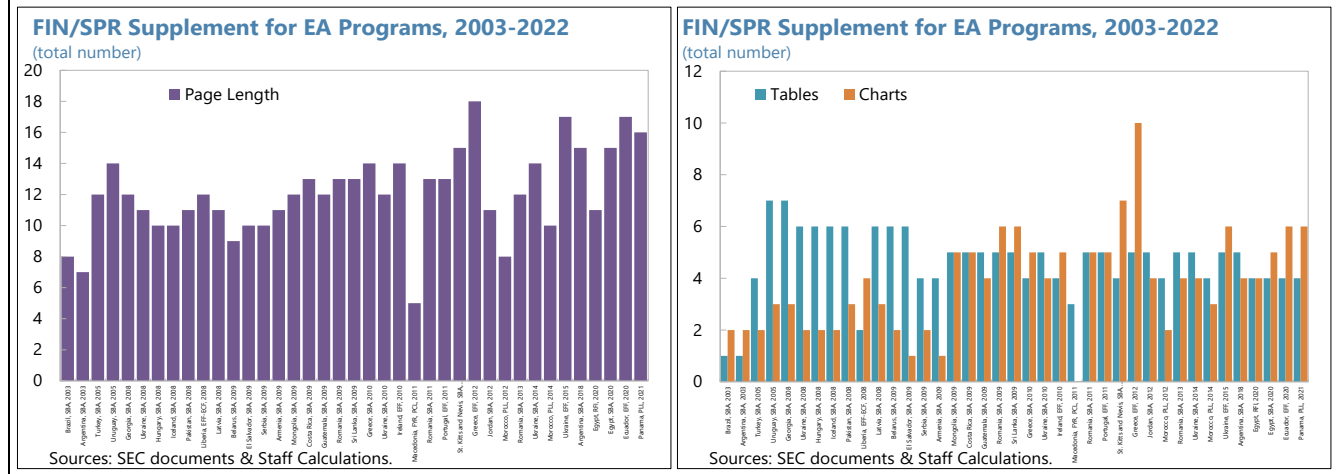
(c) Assessment of Financial Risks to the Fund

35. **As noted in the preceding subsection, a separate assessment is prepared by FIN and SPR on the financial risks arising from the proposed GRA EA.** In particular, the assessment covers the effect on Fund GRA liquidity, the member’s capacity to repay the Fund, and the potential costs to borrowers and creditors of the member incurring arrears to the Fund. A separate assessment of financial risks to the PRGT Trust is not required for PRGT-EA cases; the financial risk assessment is handled instead in the PRGT-EA staff report.

36. **Supplements prepared during 2003–21 averaged 12 pages in length with 4–5 tables and 8–9 figures (Figure 2).** Supplements ranged in length from 5 to 18 pages with as few as one table and as many as 7 tables. Figures ranged from 1 to 10 in number. According to the GRA-EAP, “where time permits, this report will be provided to the Board in advance of the circulation of program documents.” In only case (Iceland 2008) was a supplement circulated in advance of the program documents; this was due to a delay in issuing the UFR staff report as both documents were sent to management on the same day. Supplements were typically issued to the Board on

the same, or following, day as the UFR staff report. About one-third were circulated 2–4 days later, while on one occasion this span reached 7 days (Ukraine 2015). Such circulation delays provide Executive Directors and their capitals with less opportunity to digest this risk analysis.

Figure 2. FIN/SPR Supplement for EA Programs, 2003–22



37. **These SPR/FIN supplements have broadly similar formats, covering the specified subjects.** These supplements described previous use of Fund resources, track record of past program implementation, proposed access, and phasing. They also compared access metrics with other recent EA arrangements and provided indicators of capacity to repay the Fund. The impact of the new arrangement on Fund liquidity was discussed along with the increase in credit risk exposure including implications of possible arrears for precautionary balances and burden-sharing capacity. An enterprise risk assessment was added starting in 2020 to these supplements (see Ecuador and Panama). An overall assessment of financial risks including possible risk mitigation measures was provided in the concluding section.

38. **These supplements provided an additional burden of proof, or value added, compared to usual UFR staff reports in several areas:** alternative access metrics, comparisons to other EA arrangements, and implications for Fund liquidity and credit risk exposure—specifically impact of possible arrears on prudential balances and the burden-sharing capacity. Tables and charts provide considerable information that is not provided in the UFR staff reports, although some overlap exists such as the table on indicators of capacity to repay the Fund and the table on proposed access/phasing.

39. **While various indicators have been used, there is no analytical framework to assess capacity to repay the Fund.** Indicators have included outstanding Fund credit and debt service to the Fund relative to exports of goods and services, to GDP, to gross international reserves, and to external debt and debt service. However, these indicators are not drawn from an analytical framework. Indeed, the Guidance Note on Program Design and Conditionality (IMF, 2024) does not contain a section devoted to analysis of capacity repay the Fund. The enhanced safeguards

on capacity to repay set out for PRGT programs with high access or high risk of debt distress (IMF, 2022) might usefully be adapted for use in GRA-EA cases. Among the areas where guidance on assessing capacity to repay the Fund would seem most crucial are cases where members have a “dollarized” economy, are in a currency union, have a fragile or shock prone state, and where Fund resources are employed to provide fiscal support. The aforementioned indicators also do not draw upon measures of access to private capital markets, such as volume and pricing, or on measures of other capital account flows. Access to such foreign savings must have sufficient scale and be on acceptable terms to allow outflows/repayments to the IMF to be covered. Absent such inflows a successor IMF program may be needed, as has happened in the past, to fill an external financing gap. Enhancing the analytical and quantitative basis for projected capital flows would also strengthen the underpinning of assessments related to EAC3—specifically, “within a timeframe and on a scale that would enable the member to meet its obligations to the Fund.”

40. The supplement’s text largely describes the content of its tables and charts.

Assessments are drawn from these various indicators, but those assessments can be difficult to interpret as the linkage to these indicators is not straightforward. For example, capacity to repay was characterized varying as strong, acceptable, satisfactory, well-positioned, adequate, adequate but conditional or with risks. In only case (Argentina 2003) did staff voice a negative assessment of capacity to repay the Fund. Risks to the Fund’s liquidity position were characterized in the text as relatively small, small, modest, moderate, manageable, substantial, significant, and exceptionally high. However, these risk qualifiers were not accompanied by guide or rubric to explain them, such as exists for qualifiers utilized in Summings Up at the Board.

41. From an enterprise risk management perspective, the above analysis raises several questions (see also Abrams and Arora, 2024). One, what is the proper role for the supplement compared to the UFR staff report? In this connection, it should be recalled that the PRGT-EA procedures do not call for an assessment of financial risks to the PRGT Trust separate from that provided in its UFR staff report. The rationale for this difference in treatment between GRA and PRGT financial risks has not been clearly spelled out in Board documents. Two, should the financial risk supplement provide a challenge function (to strengthen decision-making) to the usual UFR staff report, which recommends approval of the proposed program? If a separate challenge function is desired, this function is typically situated in the second line of defense. In the Fund context, ORM serves as the second line of defense. Currently, however, these supplements are drafted by FIN and are co-signed by SPR, making a challenge function difficult to implement because SPR also co-signs with the UFR area department staff that recommend program approval (and with FIN providing comments). If a challenge function is not desired, then integrating the supplement into GRA-UFR staff report would eliminate duplication/overlap and make this practice consistent with the PRGT-EAP. Three, stand-alone assessments for GRA financial risks are prepared at a late stage in the program cycle—after the program has been negotiated and access/phasing has already been discussed with the country authorities. Advancing this assessment to the initial informal Board meeting on EA would have several advantages such as: (i) improving initial decision-making by staff and Management by providing

more in-depth analysis of financial risks; (ii) allowing Executive Directors and their capitals to assess the financial risk implications of the proposed program at an early stage; and (iii) expanding the scope for risk mitigation measures including those related to program design, financing strategy including access/phasing and debt operations, and precautionary balances. The PN prepared concurrently contains the necessary additional information (i.e., access/phasing, program design, DSA, macro-financial framework) to craft a preliminary financial risk assessment that could be updated as is the case for the four EA criteria.

42. **Finally, until end-2022, the IMF lacked a Board-approved policy on Enterprise Risk Management, although risk acceptance statements (RASs) were approved by the Board in 2016.** (In 2023, RASs were renamed—Risk Tolerance Statements.) The GRA-and PRGT-EAPs have not been updated as yet to reflect this new enterprise risk management framework. The 2016 RASs for liquidity and credit risk were assigned to FIN, while the associated key risk indicators selected were respectively, the Forward Commitment Capacity, Dated Overdue Payments, and precautionary balances relative to credit outstanding. The avoidance of “dated overdue payments” is one major measure of success for capacity to repay the Fund, but not the only one utilized by staff. Indeed, in the 2018 Review of Conditionality (ROC), program success was determined by the absence of a follow up drawing program, which ruled out “evergreening” or refinancing by the Fund. As shown in Montiel, Cohen-Setton, and Li (2024), employing this standard combined with a post-program vulnerability score of medium or low, about 30 percent of EA programs (excluding precautionary programs) during this evaluation period were classified as successful. This outcome is virtually the same reported in the 2018 ROC for EA programs and for programs with NA (IMF,2019a). Thus, based upon this staff metric, EA programs perform no better or worse than programs with NA. This result could be interpreted as indicating EAP’s applications have successfully offset the additional risks associated with expectational access. However, the success rate of 30 percent does not seem a particularly ambitious hurdle. Does the Board consider this success rate consistent with a low risk tolerance for credit risk? How does the Board view “evergreening”/refinancing activities as fitting with this framework? Is it consistent with moderate risk tolerance for GRA liquidity, and achievement of low credit risk? Analysis of financial risks—confronting both GRA and PRGT resources—in Board documents for EA could be clearly situated within the new ERM policy. In this connection, it is noteworthy that some recent EA program documentation has included supplements that provide an enterprise risk assessment prepared by the area department in consultation with other departments.

IV. CONCLUSIONS

43. **The Articles of Agreement empower the IMF to lend to “members to solve their balance of payments problems,” while also requiring “adequate safeguards for the temporary use of the general resources of the Fund” (Article V, Section 3.a).** These adequate safeguards—to ensure repayment to the Fund—include inter alia access limits, conditionality/phasing, program design, debt sustainability analysis, safeguards assessments on member central banks, including when necessary fiscal reviews, level-based and time-based surcharges, and periodic reviews of the adequacy of precautionary balances and Fund liquidity. Annual access limits attempt to balance the

need to provide members with confidence regarding the normal scale of Fund financing with the need for the Fund to preserve liquidity and manage exposure to credit risks. The cumulative access limits help ensure that the Fund's resources are not exhausted, so that borrowers need not be treated on a "first-come-first-served" basis. Access limits also reduce the risk that members become unable to repay the Fund, thereby safeguarding Fund resources.

44. Recognizing the inherent additional risks, EAPs were put in place for both GRA lending and for PRGT lending and the Board's decision-making was enhanced in two major ways.

One, early informal consultations based upon a "concise note" for Executive Directors (and their capitals) were mandated to present a tentative diagnosis of the problem, outline the needed policy measures, provide a preliminary debt sustainability analysis, and assess the basis for EA. Additional consultations were normally expected to keep the Board (and their capitals) abreast of developments. A Board session is also supposed to take place in GRA-EA cases, but not PRGT-EA cases, before program negotiations are concluded and prior to any public statement on proposed access. Two, a greater burden of proof was to be provided in program documents related to appropriate level of access, rigorous DSA, assessment of credit and liquidity risks, and systematic and comprehensive information on capacity to repay the Fund.

45. The IMF Board approved 46 cases of EA during 2003–22 involving 34 countries. These cases include: 38 GRA-EA arrangements: one GRA arrears clearance operation; 3 PRGT-EA arrangements; 1 RFI purchase; and 3 ongoing EA programs, which were excluded from this study. The enhanced decision-making procedures were followed in all but one case (Argentina, January 2003) when the exceptional circumstances clause was invoked. Over this period, the share of GRA-EA arrangements in all GRA arrangements (except FCLs) was about 41 percent, but as a share of lending commitments, GRA-EA arrangements were about 85 percent of all GRA lending commitments (excluding FCLs). These figures underscore the importance of these enhanced decision-making procedures for safeguarding GRA resources. During the first six years of implementation (until early 2009), non-observance of any, or all, of the four EACs did not prevent Board approval of an EA program; instead, the exceptional circumstances clause was invoked during this period for half of the EA programs. After the modifications to EAC1 and EAC3 in 2009, the exceptional circumstances clause has not been utilized.

46. Informal Board consultations were held promptly after staff had informed Management that a member needed a Fund-program with EA.

A concise note was circulated in all cases with an average circulation period of about 2½ days, although about a third of the time the circulation period was one day or less, including recently, Argentina (2018). Single-day circulation periods make it difficult for many Executive Directors to effectively consult with their capitals, seeking their inputs. The minimum circulation period (of a least two hours) was established when EAP applied exclusively to actual capital account crises, such as a sudden stop. Now that the EAP is utilized for current account difficulties and in a precautionary setting, this circulation period seems unduly short to allow effective consultation with capitals, while meeting the need to quickly assist the member.

47. **The EAP describes in general terms the information to be provided to Executive Directors in the “concise note” circulated before the informal session.** The average length of these notes was 9 pages during 2002–22, although the length varied considerably. However, Management was sent a PN containing substantially more details and analysis. This difference suggests decisions on EA were based upon asymmetrical information provided to management and Executive Directors (and their capitals). Why did this occur? The answer is likely multi-dimensional but specification of a “concise” note in the EAP is no doubt an important element. Concern about leaks of market-sensitive information, particularly in the context of a capital account crisis, was also mentioned as a factor. But the IEO was not provided evidence related to the frequency, magnitude, or source of leaks, particularly those related to EA-supported programs. Reducing this information asymmetry, while giving appropriate consideration to the risks posed by leaks of confidential information, could well be considered.

48. **Topic coverage by these concise notes was largely in line with the subject areas established in the EAP, but in two subject areas they seem overly sparse.** One, in about one-third of the GRA-EA notes a preliminary estimate for Fund access, and phasing, was not provided to Executive Directors even though proposals had already been made to management. All PRGT-EA cases included a preliminary access figure, perhaps because the PRGT-EA policy requires discussion in their concise note of the impact of the prospective access on the Fund’s concessional resources. To address this problem, but also to promote policy consistency, consideration could be given to aligning the information requirements related to access proposals for GRA-EA policy with that of the PRGT-EA policy. Two, typically notes for GRA-EA cases did not include a preliminary DSA, although such DSAs are often provided in the PNs sent contemporaneously to Management and could usefully bolster the assessment of EAC3—access to private capital markets. For the three PRGT-EA cases reviewed, their initial staff notes included DSA charts as required under its EAP.

49. **After the initial informal Board consultation, additional consultations are “normally expected” to keep the Board abreast of developments in program negotiations.** Such interim consultations were not standard practice except in high profile, or difficult cases; using the Board calendar, evidence that these meeting took place was found for only about 20 percent of the GRA-EA cases and none of the three PRGT-EA cases. Thus, this practice was not well aligned with this aspect of the EA policy. Consultations with Executive Directors on difficult issues that arise during program negotiations are valuable to the member country and the membership as a whole.

50. **According to GRA-EA policy, but not the PRGT-EA version, the Board is supposed to be consulted prior to announcement of staff-level agreement on EA program including access, to avoid pre-judging the Board’s decision.** In practice, Executive Directors were informed, rather than consulted. The Board calendar listed informal sessions prior to such announcements in only one-third of the GRA-EA cases. When they did take place, these informal sessions often occurred on the same day as the public announcement, leaving insufficient time for Executive Directors to consult their capitals.

51. **In sum, the application of informal Board consultations has fallen short of the policy in several ways.** At times, the consultation procedures—such as interim consultations and those prior to public announcement—were not implemented consistently, which results in uneven treatment of members. Even when these procedures were implemented consistently—such as the circulation of initial concise notes—the Board decision-making role was frequently hampered at times by too little information and too little time to consult with capitals. Wide differences in these practices could also signal uneven treatment of members. Consequently, the impact of these informal Board sessions on subsequent developments, such as program design, conditionality, and access/phasing, were difficult to discern.

52. **Reflecting the Fund’s greater financial risks, the burden of proof in EA-program documents was to be raised relative to programs with NA.** This requirement rests on three pillars. Two pillars—a “thorough” analysis of BOP need and proposed Fund access, and a “rigorous” DSA—however, are now standard in all program documentation (IMF, 2024). Moreover, the DSA tools employed by Fund staff now are considerably more rigorous than those that prevailed in the early 2000s when the EAP was approved. In addition, the Fund has recently quantified the meaning of “high probability” for debt sustainability. With this lifting of the standards associated with programs for NA, the question naturally arises as to how a higher burden of proof should now be manifested in EA-program documents?

53. **A third burden-of-proof pillar was a separate analysis of financial risks that goes beyond the requirements for UFR documents for normal GRA access.** In all GRA cases, the risk supplement prepared by FIN and SPR provided considerable additional information normally not found in NA-UFR staff reports. However, this supplement was supposed to be circulated in advance of program documents, “where time permits.” Such advanced circulation happened only once. Instead, this supplement was typically circulated 2–4 days after the UFR staff report. The textual presentation employs qualifiers for liquidity and credit risks as well as overall capacity to repay the Fund. These qualifiers are not however closely linked to provided data or defined clearly, as is the case for qualifiers employed in a Board summing up. Finally, this more detailed analysis of financial risks is only prepared at end of program cycle (formal Board meeting) rather than at its outset (informal Board meeting or PN). Consequently, its impact on access proposals by Management is clearly limited. From a risk management standpoint, it would seem to make more sense to require this more detailed analysis of financial risks to take place at the outset of EA-program negotiations. Moreover, from a risk management perspective to provide a challenge function, this analysis would be typically performed by the second line of defense, which in the IMF context is ORM, working with FIN. If a challenge function is not desired, then the supplement could be integrated into the GRA-UFR staff report, eliminating duplication/overlap, and making this practice consistent with the PRGT-EAP.

54. **As part of the IMF’s updated enterprise risk management framework, the Board approved risk acceptance statements in 2016—now called risk tolerance statements—for liquidity and credit risks.** As regards liquidity risk, the proposed risk tolerance was moderate,

while the risk tolerance related to credit risk was low. The linkage between these risk tolerance statements and assessments of financial risks in EA cases needs to be clarified and quantified. For example, following the 2018 Review of Conditionality, which defined program success as the absence of a follow-up drawing program and reduced vulnerabilities, only about 30 percent of GRA-EA programs (excluding precautionary programs) can be deemed successful. Thus, roughly 70 percent of GRA-EA programs may require a successor drawing program. Does the Board view this rate as consistent with low credit risk and moderate GRA liquidity risk?

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