

STATEMENT BY THE MANAGING DIRECTOR

ON THE INDEPENDENT EVALUATION OFFICE REPORT ON THE IMF'S EXCEPTIONAL ACCESS POLICY EXECUTIVE BOARD MEETING, DECEMBER 5, 2024

I welcome the report of the Independent Evaluation Office (IEO) on The IMF's Exceptional Access Policy (EAP). The report offers valuable analysis and recommendations that will inform the forthcoming Management Implementation Plan (MIP) and future work on the Fund's EAP. In preparing the MIP, staff will carefully consider how best to implement the Board-endorsed recommendations, drawing on the IEO's suggestions while ensuring synergies with existing workstreams and being mindful of resource constraints.

FINDINGS

The evaluation assesses the IMF's EAP from its inception in 2002 through mid-2023, the launch of the evaluation. Drawing on experience with 38 Exceptional Access (EA) arrangements during the evaluation period, the analysis spans the EAP's objectives and design, successive reforms, and experience with implementation. It notes that there has been one comprehensive review of the EAP, in 2004, although the policy was examined and modified in 2009, 2010, and 2016.

I welcome the report's acknowledgment that the Fund has sought to serve its members well by finding a good balance between rules and discretion, while reinforcing transparency and accountability. In effect, the EAP curtailed discretion and required a more deliberate and systematic consideration of key aspects of EA programs. The EAP allowed the Fund to move beyond its ad hoc approach to EA. Importantly, it provided a framework for higher scrutiny in EA cases, through substantive EA criteria (EACs) and procedural safeguards, with built-in flexibility through room for judgment in assessing whether the criteria were met.

In considering the experience of the EAP, I believe it is helpful to bear in mind how the global economic context has evolved since its inception. The EAP was conceived and launched during the Great Moderation—a period of rapid trade integration, strong global growth, low inflation, and generally accommodative financial conditions. When countries with imbalances faced shocks and had exceptional financing needs in this context, it was by and large reasonable to expect them to adjust quickly and exit from their crisis conditions.

Yet, large systemic shocks in the past two decades—the Global Financial Crisis, the European sovereign debt crisis, and more recently the COVID-19 pandemic, conflicts, and geoeconomic fragmentation, among others—have led to notable changes in the context.

Global growth prospects have steadily weakened, and policy buffers have eroded, making the world shock prone. Social strains have risen. Members have generally moved from the workhorse Stand-By Arrangement (SBA) to the Extended Fund Facility (EFF), as balance of payments needs are more protracted, and it is taking more time to resolve them.

These developments have posed a complex set of challenges for our members, including those with exceptional balance of payments needs. In my view, the EAP has provided a valuable operational framework for evaluating EA requests, with due flexibility to support members while preserving safeguards. The focus on debt sustainability, the Fund's catalytic role, and program ownership and capacity to deliver on commitments are fundamental. Yet, there is no one-size-fits-all solution that can work. We need a robust, yet nimble, framework to balance assisting members in heterogeneous and evolving conditions with appropriate safeguards. This is why I welcome this timely discussion on the EAP.

Below is my response to each of the five recommendations of the IEO report. In considering their merits, it is important to be mindful upfront of the resource implications of implementing each recommendation. For this reason, my response will target core issues with the greatest impact on the EAP framework. It is critical to leverage existing ongoing workstreams to provide advice and clarity on further operationalizing EAP where needed.

RECOMMENDATIONS

Recommendation 1. EAP 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.

I support this main recommendation with qualification.

Summary of possible specific steps identified by the IEO for future consideration at the MIP stage:

- ▶ *Regular reviews.* Regular, thorough, and inclusive reviews should be the main vehicle for making changes to the EAP. 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.
- ▶ *Adequacy of existing access limits.* 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.
- ▶ *Transparent use of flexibility.* The subsequent EAP review could consider if the use of the exceptional circumstances (EC) clause warrants any change to the policy.

I agree that a dedicated review of the EAP is needed to ensure that the policy remains fit for purpose in an evolving global context. Flexibility in timing and format are crucial, not least because a comprehensive EAP will come with notable resource requirements, given the unique characteristics of EA cases. A flexible and context-specific approach would facilitate more effective discussion and avoid the implication that technical adjustments can overcome substantial shortcomings. I also understand that the evaluation eschewed looking at PRGT and blend issues in depth, owing to ongoing PRGT and blend EA arrangements and the recent Review of the PRGT Facilities and Financing. However, there is clear benefit in applying a broader lens to the forthcoming recommended EAP review.

I have some reservations about the proposal to reintroduce an Exceptional Circumstances (EC) clause in cases where Exceptional Access Criteria (EAC) are not met. Although on the surface this would appear to be a reasonable compromise, it could risk stigmatizing programs where this is applied, working against market re-access and raise concerns about evenhandedness and transparency in our lending policies. Ringfencing of the EC clause to limit its use to rare, well-justified cases with adequate safeguards could prove challenging in practice and may not deliver better program performance. Further deliberation and careful consideration are warranted.

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.

I support this main recommendation with qualification.

Summary of possible specific steps identified by the IEO for future consideration at the MIP stage:

- ▶ *Justification of program design.* Program staff reports should clearly articulate the reasons for key policies chosen, how tradeoffs 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. A clear disclosure of risks to the Board will be important in internal discussions.
- ▶ *Refocusing of EAC4.* 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.
- ▶ *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.
- ▶ *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.

I strongly agree on the importance of effective program design. All Fund programs must adhere to Upper Credit Tranche (UCT) standards. The EAP involves stricter substantive (the EA criteria) and procedural requirements. The IMF's internal review process, Board engagements, and ex post evaluations provide varied and robust fora for discussing policy choices and tradeoffs in program design in a frank and confidential setting. Clear disclosure of risks to the Board is paramount in this regard.

The fundamental objective of the EAP is to provide enhanced safeguards in EA cases. To that end, requests for EA programs trigger the application of higher scrutiny to ensure countries meet EAC and procedural requirements, including Board consultation. However, the guidance on program design and conditionality for UCT-quality programs holds for both EA and NA programs resulting in a single, common UCT-quality standard across Fund-supported programs. I think that is appropriate rather than introducing differing standards or expectations. In that context, further clarifying the purpose of the EAP and the role of program design in EA and NA programs would be useful.

While I agree on the general need to consider specific program design elements and the merits of strengthening the EA criteria, we need to strike a careful balance between forcing additional rigor in assessment frameworks and preserving their practical applicability across heterogeneous situations—to adequately capture differing forms of institutional and political capacity and commitment.

I welcome ongoing staff efforts to develop clearer guidance for assessing political assurances in Fund arrangements. We should build on this work to also enhance our assessment of institutional capacity, especially where it leverages existing analysis and guidance in areas such as social spending. This could include the extensive related advice in the Operational Guidance Note on Program Design and Conditionality, to highlight special considerations in EA cases.

I welcome the suggestion to recognize the importance of communications in EA cases.

Recommendation 3. EACs: 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.

I support this main recommendation with qualification.

Summary of possible specific steps identified by the IEO for future consideration at the MIP stage:

- ▶ *EAC1.* Possible enhancements to staff reports include the following: 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.
- ▶ *EAC2 and EAC3.* Measures to improve these criteria could include 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.

I agree that a review of the EAP should assess options to increase the effectiveness of EAC. However, the proposal to develop additional analytical frameworks for assessing forward-looking criteria EAC1–EAC3 should consider their usefulness and resource implications. Mechanical patches for complex issues could inadvertently provide a false sense of comfort that risks may not emerge (or, conversely, could introduce too many false alarms). Specifically, on EAC2, this relates to how well the analytical frameworks would be expected to perform in improving the balance of missed crises and false alarms. Our research suggests

that frameworks perform better when supplemented by judgment, which would accordingly need to continue playing an important role.

I take note of the recommendation to clarify expectations surrounding the reversion of “gray zone” cases to debt sustainability with high probability. This issue was debated during the previous reform. Still, further reflection and review based on more recent data is useful as we do not want to increase the risk of inadvertently raising prospects of deeper debt restructurings and increased losses, in turn diminishing the prospects for fulfilling EAC3 and undermining the ability of the program to be successful.

Recommendation 4. EAP procedures and EPEs: 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.

I support this main recommendation.

Summary of possible specific steps identified by the IEO for future consideration at the MIP stage:

- ▶ *Enhanced decision-making procedures.* 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. Management and staff should ensure that EPE leaders and teams have adequate independence.

I strongly agree that there is merit in early and regular consultation with the Executive Board, as required by the EA procedures. Preserving flexibility on the format, timing, and content of these interactions is essential to safeguard confidentiality and avoid frontrunning negotiations with country authorities.

I agree with the recommendation to strengthen EPEs by implementation procedures that facilitate more systematic follow-up. More systematic follow-up could help strengthen

the EAP, but it will be essential to maintain adaptability, particularly regarding which EPE recommendations can be implemented. I welcome the recommendation to strengthen transparency of the EPE process, including by having a roster of EPE leads and the formation of an interdepartmental review group.

Recommendation 5. Enterprise Risk Management (ERM): 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.

I support this main recommendation.

Summary of possible specific steps identified by the IEO for future consideration at the MIP stage:

- ▶ *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.

- ▶ *Risk analysis in program documents.* EA program proposals should build on recent progress to enhance the presentation of enterprise risks in EA program cases.
- ▶ *Office of Risk Management (ORM).* 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.

I concur with the need to ensure coherence between the EAP and ERM, and recognize the importance of timely risk disclosures to the Executive Board and continued progress to enhance risk analysis in program documents. Given the need for granular information, primary responsibility would remain with area departments, in close consultation with review departments, including ORM. ORM’s focus is on strengthening the enterprise risk framework, tools, and exercising its challenge in the review process. I see value in further leveraging Enterprise Risk Assessment as a disclosure and accountability mechanism for risk tolerance, with a view to more systematically and as needed confidentially informing the Board about the risks in EA programs.

AREA OF RECOMMENDATION	POSITION
1. Exceptional Access Policy Review	Qualified Support
2. Program design in Exceptional Access Cases	Qualified Support
3. Exceptional Access Criteria	Qualified Support
4. Exceptional Access Policy procedures and Ex Post Evaluations	Support
5. Enterprise Risk Management	Support