



Executive Board Minutes 23/19-1

March 15, 2023–10:00 a.m.

Changes to the Fund’s Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing Under Exceptionally High Uncertainty

Documents: SM/23/56 and Sup. 1

Staff: Murgasova, FIN; Liu, LEG; Flanagan, SPR

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CEDA OGADA
Secretary

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¹ Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Open Archives Policy.

THE CHAIR’S SUMMING UP

Executive Directors welcomed the opportunity to consider reforms to the Fund’s Financing Assurances Policy that would enable the approval of upper credit tranche Fund arrangements (UCT arrangements) in cases of exceptionally high uncertainty. Directors stressed that emergency financing through the Rapid Financing Instrument and/or Rapid Credit Facility would generally be the appropriate modality for the Fund to support members with urgent balance of payments (BOP) needs in the context of exceptionally high uncertainty. However, stronger Fund engagement in a UCT context with a member facing exceptionally high uncertainty might be deemed appropriate and consistent with Fund policies in certain cases.

Directors agreed that a case of “exceptionally high uncertainty” is characterized by all of the factors set out in paragraph 13 of the paper. Directors stressed that the assessment of whether a case is one of “exceptionally high uncertainty” must be made in a manner that ensures uniformity of treatment and evenhandedness across the membership.

Directors recognized that it is extremely difficult to design a UCT-quality arrangement in cases of exceptionally high uncertainty. They supported the approach detailed in the paper of setting out two fully elaborated scenarios in such cases, covering both a baseline and a downside scenario, noting the need to demonstrate that a Fund-supported program could work in both scenarios, and that these scenarios would need to be sufficiently separated to generate confidence that the program could succeed and solve the member’s BOP problem and restore the member to medium-term external viability, notwithstanding the exceptionally high uncertainty about the ongoing shock. Directors stressed that a member would need to have the capacity and commitment to implement a UCT arrangement in such circumstances and to provide the necessary data for the Fund to be able to monitor the program, and that a Staff Monitored Program or Program Monitoring with Board involvement might first be necessary to establish a track record on this.

Directors stressed that proceeding with a Fund-supported program in cases of exceptionally high uncertainty would require careful judgment about whether such a program would be feasible and credible given its likely risk characteristics, and be consistent with legal and policy requirements for Fund lending. These requirements include providing adequate confidence about the ability of the program to solve the member’s BOP problem and restore the member to medium-term external viability, while providing adequate safeguards for the repayment of the Fund’s financing. The Board would need to make this judgement, based on a recommendation from Management and staff, at the time of approval of the arrangement as well as at subsequent reviews. Directors expected that, to the extent the exceptionally high uncertainty dissipates, the program design would revert to the standard Fund approach to lending built just around the baseline. In the event that the circumstances of exceptionally high uncertainty were to deteriorate and questions arose about whether the

level of confidence had become too low to clearly and credibly establish a program design to resolve the member's BOP problem and/or restore debt sustainability, then Directors would need to determine whether further financing under the arrangement would become infeasible.

To support the Fund's ability to approve UCT arrangements in cases of exceptionally high uncertainty, Directors endorsed the use of a procedural safeguard set out in paragraph 18 of the paper for an initial engagement with Executive Directors. Some Directors called for a broader engagement than set out in the paper, with a few Directors calling for a formal Board meeting.

Directors also supported two policy modifications, applying only to cases of exceptionally high uncertainty, to allow UCT arrangements. First, Directors supported the modified approach in cases of exceptionally high uncertainty set out in paragraph 25 of the paper for official bilateral creditors to deliver credible upfront assurances covering their commitments to help restore debt sustainability where contributions from official bilateral creditors are needed to restore debt sustainability. Directors also endorsed the proposal set out in paragraph 26 of the paper, for situations of exceptionally high uncertainty, to extend the existing use of a capacity-to-repay assurance from official bilateral creditors/donors to ensure adequate safeguards for the repayment of the Fund's financing from an emergency financing context to a UCT program context.

Directors welcomed the paper's discussion of risks and noted that the proposed policy changes involve considerable enterprise risks to the Fund while also noting the mitigants to address these risks identified in the paper. However, they generally agreed that when considering these risks—including reputational and spillover risks—the benefit of having the option of supporting members facing exceptionally high uncertainty outweighs the additional risk of the proposed policy change.

EXECUTIVE BOARD ATTENDANCE ²

K. Georgieva, Chair

Executive Directors

W. Nakunyada (AE)

R. Nicholl (AP)

A. Bevilaqua (BR)

Z. Zhang (CC)

A. Guerra (CE)

P. Jennings (CO)

A. Buissé (FF)

F. Giammusso (IT)

J. Mizuguchi (JA)

B. Bijani (MD)

P. Hilbers (NE)

V. Vasiliauskas (NO)

A. Mozhin (RU)

A. BinZarah (SA)

M. Peter (SZ)

S. Riach (UK)

E. Shortino (US)

Alternate Executive Directors

R. N'Sonde (AF)

J. Corvalan (AG), Temporary

M. Mert (EC)

H. Koh (GR)

S. Hansda (IN), Temporary

A. Alhosani (MI)

I. Hendrayadi (ST), Temporary

C. Ogada, Secretary

R. Gregory, Summing Up Officer

D. Alcantara / D. Jiang, Board Operations Officers

M. McKenzie, Verbatim Reporting Officer

Also Present

African Department: A. Fedelino, E. Gemayel, M. Kamel Farid Mohamed Farid, V. Kramarenko, H. Teferra. Communications Department: N. Ismail, I. Yackovlev Perez-Vilches. European Central Bank: D. Rakitzis, R. Rueffer. European Department: A. Kammer,

² For countries in each constituency, please see the Constituency Codes in the annex.

U. Ramakrishnan. Fiscal Affairs Department: A. Ceber, M. Griffiths, A. Senhadji. Finance Department: S. Cauchi, P. de Imus, G. Everaert, N. Ferreira Souza Sobrinho, H. Hatanpaeae, B. Jajko, L. Khaw, B. Lauwers, D. Moore, Z. Murgasova, N. Pequignot, D. Stenzel. Independent Evaluation Office: V. Arora, L. de Las Casas Perez de Orueta. Legal Department: J. Ams, W. Bergthaler, C. DeLong, Q. Li, Y. Liu, D. McDonnell, G. Rosenberg, J. Swanepoel, R. Weeks-Brown. Middle East and Central Asia Department: A. Arvanitis, J. Ramirez Rigo, C. Serra Ronceros, I. Vladkova Hollar. Monetary and Capital Markets Department: Z. Arvai, T. Jonasson, E. Togo. Office of Risk Management: B. Boulwood, J. Manning. Strategy, Policy, and Review Department: M. Cerisola, M. Chamon, M. Cihak, M. Flanagan, R. Goyal, A. Kangur, L. Kohler, N. Meads, C. Pazarbasioglu Dutz, M. Ricaurte, F. Roldan. Western Hemisphere Department: C. Oner. Executive Director: L. Herrera (AG), R. Lim (ST), M. Mohieldin (MI), D. Palotai (EC), K. Subramanian (IN), F. Sylla (AF). Alternate Executive Director: M. Alrashed (SA), C. Amarasekara (IN), R. Anwar (ST), J. Betancur Mora (CE), P. De Ramon-Laca Clausen (CE), M. El Qorchi (MD), C. Just (EC), M. Kashima (JA), H. Kim (AP), P. Loszewski (SZ), A. Marcussen (NO), M. Mbuyamu (AF), F. O'Brolchain (CO), O. Parkyn (AP), S. Potapov (RU), V. Rashkovan (NE), C. Roman (FF), M. Trott (UK), A. Ubissee (AE). Senior Advisors to Executive Directors: X. Bai (CC), S. Chicas Cienfuegos (CE), M. Choueiri (MI), T. Doss (AP), J. Essuvi (AE), E. Hagara (EC), H. Karhapaa (NO), T. Krahne (GR), A. Medearis (US), A. Nainda (AE), S. Naka (JA), M. Nkusu-Mulumba (AF), C. Quagliarini (IT), J. Rojas (CE), C. Sassanpour (MD), A. Tolstikov (RU), R. Velloso (BR), M. Villeneuve (CO), B. Yoo (AP). Advisors to Executive Directors: T. Abalala (SA), A. Abdul Raheem (MI), N. Abu Bakar (ST), N. Akosah (MD), F. Al-Kohlany (MI), I. Allika (NO), P. Al-Riffai (MI), T. Azlan Ariff (ST), G. Basutli (AE), S. Belhaj (MD), A. Biriukov (RU), M. Boehme (GR), E. Boukpepsi (AF), A. Campbell (UK), M. Coronel (BR), M. Damane (AE), S. Dash (IN), R. Edwards (CO), C. Eijking (NE), R. Fayez (MI), E. Fisher Hogan (BR), F. Fuentes (BR), D. Hamzah (MI), R. Jain (IN), T. Keating (US), T. Khatiwada (ST), C. Kuth (SZ), M. Kwizera (AE), V. Lankester Campos (CE), P. Mansaray (AE), M. Merhi (MI), D. Milutinovic (NE), R. Moral Betere (CE), A. Mostajo Soto (AG), W. Obeney (UK), G. Ogmundsdottir (NO), Y. Qi (CC), E. Shimada (JA), I. Valdes Fernandez (FF), N. Wallin (NO), K. Florestal (BR), F. Lopez (CE), D. de Waziers (FF).

DISCUSSION RECORD³

The Chair:

The topic of this meeting is Changes to the Fund’s Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing Under Exceptionally High Uncertainty.

At the outset of the meeting, I want to start by thanking you for your thorough engagement. On February 16, management and staff engaged the Board on this subject. At that time, we had a broader discussion on the limitations of the Fund’s current toolkit in addressing our members’ debt-related challenges.

What we present today is how we can help members facing exceptionally high uncertainty. In the past, we have been able to step up when the needs of our members require it. Today we are proposing targeted policy changes so we can further develop our toolkit to tailor our support to the current conditions, with frequent and severe exogenous shocks.

Let me make three points for the Board.

First, while we do have a specific case that is going to come to your attention soon—and that is Ukraine—if the policy is approved, I want to make it very clear that the policy is not limited to just this upcoming case or just to situations of war. Any country that meets the definition of “exceptionally high uncertainty” could use it if we have a suitable program designed and assurances assembled. Uniformity of treatment is a central piece. It is at the heart of the work of the Fund. It is in that spirit that we are putting in front of you clearly articulated rules and definitions so we can explain to members routes they can take under circumstances that are based on the characteristics in the definition.

Many of you are wondering whether this policy change will be applicable to fragile and conflict-affected states (FCS). Yes, some FCS countries may face a situation of exceptionally high uncertainty. Should they meet the definitions in the paper, it would possibly open a route for them.

Second—and this is very important for the Board—many Directors would like us to address other problems in our debt policy toolkit, problems

³ Edited for clarity.

that stay in the way of the Fund engaging with members in different yet equally difficult circumstances. We are committed to find solutions. I want to pledge to you that when we come back from the Spring Meetings, we will come to the Board with another informal engagement focused on resolving other debt policy challenges.

Finally, many are concerned with the risks to the Fund. We have come back in this policy paper with a thorough accounting of these risks and how to mitigate them. I want to praise staff for the enormous amount of work they have done so we can bring this paper to you with the confidence that it is addressing the risks the Fund may face appropriately.

Needless to say, we have the risks of action. We also have the risks of inaction. It is in that spirit that we are here to discuss what the staff proposes.

Mr. Mizuguchi:

We thank staff for the comprehensive report.

First, we fully support all the staff's proposals to enable an upper-credit tranche (UCT) program under exceptionally high uncertainty. We highly appreciate the staff's timely, strenuous, and innovative work to adjust the Fund's policies to meet the evolving needs of the membership. We note that the paper has incorporated the informal discussion in February, and above all, the comprehensive analysis on enterprise risks is very helpful for the Board in making risk-informed decisions. While we acknowledge the risks of a UCT program under exceptionally high uncertainty, we concur with the staff that not changing the policy could have significant drawbacks to the Fund and to the global economy. We are also assured to see sufficient clarity of the framework to ensure consistent application.

Second, the proposed features of the framework could meaningfully mitigate those risks from exceptionally high uncertainty. We agree with the changes in the assurance policy to allow for a two-stage approach and to extend the capacity to repay assurance to a UCT context, as they could enable the Fund to catalyze international support in such cases and ensure adequate safeguards.

Further, we would highlight that the most critical risk mitigation is a modified program design, itself, with two scenarios, which would allow staff to establish a robust and resilient program, despite such high uncertainty.

Lastly, it goes without saying that the authorities' strong capacity and ownership are prerequisites for a successful program. And here, we see an SMP or a program monitoring with Board involvement (PMB) as very useful tools to test their commitment.

Mr. Giammusso:

We issued a gray statement fully supportive of the staff's proposal to change the Fund's policy which fills a gap.

I wish to reiterate that the staff's proposals are a useful addition to the Fund's toolkit, demonstrating the Fund's ability to adjust to emerging challenges, as consistently shown previously in the case of the response to the COVID-19 pandemic and climate change challenges. It is not the first time that we fill a gap. We believe that the staff's proposals strike an appropriate balance between providing support to member countries facing exceptionally high uncertainty and ensuring adequate safeguards for the Fund's lending. These are unusual or exceptional situations and have to be approached in a proper, wise way. We believe the paper provides sound advice and such an approach.

First, the exceptionally high uncertainty should stem from sources beyond the control of the authorities and the reach of their economic policies. This is the first important point made in the paper.

Second, a UCT program should be potentially effective. It should provide an impact. Otherwise, it would not make any sense, and this has to be assessed. The authorities should be in the condition to implement it. Otherwise, it would make not much sense.

Third, a whole range of risks, as listed in the paper, should be considered. Among them, those due to the cost of inaction—especially if these costs would spread well beyond the country under consideration. This point should be even more prominent.

That said, high uncertainty remains. Therefore, we should take care of adequate safeguards for the Fund. I believe the innovative proposal of staff, the two scenarios—the financial assurances, capacity to repay, et cetera—achieve the objective. Let me reiterate our full support for the staff's proposal.

Ms. Riach:

As we said in our gray statement, we strongly support these proposals. Overall, Fund lending policies are robust, but we do see a gap in our ability to support members when they face exceptionally high uncertainty. If we cannot find a way to support a member in such circumstances, that could have severe consequences, both economically and reputationally.

I have carefully read my colleagues' gray statements, and I am very pleased that most colleagues can support the proposed changes. However, a number of colleagues do raise legitimate concerns that are worth pausing on. It seems to me that there are two key themes at the heart of this discussion, evenhandedness, and risk management.

On evenhandedness, I agree with Mr. Nicholl that the term does not mean we provide the same solution to every country. That would fail to recognize the diversity of our membership. Instead, it means equal opportunity to access the Fund's toolkit, tailored to the country's characteristics and capacity. As the Managing Director said, what we need are clearly articulated rules and definitions. I believe that the staff proposals achieve this. In particular, we are satisfied that this set of policy changes can be applied in an evenhanded manner for two reasons.

Firstly, the definition of "exceptional uncertainty" is characteristic-based. In our opinion, this does not *ex ante* include any member, including FCS; but it would be a mistake to fold the characteristic into the FCS Strategy. As noted by staff, most FCS countries do not face exceptionally high uncertainty. Equally, it is not clear that every country facing exceptionally high uncertainty would be a fragile state. On top of this, the procedural safeguard for each proposed case enables the Board to discuss whether we are delivering evenhandedness and to provide robust feedback to staff.

On risk, the staff have done a very good job in ensuring substantial safeguards, including that the definition of "exceptionally high uncertainty" is tightly ring-fenced, so it should only be used rarely. We believe that the procedural safeguard, which enables the Board to ensure the uncertainty criteria are met and that in whatever the enterprise risk context at the time of the Board discussion we can decide whether we are comfortable with the elevated risks involved in the lending scenario. These safeguards complement all the other safeguards we usually have, such as program conditionality, the Fund's preferred creditor status, and its precautionary balances. As noted in

the paper, when taken together, the long list of safeguards do not remove risk entirely. But as we often discuss, it is important that we accept risk if it is required to support members in line with our mandate. In that context, these changes are an important step to strengthen and embed flexibility into the Fund's toolkit as we learn lessons from recent and ongoing crises and prepare for future challenges.

The Chair:

I would like to make an observation that what we are proposing for approval is not a shortcut. It requires more steps than the normal approach to UCT programs. We demand more because it is a more complex situation. As much as possible, we would rather have a traditional UCT program, but we have to be able to respond, should the conditions require that from us.

Mr. Guerra:

We support the proposed changes to the Fund's financing assurances policy framework for UCT financing under exceptionally high uncertainty. The objective should be to enhance the Fund's ability to support members with prolonged balance of payments needs, while having adequate safeguards to better serve the membership in a timely and evenhanded way.

We believe that stronger safeguards than the assurances given in emergency financing are necessary in a UCT in cases of exceptionally high uncertainty. The proposal is a good starting point that will have to be revisited as we gain experience, as in the case of other important policy challenges.

I want to make three points.

First, it is instrumental in the proper implementation of the policy that we secure evenhanded treatment among the membership. This, without a doubt, will be the important challenge. We highlight several elements that will be instrumental in the proposed framework to diminish this risk. The first element is the definition of exceptionally high uncertainty to be characterized by a combination of factors. The second one is the use of procedural safeguards, including by early engagement with the Board. The third one is that, in our gray statement, we propose that, going forward, we will build a staff guidance note to mitigate the risk of differentiation of treatment because of the use of different procedures. There were many questions by Directors regarding procedures that were answered by staff, which points to the need for

this guidance in the future. This will also help mitigate the operationalization risk of this new policy, a point also made by Mr. Hilbers.

My second general point is that the proposed enhancement of financial assurances, including the capacity to repay assurances, should not substitute for the Fund's risk management framework. It should complement it. We welcome, like many Directors, the comprehensive risk analysis for the proposed policy changes and agree with Mr. Bevilaqua, that it would be extremely useful to inform our present discussion, as we are doing now. The enterprise risk analysis presented by staff balances the different aspects of risk, including that of inaction.

Going forward, it will be instrumental that we react in a timely way to any emerging additional risk to any UCT program under exceptional uncertainty and that management and the Executive Board are informed in a comprehensive and timely way so that we can implement any risk mitigation plans, if management considers it necessary, to support or deter any implementation aspects of the program. The objective of our analysis is not to deter our support to the membership but to support it in a better way by minimizing the possible risks to the implementation of our new policy.

My third and final point is that we should give sufficient and adequate resources to the implementation of these changes to our policies. It will not be a simple task to implement this policy. We should give sufficient human resources and avert any additional burden to our staff that is already working under a high workload and a short timeline.

Mr. Corvalan:

We appreciate the staff's efforts to create a framework for UCT programs under exceptionally high uncertainty with adequate safeguards.

In previous engagements, we have raised some concerns regarding financial risks, evenhandedness, financial assurances, and burden sharing. These issues are well described in the enterprise risk assessment, and staff have carefully considered them in their proposal.

While we broadly support the proposal, the devil will be in the details of its implementation in specific situations. Therefore, I would like to raise three issues to ensure an adequate implementation of the framework.

Firstly, multiple scenarios provide flexibility in designing a program, but contingent plans must remain time-consistent, ensuring that commitments for the downside scenarios are credible. This calls for an adequate program design with quarterly reviews and policy conditions, financial assurances, and progress on debt relief.

Secondly, we agree that official creditors can provide assurances in a state-contingent manner. However, sufficient and significant debt relief should be provided in the initial stage to ensure program financing and debt sustainability in the baseline scenario. Also, a robust debt resolution mechanism should be in place up front to deal with downside scenarios. As stated by Mr. Bevilaqua, Fund support should not leave the country saddled with a heavy debt burden with no possibility of restructuring.

Finally, to ensure the high quality of assurances for restoring debt sustainability and capacity to repay the Fund in downside scenarios, it is important to consider a few key factors.

Firstly, the assurances should be specific but adjustable, according to developments on the ground, and provided up front in a public manner.

Secondly, this should be assessed to be both financially and politically credible in the context of creditor and donor countries. Furthermore, they must be endorsed by a sufficiently broad group of international creditors and donors to ensure their robustness. If these conditions are met, we can be more confident about the quality and sustainability of financial assurances during the life of the program.

One last point. In terms of communication, it is advisable to avoid using the term “ringfencing” when describing the policy changes, as it gives the impression that they are aimed at a particular country. It is also important to note that there are other events, besides large-scale wars, that could justify the consideration of a UCT program under exceptionally high uncertainty. Could staff provide more examples of such situations?

The Chair:

I recognize that we have to have realistic downside scenarios and contingency planning for them. Important always, but even more important in the cases that we might be faced with under this policy. Staff will address the issue of what situations there may be.

Mr. Nicholl:

We issued a gray statement, so I have nothing to add to the comments we made, which make clear our support for the policy change, as proposed.

My question is more one about the press release. I must say, I was caught by surprise last night to see this turn up in my inbox. I started wondering whether this was the sort of situation where the IMF would typically put out a press release. I can understand that you would do it if you had just created a new program. I guess I am wondering about what the motive and the audience is.

In this form, it looks to be a pretty targeted audience. I am just wondering how it will be received more generally. I can understand the reasons for and against issuing a press release about a change like this, but this is a pretty specific change, and it has taken us a lot of intellectual effort to land on this. But on balance, my preference would be to wait until a program is approved, to make reference to a change and explain it in that context. But I will leave that for management's consideration.

The Chair:

This is actually standard practice, when we have something that is decided by this Board, to be transparent about it. We do it after the Summing Up is being reviewed by the Board members, not before, so we have clarity. I think it would be advisable not to break away from this practice and go ahead with the communication, as we always would do.

I listened carefully to comments about how we best communicate, including a comment that Mr. Corvalan made on the word "ringfencing" and what that may be interpreted as. We will be following this discussion today very carefully, then work on how we communicate, but it is a good practice to be transparent, and this is what we always try to do.

Ms. Koh:

We agree that, for the past three years, the Fund's membership has been facing shock after shock, with the Fund having responded swiftly to the needs of the membership. The unprecedented amount of Fund lending, including via higher access limits, Catastrophe Containment and Relief Trust relief, the Food Shock Window, and notably, the SDR allocation, are a testament for the Fund's decisive crisis response. In fact, our discussion on the

latest Independent Evaluation Office crisis response report has confirmed the view that the Fund rose to the occasion by reacting pragmatically and decisively, bearing in mind the associated enterprise and financial risks. It is in this spirit that we view this proposal as a necessary addition to the Fund's well-established approach, while adding the necessary safeguards.

The proposed changes to the financing assurances policy will put the Fund in a position where it can maintain its responsiveness and agility to support members who are exposed to exogenous shocks outside their control and the reach of their policies and where a Fund engagement would complement a concerted and collective effort of the international donor community to contain the crisis through anchoring policies and catalyzing donor support.

On the latter point, we agree with Ms. Lim that considering the crucial role of assurances in such an arrangement, it is paramount that the creditors and donors have strong financial strength and a track record of previous contributions to support multilateral debt relief initiatives.

We believe that this carefully crafted proposal balances the two fundamental challenges at the current juncture—that is, helping the Fund in delivering its mandate under very exceptional circumstances, while keeping financial and operational risks at bay. I share Mr. Sylla's and Mr. Nakunyada's call for a satisfactory program implementation and track record that requires both the capacity and commitment to implement a UCT program. I also agree with both Directors, that the Fund's lending policies are quite robust, and any changes should be convincingly motivated and avoid weakening evenhanded access to the institution's resources. In that sense, we are open to discuss Mr. Bevilaqua's proposal on procedural safeguards.

Finally, on evenhandedness, we support other Directors' call that the Fund, in the application of this policy, must adhere to the principles of uniformity of treatment. The staff note—which transparently lays out the parameters of the adapted policy, weighing the pros and cons, staff's continued engagement with the Board, and today's discussion—provides a good basis to ensure evenhandedness.

The Chair:

Indeed, we have been challenged multiple times, and we have done our job to rise to this challenge. Starting this morning, with Credit Suisse finding itself in a difficult spot, we only can reflect that it is a more uncertain

time we live in, and we cannot sit idle and not bring the Fund's capabilities forward in a responsible manner.

Mr. Bevilaqua:

The goal of assisting member countries facing exceptionally high uncertainty, beyond the potential use of the Fund's emergency financing facilities, is certainly worthwhile discussing. After all, we are in the business of helping the membership in times of need and in the best way we can, within the Fund's mandate.

Having said that, we take note of the report's well-crafted enterprise risk assessment, which highlights that the staff's proposed changes to the Fund's financing assurances policy could expose the Fund to significant financial, operational, and reputational risks if not accompanied by strong safeguards.

Protecting the Fund's resources, including their revolving nature, while not burdening a member country with preferred creditor status debt that, down the road, it will not be able to reschedule or write off, if needed, should be paramount in any changes to the existing framework.

If the Board decides to approve the staff's proposed changes, it will be particularly important to hold an early and separate formal Board meeting for each specific request for a UCT program under exceptional high uncertainty.

This formal Board meeting should: first, ascertain whether the exceptional high uncertainty threshold has been met; second, evaluate the quality of the financing assurances being provided; and third, determine whether the membership could go along with the proposed level of access for that case. Only then could the risks to the Fund's balance sheet be properly appraised.

While the "procedural safeguard" mentioned in paragraph 18 of the staff report covers some of this ground, we believe the discussion should be broader and subject to a formal Board decision.

While the Fund has so far had a good record of relying on financing assurances for its lending operations, putting together a UCT program under exceptionally high uncertainty will make the arrangement highly susceptible to design misspecifications in a fluid context, where the member's capacity to act is limited.

The program may also fail due to reasons beyond the control of the authorities, and any feasible corrective measures may be insufficient to put the program back on track, as acknowledged in the staff report.

In this case, repayments to the Fund will depend solely on the financing assurances from bilateral creditors and donors. This should raise the bar in terms of the quality, specificity, and timeliness of such assurances. It will be difficult to argue that financing assurances should not be fully provided in advance to properly safeguard the Fund's resources.

In sum, it will be critical to obtain upfront, credible, and specific financing assurances, including to protect future repayments to the Fund by the member country, given the extreme difficulties in designing a robust UCT program under exceptionally high uncertainty.

Before I conclude, we would like to lend our strong support to a crucial point raised in the written statement issued by Mr. Bijani, Mr. Nakunyada, Mr. Sylla, and their colleagues, and by Mr. Guerra and Mr. Corvalan, in their interventions, on the need to apply this new policy, if approved, in an evenhanded manner across the membership, as our rules require. I was reassured by the Chair's remarks in this direction.

Mr. Bijani:

As Ms. Riach mentioned, there are two common elements in all the gray statements—mismanagement and evenhandedness. When it comes to evenhandedness, the Chair's opening remarks—basically saying that this is applicable to FCS countries and also uniformity of treatment—are quite promising. Thank you for that reassurance.

As Mr. Bevilaqua mentioned, together with Mr. Sylla and Mr. Nakunyada, we referred to the issue of evenhandedness. While we see merit in supporting member countries facing exceptionally high uncertainty, beyond emergency financing, with adequate safeguards, further clarifications of the range of exceptional circumstances is also important to avert those issues.

Taking note of footnote 12, on page 8, we would welcome staff's comments on how the proposed changes would adequately ensure timely and evenhanded support to a member country that is less integrated into global financial markets but is facing a dire humanitarian balance of payments crisis

due to exogenous factors, like a climate disaster or war, beyond the authorities' control and the reach of their economic policies. We welcome the staff's assessment that the proposed policy changes could expose the Fund to significant financial, operational, and reputational risks, stressing the need for a more comprehensive discussion and reflection.

We also support the proposed procedural safeguard of early Board consultation for a careful determination of whether exceptionally high uncertainty exists in such cases and whether the Fund would accept the risks associated with a UCT arrangement.

In line with Mr. Mizuguchi, Ms. Kashima, and Ms. Fukuda, we underscore the need for reasonable assumptions for both the baseline and adverse scenarios, while ensuring credible financial assurances from all creditors and a close engagement with other institutions with relevant expertise.

Finally, a carefully crafted communication to explain the particular nature of UCT lending under conditions of exceptionally high uncertainty would be paramount to safeguard the Fund's catalytic role in this context.

Mr. N'Sonde:

We have issued a joint gray statement with Mr. Bijani and Mr. Nakunyada, in which we broadly support the proposed changes to the Fund's financing assurances policy. I will limit my intervention to three points for emphasis.

First, on the appropriateness of the proposed changes. The exceptionally high degree of uncertainty, as defined in the paper, goes beyond the standard Fund approach in the context of UCT financing. As we have learned from the crisis over the past several years, circumstances can drastically worsen quickly and unexpectedly. Accordingly, the proposed changes—to the extent that they allow the Fund to support its members with UCT lending under adequate safeguards, even in situations of exceptionally high uncertainty—are appropriate.

Second, on evenhandedness, as stressed by a number of Directors, including Messrs. BinZarah, Hilbers, Nicholl, and Zhang, as well as Ms. Lim, it is important to ensure that the proposed changes are applied evenhandedly across the membership. The Managing Director made this point and we thank her for this assurance.

While the definition of “exceptionally high uncertainty” means that such situations would occur rarely, it is possible that certain FCS already face such uncertainty and do meet the conditions for the proposed changes to apply.

Based on the Fund’s latest available FCS list, our constituency has the highest number of FCS among the membership, including some facing conflict and other adverse shocks beyond the authorities’ control. We hope that, in the undesirable case that they were to experience situations of exceptionally high uncertainty, they would benefit from the proposed policy changes.

Finally, a guidance note to staff could be useful for the following reasons.

First, it would provide a well-thought-out framework for staff to methodically deal with requests for UCT-quality programs in situations of exceptionally high uncertainty which, though expected to be rare, would involve implementing policy changes that represent a significant departure from the Fund’s standard approach.

Second, the guidance note would help to navigate, in the best way possible, not only the operational risks arising from the proposed changes but would also facilitate an evenhanded application of the new policy.

Mr. Jennings:

We support the proposed policy changes, which will help clarify a path to a UCT program in the rare situation of exceptionally high uncertainty and, importantly, to ensure uniformity of treatment and adequate safeguards in the use of this path. This will help ensure that the Fund can play its important role at the center of the global financial safety net in such cases and will help to mitigate adverse spillovers and the other costs and risks of inaction. However, we also recognize that there remain other obstacles to UCT arrangements. As a result, we look forward to addressing other known issues, including those related to debt-related safeguards and with the same ambition on speed.

Ms. Shortino:

We issued a gray statement supporting the policy changes, so I can also be brief.

First, like others, I want to stress that it is important that the IMF be able to move quickly and flexibly to support the membership in times of crisis. While rare, there are situations of exceptional uncertainty where the cost of IMF action and the negative externalities, especially to low-income countries (LICs) and fragile states, is high. In these situations, swift IMF support—I want to emphasize—not only assists an individual member but the broader membership. This is a very timely discussion.

We welcome that the paper proposes a transparent, clear, and characteristic-based articulated definition of “exceptional uncertainty.” We also agree that early consultation with the Board is a critical step to determine whether the definition has been met. Like Ms. Koh, I am very open to Mr. Bevilacqua’s proposal on this being a formal Board.

I think you make a good point about evenhandedness, and I also really liked how Ms. Riach framed this as well. It is really important to emphasize that these policies will and should apply uniformly to the entire membership, including fragile and conflict-affected states.

While the defining characteristics of exceptional uncertainty—including the exogenous source of uncertainty outside of the authorities’ control—are distinct from the characteristics of the definition of FCS, that does not mean that an FCS country could not meet these characteristics and could access a program in this context. That is an important thing for us all to recall, because uniformity of treatment is quite critical.

On the issue of risk, I would agree with others that there are risks to the proposal, but that is exactly why our strengthened risk management approach is so helpful. The Fund cannot shy away from risks. But by identifying the risks, we can find ways to mitigate them. The early Board engagement, the assessment that the authorities have the capacity to implement a UCT program in this scenario, along with other safeguards, such as financing assurances from a significant group of creditors and donors that have a track record of contributions—all of these aspects go a long way to help mitigate the risks that are identified.

Finally, I will just note that we look forward to further progress on the separate work stream related to debt sustainability as a follow-up to our last informal Board meeting on February 16. I would agree with others that this is urgent, so I welcome your commitment, and that of staff, to work hard on this and come back to the Board quickly.

The Chair:

I am very keen to see us being this community that comes together when faced with particularly dramatic circumstances. I am very heartened by the way we do it today, projecting confidence to those that may find themselves in similarly exceptionally difficult circumstances by no fault of their own—that they can count on this community to step up for them.

Mr. Vasiliauskas:

We issued a gray statement, so I will only make a few points.

First, it is very important for the Fund, as an institution, to be able to use its important financing instruments also in exceptional cases, where high uncertainty can very negatively impact not only the member state but also the existing financial safety net and the Fund, the central institution of that financial safety net.

Second, we appreciate that the proposed policy changes are targeted and that the characterization of “exceptionally high uncertainty” is well defined. This allows the Fund to provide financing under UCT-quality program standards in cases with exceptionally high uncertainty, while ensuring uniformity of treatment and alignment with the Fund’s legal and policy frameworks.

Third, we appreciate the chapter in the staff’s note on enterprise risks, having in mind those risks and their mitigation through adequate financing assurances. We welcome the procedural safeguards proposed. We note that such a modus operandi requires frequent Board involvement in the UCT program under such exceptional circumstances as an additional safeguard.

Finally, based on those previously expressed points, we fully support the proposed targeted changes to the Fund’s financial assurances policy. I thank staff for the possibility to participate in such a sophisticated, intellectual journey.

Mr. Hansda:

We have issued a comprehensive gray statement, so I would like to flag one of our suggestions for staff’s attention and response.

Members cannot provide financing assurances without a debt restructuring plan in place. Providing financing assurances implies that creditor countries are in agreement with the debt restructuring plan that will be reviewed by the IMF after receiving the assurance. Such a *fait accompli* can be avoided if a technical session is held by the IMF staff before seeking financing assurances from creditor countries. Such a session would also provide an opportunity to present the Debt Sustainability Analysis by the IMF staff. This will ensure that the need for any such assurance is anticipated and addressed before it arises.

Mr. Mozhin:

Needless to say, we are strongly opposed to all the proposed policy changes. It is now the third time when the Fund is introducing policy changes in favor of one member. The first such case happened in 2015, when the longstanding policy of no tolerance of arrears to official bilateral creditors, was abandoned. The second such case happened last year, with the introduction of the Food Shock Window and PMB. It is now the third such case, which means that for almost a decade, the Fund has been serving the geopolitical interests of a group of members, which we find to be inappropriate, especially after hearing all these lectures about the rule of law and the like.

There are many loose ends in the proposal. For example, it is not clear what will happen in the case of a change of government in this hypothetical country—let us call it the regime change, such things happen from time to time—and then whether the international bilateral creditors and donors will still deliver on their financing assurances. If not, then who will be making repayments to the Fund? Most likely, nobody.

Mr. Mert:

We also want to echo the comments raised by many Directors on evenhandedness. In this respect, we positively note the Chair's initial remarks about the applicability of the changes in the policy.

We issued a detailed gray statement, hence, I would like to briefly touch upon one point related to the obvious tradeoff between closing the gap and the risks associated.

The proposed changes are a novelty in the Fund's toolkit. As such, they need to be underpinned by proper analysis, as they give rise to many

questions, comments, and requests for clarification. As already mentioned by many Directors and also by the Managing Director, adequately addressing the risks is essential. The changes could serve the purpose the best, while its safeguards and standards are in place.

With these remarks, we support the proposed changes and thank staff for the answers and clarifications.

Mr. Hendrayadi:

We issued a comprehensive gray statement, going along with the proposal, while emphasizing that any policy changes should be principles-based, evenhanded, and can stand the test of time.

I would like to add three points for emphasis.

First, on safeguarding Fund resources, we see merit in the staff proposal for the procedural safeguards, and like many other Directors, we believe such engagement should be done early in the process to establish sufficiently informed decision making by the Board. Like Mr. Guerra, we view that such engagement should be prepared with careful program design and adequate and enhanced assurances to contain risk.

Second, on uniformity of treatment, we welcome your first point in the remarks. The high level of judgment required in assessing program countries with highly exceptional circumstances may entail reputational risks, if its application is seen to be inconsistent. Like Mr. Guerra and Ms. Koh, we see merit in strengthening the Fund's internal review process and building guidance to ensure uniformity of treatment to mitigate such risks.

Third, on the communications strategy, we share the view expressed by Mr. Bijani, Mr. Nakunyada, Mr. Sylla, Mr. BinZarah, and Mr. Mohieldin, that communication surrounding exceptionally high-risk programs should, first, be carefully managed to avoid preempting a Board decision; and second, clearly articulate the macro-financial role of the Fund's financing, versus the role of other grants and donors which finance other purposes.

Mr. Hilbers:

I want to compliment staff for the very thorough, well thought through, and balanced paper, and also for their outreach on this issue and their carefully crafted proposal.

Mr. Vasiliauskas put it very nicely by saying this was a sophisticated intellectual journey, and I think it was a very good outcome.

Especially in these economically and financially challenging times, the Fund must be able to fulfill its important global lender-of-last-resort function. The costs of inaction are very high. We cannot sit idle, as the Managing Director put it, and much agree with that. This is true for all members of our institution that face balance of payments needs and demand Fund support.

We issued a gray statement and would like to offer the following three points for emphasis.

First, we strongly support the proposed policy proposal to manage the risks of exceptionally high uncertainty in the UCT context. It was the first pillar of the 2021 Comprehensive Surveillance Review, confronting risks and uncertainties. Since then, uncertainty has only increased, and circumstances of exceptionally high uncertainty have, unfortunately, become a feature of today's world. Not only do policymakers need to actively manage the risks of a highly uncertain outlook, so does the Fund, to continue its operations in a financially integral way. Adapting policies to deal with it is only a sign of proper risk management.

Second, like many other colleagues, we acknowledge the challenges of program design in circumstances of exceptionally high uncertainty and, therefore, welcome the additional safeguards in the form of financing assurances by creditors and donors. Besides a strong ownership by the authorities to commit to reforms, financing assurances are key to mitigate the residual financial risks for our institution caused by factors outside of the control of the authorities.

The authorities' track record in implementing reforms is important, given the risk of reform fatigue in circumstances of exceptionally high uncertainty. Like other colleagues, we feel that early Board engagement is warranted, given the risks to program success.

Finally, like many other Directors, we emphasize that the Fund's tools must be assessed and deployed in an evenhanded manner that ensures uniformity of treatment. These are very important concepts in the current discussion. We, therefore, welcome the well-balanced characterization of "exceptionally high uncertainty" in the paper that leaves room for judgment by the Board.

As stated by other colleagues, it is important that the Fund remains able to assist the entire membership in these challenging times, including many LICs and vulnerable countries that face issues of debt distress. In that context, we are, therefore, looking forward to the upcoming LIC facilities discussion and review, as well as further work on debt.

The Chair:

I thank Mr. Hilbers and others who recognized the work of staff—not only the amount of work that went into coming to the Board with a good proposal but also the thoughtfulness of making sure that we respect, above all, that we are one collective. Evenhandedness is at the heart of how we work.

Mr. Nakunyada:

We appreciate staff's innovative thinking on how the Fund can best assist the membership under exceptionally high uncertainty. However, like other Directors, we stress the need for policy changes to continue to benefit the broader membership as a global public good. We are assured by the Managing Director's opening remarks on the future application of this policy to ensure uniformity of treatment.

We issued a joint statement with two other African chairs, and I would like to provide the following additional remarks.

First, we appreciate the honest articulation of the significant enterprise risks, which is exemplary in clearly laying out all the potential obstacles. However, we underscore the need for the Fund to have the appropriate human resources and expertise to enable a successful implementation of a program under exceptionally high uncertainty, characterized by a large-scale war. The need to leverage other key partners, as outlined in the staff report, cannot be overemphasized.

Secondly, we emphasize the need to have a close look at the Fund's internal debt policies, as highlighted during the informal discussion. We would, therefore, appreciate follow-up work on this work stream in the post-Spring Meetings agenda. In the main, the proposed changes should open the door for a meaningful and flexible Fund engagement with countries to enable the Fund to take more risks in similar circumstances. A staff guidance note would also be critical to help the effective application of this framework.

Finally, like other Directors, we stress the need to carefully manage communication to avoid preempting Board meetings. There is a need to tread carefully because a lot of misinformation has already gone out there. How we communicate the macro-financial role of the IMF in a war situation, given all the financing coming from many donors, and how our role will be distinct in the context of our mandate will be very critical.

The Chair:

The way we communicate now, after when we get the Summing Up but also beyond, is critically important. I believe we will also have a chance during the Spring Meetings to engage more broadly on the reason why the Fund is adapting its toolkit—not for the first time and, I am sure, not for the last time—and why that is in the interest of the broader membership.

Mr. Zhang:

We appreciate the staff's efforts on the proposed policy change. We issued a gray statement to share concerns and reservations with many other Directors—like Mr. Bevilaqua, Mr. Bijani, Mr. BinZarah, Ms. Lim, Mr. Mohieldin, Mr. Nakunyada, and Mr. Sylla.

I would like to highlight a few points.

First, in principle, we support the reconstruction of the post-conflict countries. Meanwhile, as stated by many other Directors, we highlight that any support from the Fund to FCS and any policy changes should uphold the principles of uniformity of treatment and evenhandedness.

Many Directors raised a concern about evenhandedness. I believe this is not only talk about the implementation of the proposed policy change to ensure evenhanded access to Fund resources. It also reflects concerns about the Fund, and how it responded to members' requests for support during the pandemic—including the policy changes, including the lending design, like the Food Shock Window, like the implementation of all these different changes, more specifically in the Food Shock Window.

We know from the IEO report that a member requested Fund support but never went to the Board. There are members that asked for support from the Food Shock Window, but they never got a response from the staff.

In the report, staff mentioned that there is a risk of inaction, but that is true in other aspects, not only in the so-called exceptionally high uncertainty situations. In normal cases, there is inaction from the Fund. I always appreciate the staff and also the Managing Director's leadership when the Fund was coping with the pandemic and the following shocks. But still, the evenhandedness is a big shortfall in this process.

Secondly, we appreciate the staff's efforts to present a comprehensive enterprise risk analysis. We stress that the proposed policy change involves significant financial, operational, implementation, and reputational risk. I highly associate myself with Mr. Bevilaqua's comments in this aspect.

Thirdly, on communication, I do share several Directors' comments on communication. We need to be in a low-key manner because something already went to the media. That is not good for our policy design and policy implementation in the future.

Finally, I have a minor technical question. In the report, it is using wording as "upfront financing assurance." What is the difference when we say "upfront financing assurance" versus "financing assurance?" What is the difference between these two things?

The Chair:

You made a point about the Food Shock Window, and it makes me think whether it might be useful at some point—perhaps after the Spring Meetings—to brief the Board on how we have deployed the Food Shock Window.

I believe we have five countries tapping the Food Shock Window. We had some countries that did not benefit from it because we were moving toward UCT programs. They did not get the Food Shock Window for a good reason; they went for a UCT program. It is a very limited number of countries where we are still struggling because of debt issues primarily, because of other factors. But I recognize that briefing the Board on how we have deployed it and in which cases we opted for a UCT program, rather than a Food Shock Window—that may be a way to bring a common understanding of the utility of that particular Board decision.

Mr. Zhang:

I think “evenhandedness” also includes the financial assurance. Now we talk about changing the financial assurance policy. But if we do not change the policy, we still see some evenhandedness issues because staff always sticks to certain wording on the financial assurance letter. But I really do not think it is “assurance.” Using this word is credible. When we use the other word, it is not credible. This is a judgment. It is not good for the Fund’s policy implementation. It always depends on implementation. Even if you have this piece of paper, eventually you depend on how to restructure the debt.

Mr. BinZarah:

We have issued a joint gray statement with Mr. Mohieldin, but I would like to emphasize the following point, which goes along the lines of what some of my colleagues have mentioned.

First, we stress that the proposed policy changes expose the Fund to substantial risk, and we need to acknowledge that. We are also concerned that the proposed changes were not allowed a sufficient discussion and reflection of the consequences to ensure a careful assessment and proper mitigation measures, with a high degree of confidence, as noted in the enterprise risk management (ERM) section of the report. This concern is further reinforced by the fact that the adverse tail risks, which are not reflected in the downside risk scenario, are still highly likely, as staff confirmed in their answers to the technical questions. Furthermore, there could be an instance where assurances would cease to be effective if the Fund’s burden-sharing mechanism would take effect in case such risks materialize.

Against this backdrop, we agree that if an engagement in a UCT program under exceptionally high uncertainty was to be approved, a procedural safeguard is extremely warranted. We concur with Mr. Bevilaqua and many other colleagues, that there is a need for a broader discussion about the proposed procedural safeguards to be concluded in a separate formal Board meeting.

Finally, like many others, we stress the importance of mitigating financial and reputational risks, as outlined in the findings of ERM.

Uniformity of treatment should be largely mitigated, to the extent that the proposed policy changes would benefit the wider membership.

Before I conclude, I would like also to share the points made by Mr. Nakunyada, Mr. Zhang, and others on communication.

Mr. Buissé:

First, let me say that I fully agree with the Chair's three introductory remarks that are extremely relevant to our discussions.

Second, I thank staff for the detailed and convincing proposal on how to support members in handling severe balance of payments needs through a UCT program in situations of exceptionally high uncertainty stemming from an exogenous shock outside of the authorities' control. Like Ms. Riach and Mr. Palotai, we welcome their efforts to clarify and reflect the extensive feedback provided by the Board.

I have issued a gray statement, expressing our strong support for the proposed targeted policy changes, so I just want to emphasize and echo a few colleagues on a few points.

I agree with several colleagues, that it is essential for the Fund to have the capacity to support members under such circumstances, particularly in instances where there are high costs of inaction and risks of significant spillovers on a global or regional scale—thereby, the Fund can then play its important role at the center of the global financial safety net and help catalyze other support.

I also agree with colleagues and staff that Fund lending in such situations would involve elevated risks for the Fund and, thus, require a careful judgment to ensure the feasibility, credibility, and alignment with legal requirements for Fund lending. But this is coherent with our usual approach for Fund lending. At the end, the Board takes a risk-informed decision. I consider that this decision also includes a judgment on the commitment and the capacity of the authorities to implement a UCT program, a point also made by Messrs. Guerra, Mizuguchi, BinZarah, Mohieldin, Sylla, and Nakunyada.

I agree that the track record under a PMB would help, as we discussed in previous Board meetings when we approved the PMB. I thank staff for the clarity of this framework to ensure uniformity of treatment and alignment with the Fund's legal and policy frameworks. Staff have successfully managed to articulate a balanced set of principles and guidance to ensure consistent and transparent decisions over time, without being overly prescriptive or loose. In the end, an appropriate and evenhanded application will be the Executive

Board's responsibility. We know that, based on the definition, FCS are considered under the scope when meeting the stated criteria.

I am also very much in favor of an early engagement, and the various dimensions that Mr. Bevilaqua mentioned should be tackled. We should discuss everything. However, I tend to agree with staff that an informal Board meeting allows the Board to give guidance on all the relevant issues but also allows more speed in the process and is on par with what we do in other difficult situations, like exceptional access—and we know it works.

Finally, the Fund has shown its flexibility to adapt effectively to new challenges over the recent years and deploy its toolkit in an evenhanded way while targeting country-specific needs, like we did with the FCS Strategy that we strongly support, for example. In that context, we reiterate our support for the ongoing work program on debt, as discussed on February 16, for example.

Finally, I fully agree with Mr. Nakunyada on the importance of a carefully crafted communications strategy. I am sure Ms. Kozack could help us with that.

Mr. Alhosani:

I would like to touch upon two points.

First, I would like to align myself with all the comments that were made by Mr. BinZarah. I also support Mr. Bevilaqua's call for a separate formal meeting on the procedural safeguards, with broader discussions than staff envisaged.

Second, on the issue of evenhandedness, I share all the concerns that Mr. Jennings laid out. The first time I heard that term was during the Food Shock Window discussion. At that time, it was a bit concerning, but we have been hearing it more often as time has gone by. The concern is shared among all Board members, for different reasons, but I do not want to grow numb to the issue of evenhandedness, because this jeopardizes the legitimacy of the institution and their reputation as well.

The good part is, it sits between us here, and we do not want it to go to the outside world. So let us nip it in the bud. Let us see where the issue of evenhandedness is occurring and at what level. Let us have an honest discussion amongst ourselves and sort this out so we do not have to talk about it again.

Ms. Shortino:

I wanted to make sure I was clear on one of my comments about Mr. Bevilaqua's proposal. I do think it is an important safeguard to go back to the Board and establish that there is a situation that has met the criteria of "exceptional uncertainty." I am open to whether that is done as an informal or formal Board meeting. There are pros and cons to both approaches and would defer to staff. But it is the actual Board meeting itself and the substance that is important.

The staff representative from the Strategy, Policy, and Review Department (Mr. Flanagan):

I want to thank Directors for the discussion and feedback and comments today. There were a few questions we want to touch on.

About a guidance note, we will look at how to fit it into our work program. Obviously, there are a lot of priorities in the debt area, including the need, as the Managing Director mentioned, to come back to the Board soon after the Spring Meetings with our broader agenda. But we will definitely look at how we could fit such work into our work program in the near term.

On the issues raised, let me cover a few of them.

First, on definitional issues, there were a couple of questions. One was about the issue of spillovers and does that affect the eligibility of countries to enter into this kind of a framework. The answer is, we did not put it in the definition. It is not definitional. It is a consideration that the Board can have when weighing risks. Any country, no matter how small, can meet the definition. At the stage of the procedural safeguards, the Board needs to think about risk. The smaller the country, the less the financial and operational and other risks to the Fund. There are two balancing factors here. It is not just that the risks of inaction fall; the risks of action also fall. I want to emphasize that the presence of spillovers in the Board discussion at the procedural stage does not necessarily rule out countries that are smaller.

The second question we had was from Mr. Mendoza about examples of other situations that qualify. We left the definition open. The first thing I want to mention is, the world is an odd place. There may be situations we cannot think of right now that could qualify. It is important to leave the definition open and make it characteristics-based.

One thing we did think about—we did not put it as an explicit example—was could there be climate change examples associated with this definition? That would have to be evaluated specifically. But we thought about things like large ongoing droughts that take a terrible toll on a country's productive capacity. But each of these situations would be case-specific and would have to be looked at with the advice of international organizations with expertise, where relevant. They would have to be looked at the time with reference to the characteristics cited in the definition.

On Mr. Zhang's point, on "upfront financing assurance" versus "financing assurance," I would not read too much into this.

In the context of discussing a two-stage approach, all we wanted to do was to make clear the timing of the assurance. There is no change in the substance of assurances requirements. It is just an attempt to clarify the timing.

On the broader issues Mr. Zhang raised about financing assurances, we will take that up bilaterally with the Executive Directors' office, and we will be coming back to the Board after the Spring Meetings.

Mr. BinZarah raised the issue of whether there has been insufficient discussion. We did cite that as a risk. It was a process that appears to have been faster than it actually was. The thinking about this started last fall, and there has been a lot of interaction between staff and management to try to work through this. I do not want to leave you with the impression that we have somehow done this in the last six weeks. It is much, much longer than that. It dates back to the middle of last fall. There was a lot of thinking that went into this.

The Fund has reviews of its policies. As some of you probably discerned already, the review of this policy would be in the context of a review of the Fund's financing assurances policy, which is ahead. A number of Directors have asked us to do that. It will happen at some point. In that context, like with all policies, we get a chance to reflect on experience, update, amend, adjust, as needed, to deal with any problems that are arising. I do think there has been sufficient discussion here, and certainly Directors will have a chance to review it at some point.

The last thing I want to touch on is this issue of the nature of the Board discussion—I will not comment on formal or informal. The one thing I want

to draw Directors' attention to is the more issues you load the procedural safeguard meeting with, the later into the process you are going to push it. If you want to talk about the financing assurances received, then those giving the financing assurances will want to see a lot about the program. If you want to talk about other aspects, like the amount of financing we are going to put up, then you have to design the program. So the more you load into this meeting, the more you are going to be pushing it later and later into the process.

Two things are worth noting here. One is that there is tension with the statements of a lot of Directors that they want early engagement. If you load it with too much, you are not going to get early engagement. It is going to come later. That is a key point. You are not going to get the early engagement that you desire, and you need to be careful about that aspect of it.

If you do load it with an awful lot and force staff to go through all these steps in assembling financing assurances—a program, financing—when we come to you, for many of you, it will come across as a fait accompli, which is very different from the early engagement that we understand a lot of you have conveyed that you want.

I just want to point out this tension to Directors. I am not commenting on formal versus informal. But I want to make it clear that the choice about how much is in it, especially in a formal context, is going to affect when we can do it and whether the Board feels it has been consulted early enough.

Finally, I want to point out that an informal meeting does not limit what the Board can bring up in the context of informal engagement. The Board can give lots of guidance in an early engagement. It can comment on things like, should there be a PMB? What kind of assurances are we going to need? The Board is open to comment on a lot of things in that context.

I just want to make clear to people what is on the table. It is not as simple as it appears.

The Chair:

I want to conclude by saying that we are taking a decision today. Quite a number of you supported awareness of the fact that there has been more concern about evenhandedness.

I am confident that we can find a way to discuss, amongst us, all the aspects of evenhandedness. Mr. Nicholl's gray statement was the most explicit

about all the parameters we need to take into account—the capacity of the authorities in the country, the ability to implement a program, the strength of the financial support, the financial assurances, the ability to sustainably address the problems that are associated with the request for Fund assistance. That is something that we all have to be mindful of.

I would be keen for this Board to continue in that spirit of engagement because only when we talk with each other, we listen to each other, that we can best address the needs of our members.

The Chair adjourned the discussion.

ANNEX

- Gray Statements
- Staff's Responses to Executive Directors' Technical Questions
- Constituency Codes

**Statement by Ms. Riach, Ms. Campbell, and Mr. Obeney on Changes to the Fund's
Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing
Under Exceptionally High Uncertainty
Executive Board Meeting 23/19
March 15, 2023**

We thank staff for the clear, comprehensive, and timely paper, and welcome their efforts to reflect extensive feedback provided by Board members, including at the informal Board meeting.

We fully support the proposals, which together enhance the Fund's ability to support members with prolonged balance of payments problems while maintaining adequate safeguards. We recognize that in a situation where a member faces exceptionally high uncertainty from exogenous sources outside the authorities' control, there can be a significant cost of inaction if the Fund cannot play a role, in terms of national and global economic impacts, and reputational risk. We are satisfied that this set of policy changes will add value to the existing toolkit, and that the proposed changes are specified in a way which mitigates risks and ensures appropriate Board oversight.

We agree that the definition of exceptionally high uncertainty should be characteristic-based, and we find the factors proposed appropriate. In building the characterization, staff have struck a good balance. On the one hand the characterization avoids being overly-prescriptive, which should give the policy changes longevity. On the other hand, it avoids an excessively loose approach, which should mean that 'exceptionally high uncertainty' only occurs rarely, as the name suggests. We note that based on the definition, fragile and conflict-afflicted states may be considered in scope when meeting the stated criteria.

We recognize the significant policy challenge presented by the need to reconcile the exceptionally high uncertainty faced by the member with the need for a UCT program to solve the members' BOP problem and restore medium-term external viability. We appreciate staff's creativity in coming up with the approach which allows the design of a program around a baseline and downside scenario. We agree that, whilst challenging, this provides a framework that should make it possible to design a feasible and credible program consistent with legal and policy requirements for Fund lending including adequate safeguards. We recognize the challenge of designing a program in such circumstances and the elevated risk of larger than expected financing gaps and program failure. **However, we are convinced that this risk is appropriately mitigated through the proposed change to the financing assurances policy and extension of the capacity to repay assurance.** We

also agree that the capacity to repay assurance should complement the Fund's ex-ante risk management framework.

We appreciate the informative, full & frank Enterprise Risk Assessment which underscores the sizeable enterprise risks to the Fund, but also the risks of not making these policy changes. We are convinced that the risks presented can be effectively mitigated to a level where the net benefits of making the proposed policy changes outweigh the costs of inaction. We note in particular:

- **The procedural safeguard is a powerful risk mitigant and we agree this should apply.** This will ensure the Board has an early opportunity to consider elevated risks, consider whether such risk is acceptable and ensure that all criteria for UCT lending in exceptionally high uncertainty is met.
- **We do not see major operational risks stemming from a lack of staff expertise in the new policy.** Experience over COVID-19 and the more recent RST shows that staff can adapt quickly to changes in approach to lending operations.
- **There are significant reputational, spillover and financial risks if the Fund is not able to support a member in need.** There is an expectation that the Fund will adapt to the changing needs of its membership and continue to play a role at the center of the global financial safety net. The Board has shown its flexibility to adapt effectively to new challenges over recent years, and the proposed policy changes presented allows a continuation in this approach.

The proposed policy changes are an important step to strengthen and embedded greater flexibility into the Fund's toolkit, as we learn the lessons from recent and ongoing crises and prepare for future challenges. The flexibility to tailor support for members using all our available means – including emergency financing, UCT quality programs, precautionary facilities, and capacity development – must be deployed in an even-handed way, while targeting country-specific needs.

**Joint Statement by Mr. Bijani, Mr. Nakunyada, Mr. Sylla, Mr. Essuvi, Ms. Nkusu, and
Mr. Akosah on Changes to the Fund's Financing Assurances Policy in the Context of
Fund Upper Credit Tranche Financing Under Exceptionally High Uncertainty
Executive Board Meeting 23/19
March 15, 2023**

We thank staff for the concise paper on Fund upper credit tranche (UCT) program financing in situations of exceptionally high uncertainty and would like to offer the following comments.

The Fund's lending policies are quite robust; any changes should be convincingly motivated and avoid weakening evenhanded access to the institution's resources.

Designing a UCT-quality program under exceptionally high uncertain circumstances poses significant challenges and risks. For starters, the range of exceptional circumstances to which the proposed policy changes would apply must be clarified, as well as the pre-requisites for designing a UCT program under such circumstances. This would avoid the perception that the policy changes are arbitrary and designed to subjectively favor specific member countries. In this vein, we stress the need for a holistic approach to ensure that such significant policy changes benefit the entire membership, while taking utmost care to apply the precedence set by such bold changes in future to member countries in similar circumstances.

We welcome staff's presentation of what should constitute exceptionally high uncertainty but call for further clarification to ensure that the policy changes would not be applied on an ad hoc basis. The report lists several factors (paragraph 13) as constituting situations of exceptionally high uncertainty. We wonder whether, to that end, all the factors listed have to be simultaneously present. Also, the suggestion that no one scenario can be seen as "sufficiently" central in a situation of exceptionally high uncertainty raises the question of how the assessment of "sufficiently" central would be made. *Staff's comments on these two matters would be appreciated.* Further, we view the characterization of the baseline and downside scenarios as a major departure from their traditional application by staff, where the baseline always meant that the status quo remains and there are no policy changes, and the downside scenario which assumes that tail risks materialize. We, therefore, encourage pragmatism in scenario analysis to ensure robustness and avoid program failure based on unrealistic assumptions underpinning the baseline scenario. This is particularly important in a large war situation, where the conditions can deteriorate rapidly, and program risks may crystalize immediately.

The differences between the factors characterizing exceptionally high uncertainty and those facing fragile and conflict-affected states (FCS) are far from evident. The report could usefully delineate the distinguishing parameters between the two sets of circumstances. In this context, we would welcome staff's comments on two specific issues. *First, whether the flexibility allowed under the Fund's lending toolkit, which is also reflected in the recent Fund's strategy for FCS, would not be appropriate to deal with UCT lending in situations of exceptionally high uncertainty. Second, whether having a "realistic" scenario based on information available at the time of the program design is unlikely or would not be appropriate in those situations of exceptionally high uncertainty.* More generally, we underscore the need to exploit synergies between the envisaged changes to the lending policy and the FCS strategy to ensure that they leverage relevant aspects in different country contexts.

As Fund engagement in UCT lending under exceptionally high uncertainty entails elevated risks, we view early Board involvement as warranted. In addition to the financial and operational risks, heightened reputational risk stemming from perceived lack of evenhandedness would be at stake. Accordingly, we welcome the proposal to introduce a procedural safeguard for prior Board consultation on the existence of exceptionally high uncertainty, which would provide an opportunity for the Board to assess whether the Fund would be prepared to accept the higher risks from engaging in a UCT program under such circumstances. Further, we stress the need to carefully manage communication around such program request to avoid pre-empting Board decisions in line with the Fund policy. Moreover, the macro-financial role of the Fund in a war situation must be clearly communicated with clear articulation of the role of other grant and donor support used to directly finance the war effort, even as money remains fungible.

We agree that approval of a UCT arrangement under circumstances of exceptionally high uncertainty would require a judgment that a program can be designed and implemented to solve the member's BoP problem and restore medium-term external viability. It is understandable that staff envisages that, under the circumstances, program design be based on a baseline scenario and an adverse scenario with financing assurances from donors and creditors regarding debt sustainability under both the baseline and the adverse scenarios to ensure that the member's BoP problems would be addressed, and that external viability would be restored in a range of scenarios. We also agree with the proposed extension of the use of a capacity-to-repay assurance from official bilateral creditors/donors from emergency financing to a UCT context. Under the framework proposed by staff, the downside scenario would be the basis for determining the estimated scale of needed financial support for the program. *We would welcome staff's comments on whether the downside*

scenario would reflect the materialization of the most adverse tail risk, as well as on the pros and cons of using such a rather extreme financing needs assessment approach.

The role of satisfactory program implementation should be emphasized. Given the exceptionally high uncertainty under which programs would be designed and implemented, there is a significant potential for setbacks. Moreover, the suggestion that complex situations of exceptionally high uncertainty generally involve exogenous shocks beyond the authorities' control and the reach of their economic policies may amplify risks by reducing the authorities' incentives to fully implement the program. Therefore, whether Fund engagement with a member in a situation of exceptionally high uncertainty starts with an SMP or directly with a UCT arrangement, the importance of satisfactory program performance cannot be overemphasized to avoid dilution of the Fund's workhorse lending programs. *Staff's comments on the merit of subjecting any new UCT arrangement with a member country under exceptionally high uncertainty to the authorities' track record of policy implementation would be welcome. We are also interested to hear from staff how issues relating to program design misspecification, which could lead to higher probability of program failure, would be mitigated.*

Finally, as the capacity to repay assurance is not a legally binding guarantee, significant reliance on it for safeguard purposes in situations of potentially evolving commitments, could entail high financial risks to the Fund. Staff notes that obtaining financing assurances from a group of creditors with sufficient financial strength and track record of previous contributions to support multilateral debt relief efforts mitigates these risks. With the importance of non-traditional lenders in the current creditor landscape, this "mitigating" factor may prove to be a serious challenge should member countries with significant debt to non-traditional lenders need UCT financing in circumstances of exceptionally high uncertainty. *We would welcome staff's comments on the possibility and implications of having financing assurances provided by creditors without a track record of previous contributions to support multilateral debt relief initiatives, as well as the associated risks and how to mitigate them.*

**Statement by Mr. Bevilaqua, Mr. Velloso, and Mr. Fuentes on Changes to the Fund's
Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing
Under Exceptionally High Uncertainty
Executive Board Meeting 23/19
March 15, 2023**

We thank staff for the report on potential changes to the Fund's financing assurances policy in the context of Upper Credit Tranche (UCT) programs under exceptionally high uncertainty. While we understand the motivation to reform the current policy to better serve member countries in such dire circumstances, we agree with the report's enterprise risk assessment that this change could expose the Fund to significant financial, operational, and reputational risks. The intention of assisting member countries facing exceptionally high uncertainty, beyond emergency financing, is certainly commendable. At the same time, safeguarding the Fund's resources and their revolving nature while not saddling a member country with preferred creditor status debt it will not be able to reschedule or write-off should be paramount in any changes to the existing framework.

The report's enterprise risk management assessment provides an extremely useful analysis. We take note of the financial, operational, and reputational risks associated with changing, and with not changing, the Fund's financing assurances policy to permit engagement through UCT programs in cases of exceptionally high uncertainty. While the Fund has been able to adapt its policies and procedures to meet the evolving needs of the membership, supported by its multilayered risk management framework, a more granular assessment of the potential implications for the Fund is needed to allow for sufficient discussion and thorough consideration by the Board before a final decision is made.

If a decision is taken to approve staff's proposals, it will be particularly important to hold an early and separate formal Board meeting for each specific request for UCT program under exceptional high uncertainty. This meeting would (i) ascertain whether the exceptional high uncertainty threshold has been met; (ii) evaluate the quality of the financing assurances being offered; and (iii) determine whether the membership can go along with the proposed level of access for that case. Only then the risks to the Fund's balance sheet could be properly appraised. While the "procedural safeguard" mentioned in paragraph 18 of the staff report covers some of this ground, we believe the discussion should be broader and subject to a formal Board decision.

It will be critical to obtain upfront, credible, and specific financing assurances, including to protect future repayments to the Fund, given the many difficulties in designing a robust UCT program under exceptionally high uncertainty, as explained in the report. Putting together a UCT program under these extreme conditions would make the arrangement susceptible to design misspecifications in a fluid context where the member's capacity to act is already limited. In addition, the program may fail for reasons beyond the control of the authorities, and any feasible corrective measures may be insufficient to put the

program back on track. In this case, repayments to the Fund will depend solely on the financing assurances from bilateral creditors and donors which, in our view, should raise the bar considerably in terms of the quality, specificity, and timeliness of such assurances. It would be difficult to argue that the financing assurances should not be fully provided in advance to properly safeguard the Fund's resources.

Statement by Mr. Guerra, Mr. Betancur Mora, Mr. De Ramon-Laca Clausen, and Ms. Moral Betere on Changes to the Fund's Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing Under Exceptionally High Uncertainty
Executive Board Meeting 23/19
March 15, 2023

We thank staff for the report and the outreach to our office. We believe the Fund should be able to fulfill its role with respect to members facing exceptionally high uncertainty driven by exogenous factors, beyond emergency funding, through UCT support only, and with adequate and timely safeguards. We agree that this requires changing existing policies. Against this background, we would like to offer the following comments:

We agree with the characterization of situations involving exceptionally high uncertainty as those that are originated by exogenous shocks that strongly impact the economy and that are beyond the authorities' control. We agree that under these circumstances, the scale of the Balance of Payments challenge is difficult to assess with the degree of confidence that a UCT program requires, adding complexity for official bilateral creditors to provide the necessary assurances.

A UCT program in a situation of exceptionally high uncertainty would entail significant Enterprise risk for the Fund, as would the cost of inaction. We appreciate the comprehensive enterprise risk assessment provided by staff and concur that ultimately the Board must assess and weigh arguments in favor of and against providing a UCT program under these circumstances. Therefore, **we see merit in a procedural safeguard based on early Board consultation about engagement.** However, we understand that Board determination in such cases may not be enough and may have to be accompanied by careful program design and adequate and enhanced assurances to partially contain risk. Limiting such programs to cases where the authorities have the capacity and commitment to implement them is key. *Could staff comment on how this will be assessed? Would a PMB be a pre-requisite?* Going forward, it will be instrumental to build guidance to assess these exceptionally high uncertainty cases in order to reduce the risk that the IMF is perceived as not acting in an evenhanded way. Also, if these changes are approved, the ERM framework guidance should be changed to include cases of UCT under exceptionally high uncertainty as those that should have a comprehensive risk section analysis (similar to exceptional access cases). Finally, we should also discuss how cases of UCT under exceptionally high uncertainty affect the assessment of the adequate level of precautionary balances, weighing the effect of enhanced financial assurances with the possibility of tail risk events.

The exceptionally high degree of uncertainty presented goes beyond the standard Fund approach in a UCT. For this reason, in these cases, we support the proposed changes to the Fund Financing Assurances based on a two-scenario program. These give the Board the opportunity to approve such a program in line with the Fund's legal and policy framework.

We support exceptionally allowing official bilateral creditors to deliver credible assurances upfront, with a second-stage contingent element. We understand that upfront credible and specific assurances should cover the baseline scenario and the downside scenario when the exceptionally high uncertainty abates. *Is this assessed in each review of the program? Given the high degree of uncertainty, are we expecting quarterly reviews?* We note that the program's downside scenario would provide an upfront estimate of the possible scale of support needed in the adverse scenario for debt sustainability. *Would assurances only cover this estimate? If, at the time of the review, the initial estimate falls short, would the creditors still be committed to cover the remaining financial support?*

We support the extension of a capacity-to-repay assurance in emergency financing to a UCT under exceptionally high uncertainty, but many issues remain unclear. *What does staff understand by a significant group of creditors/donors? Which percentage of the membership needs to be involved in the process? What happens if, in successive reviews, a creditor decides not to cover the necessary guarantees?* This clarification is extremely relevant, as any change in the circumstances of the group of guarantors, as well as the borrower, may limit the effectiveness of the assurances, and therefore this may lead to the activation of the burden-sharing mechanism affecting the Fund's safeguards. This would lead to a very significant, potentially prohibitive, reputational risk for the Fund.

Finally, we welcome the detailed risk section that balances the assessment of the different risks to the IMF, including that of inaction. **If this policy is approved, we believe that we should modify our ERM framework paper to include the exceptionally high uncertainty programs in the group of cases that would merit a detailed enterprise risk management assessment.**

**Statement by Mr. Hilbers, Ms. Eijking, and Mr. Milutinovic on Changes to the Fund's
Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing
Under Exceptionally High Uncertainty
Executive Board Meeting 23/19
March 15, 2023**

We thank staff for the report, as well as the timely Board engagement on this proposal.

We fully support the changes to the Fund's financing assurances policy for UCT-quality arrangements under exceptionally high uncertainty, as proposed by staff. We appreciate the Fund's thorough approach to dealing with situations of exceptionally high uncertainty that originate from an exogenous and ongoing shock from factors beyond the authorities' control. Financing assurances policy is an integral part of the Fund's lending policies to mitigate credit risks. The proposed changes, applicable to UCT-quality arrangements under exceptionally high uncertainty, further mitigate credit risks under these circumstances by working with different scenarios until uncertainty abates.

We emphasize the costs of inaction. Staff rightly points out the risks of the Fund being unable to assist its members in these particular circumstances, triggering the perception of the Fund becoming irrelevant. Not being able to assist one member could have significant spillovers to other members. Similarly, an extreme external shock to one member could induce indirect negative externalities among the membership, such as rising global risk aversion with tightening financial conditions and subsequent BoP needs. It is of the essence that the Fund remains able to continue fulfilling its role as lender of last resort to the entire membership. At the same time, conditions that guarantee the Fund's financial integrity should always be met. The proposed targeted policy changes meet both objectives, enabling the Fund to continue lending to countries with BoP needs with adequate safeguards. We consider that the Fund demonstrates once more its capacity to adjust its toolkit and policies to meet evolving needs of the membership and take risk-informed and principle-based decisions.

We agree with the characterization of situations involving exceptionally high uncertainty, as outlined in paragraph 13. Exceptionally high uncertainty should be limited to shocks originating from factors beyond the authorities' control, making the impact of the shock on the economy depending on events outside of the control of the authorities' economic policies. A determination of exceptionally high uncertainty is ultimately a Board decision, and we therefore stress the importance of Board involvement at an early stage. We agree that *all* members that face exceptionally high uncertainty should be eligible to request a UCT-quality program, with the procedural safeguards established as described in paragraph 18. We agree that the first step in these circumstances is to seek creditor and donor support or emergency financing. We thank staff for the clarity of this framework to ensure uniformity of treatment and alignment with the Fund's legal and policy frameworks.

We support a modified program design involving two scenarios in circumstances of exceptionally high uncertainty and the proposed targeted policy changes to provide adequate safeguards. We emphasize that the strength of a UCT-program under normal circumstances should continue to provide adequate safeguards to resolve a member's balance of payments problem and achieve medium-term external viability. We acknowledge the complexity of program design in circumstances of exceptionally high uncertainty, for which scenario planning seems to be the adequate response. We therefore agree that in these cases of exceptionally high uncertainty, a modified program design involving two scenarios (a baseline and a downside) would be required to give the Fund sufficient confidence about the program's ability to resolve the member's balance of payment problem and restore medium-term external viability, in line with legal and policy requirements for Fund lending. Upfront "credible and specific" assurances from official bilateral creditors covering what is needed in the baseline scenario to restore debt sustainability, together with an upfront assurance to provide the necessary financial support to restore debt sustainability in a

second stage once exceptionally high uncertainty has abated, would restore debt sustainability under the different scenarios of the program. We would like to highlight the importance of proper private-sector creditors involvement here. We also support the extension of a capacity-to-repay assurance to a UCT context, to be provided by a *significant* group of creditors. This will safeguard Fund resources in case tail-risks scenarios and complement the Fund's ex-ante risk management framework. We are convinced that these proposed changes to the Fund's financing assurances policy and extension of a capacity-to-repay assurance to a UCT context provide adequate safeguards and appropriate risk mitigation.

We acknowledge the challenges of designing a UCT program on these two scenarios and therefore support the preconditions as outlined in paragraph 21. We strongly underline the important preconditions that a country is sufficiently committed, has demonstrated the capacity to implement the program, and has sufficient backing from its creditors and donors. We believe these preconditions are crucial conditions for the program's success.

We thank staff for the candid and transparent overview of increased risks following the proposed change in policy. These balanced considerations help evaluate the situation at hand and staff's proposal in a comprehensive manner. We strongly encourage the same level of candidness and transparency in all discussions presented to the Board. We welcome a staff guidance note to further mitigate operational risks in implementing the new policy. As is the case for other Fund policies, we would welcome a review of the proposed policy in due time.

We support the ongoing work program to reassess the Fund's policies and lending toolkit to ensure it is responsive to the needs of the entire membership, including discussing potential policy reforms and guidance to provide a better mix of member engagement, creditor incentives, and Fund safeguards in debt resolution situations, building on the existing policy framework as discussed on February 16.

**Joint Statement by Mr. BinZarah, Mr. Mohieldin, Ms. Choueiri, and Mr. Abalala on
Changes to the Fund's Financing Assurances Policy in the Context of Fund Upper Credit
Tranche Financing Under Exceptionally High Uncertainty
Executive Board Meeting 23/19
March 15, 2023**

1. We thank staff for the concise and helpful report.

2. **Fund policy changes should be considered when their implications reach a threshold of a sufficient number of member countries, to ensure uniformity of treatment and the legitimacy of the Fund.** We note that the Fund engagement in a upper credit tranche (UCT) program with a member facing “exceptionally high uncertainty” involves substantial risks, particularly that the Fund policies have been adequately serving the membership. The policy changes envisaged in the report are significant and create a precedent with important enterprise risks implications. While we recognize that the Fund policies do not rule out UCT lending under “exceptionally high uncertainty”, we would have liked staff to provide a clearer justification of the policy changes that would benefit all other members facing similar circumstances. *Staff's comments are welcome.* In this connection, like Messrs. Bijani, Nakunyada, and Sylla, *we would appreciate staff's views on the differences between the factors characterizing exceptionally high uncertainty and those facing fragile and conflict-affected states (FCS) and whether the Board-approved FCS strategy would not have been the appropriate context for addressing lending in situations of exceptionally high uncertainty.*

3. **We agree that a judgment element is necessary to characterize a situation of “exceptionally high uncertainty”.** The persistence of exogenous shocks is not necessarily always beyond the authorities' control. In fact, the factors driving exceptional uncertainty could be influenced by the authorities' economic and non-economic policies. Therefore, a judgment element in the process of characterizing such situations is necessary to accurately confirm whether the defined “exceptionally high uncertainty” exists. *Staff are welcome to comment, particularly on ways to ensure that the judgment element would be applied uniformly across member countries.*

4. **Early engagement with the Board is warranted as Fund engagement in UCT lending under “exceptionally high uncertainty” entails substantial risks.** We, therefore, welcome the envisaged procedural safeguard for prior Board consultation on the existence of exceptionally high uncertainty. This engagement should be informed by the findings of candid case-by-case assessments explaining the extent to which the identified exogenous factor is considered outside the authorities' control. Here, we stress the importance of effective country engagement strategy and collaboration with other relevant international institutions to conduct such assessment. We share the views of Messrs. Bijani, Nakunyada, and Sylla that communication around such program needs to be carefully managed and the

role of Fund financing clearly articulated with the role of other grant and donor support used to finance the war and reconstruction efforts.

5. **We see merit in setting out two scenarios under a UCT program to enhance its feasibility, albeit the program itself will not provide sufficient assurances to safeguard the Fund resources.** In order to ensure that the member's balance of payment problems would be resolved and that external viability would be restored in a range of scenarios, it is reasonable that program design be based on a baseline scenario and an adverse scenario with financing assurances from donors and creditors regarding debt sustainability under both scenarios. Moreover, the envisaged policy changes and the extension of a capacity-to-repay assurances to a UCT context, as an ex-ante adequate lending safeguard, are appropriate to help ensure the success of the program and better safeguard the Fund resources. Here, upfront credible and specific assurances from official creditors should be provided on a sufficient scale to restore debt sustainability and ensure the members' capacity to repay the Fund. That said, we stress that sharing more responsibilities with bilateral creditors and donors should not weaken the authorities' commitment to the policies under the program and the obligation to repay the Fund. *Here, we stress the need for satisfactory program implementation and would welcome staff's views on ways to emphasize this expectation in the summing-up of our discussion. We also invite staff to elaborate on the compatibility of the engagement in UCT program under exceptional uncertainty with the Fund's lending into arrears policies.*

6. **We welcome the inputs of the enterprise risk assessment.** The assessment outlines important enterprise risks that deserve careful attention. We note with concern that the scope and speed of the envisaged policy changes may not allow for sufficient discussion and reflection of its consequences, as indicated by staff. Therefore, the associated financial and operational risks should be carefully assessed and mitigated. Here, we are particularly concerned about the reputational risk for the Fund from the perception that the policy justification and ring-fencing may be driven by the desire to support a particular member. *How do staff expect the proposed policy changes to be applied evenhandedly if its application is ringfenced?* We are also deeply concerned about the reputational risks stemming from uniformity of treatment and note that the Fund's past track record of emergency financing in cases with similar features is not fully comparable to the envisaged situation. In addition, we cannot fully agree with staff assessment about the significant drawbacks of maintaining the status quo with no policy change.

**Statement by Mr. Buissé, Mr. Roman, and Ms. de Waziers on Changes to the Fund's
Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing
Under Exceptionally High Uncertainty
Executive Board Meeting 23/19
March 15, 2023**

We thank staff for this well-written, comprehensive, and timely paper on the changes to the Fund's financing assurances policy in the context of Upper Credit Tranche (UCT) financing under exceptionally high uncertainty.

We agree that the Fund may on occasion confront cases of member countries requesting Fund financing which face exceptionally high uncertainty. We agree that the definition of exceptionally high uncertainty should be characteristic-based, and we find the factors proposed appropriate. We welcome the clarification of how this relates to the uncertainty faced by fragile and conflict affected states.

We fully support the proposed policy changes, which, in our view, strike the right balance between enhancing the Fund's ability to support member countries in need, while securing adequate safeguards to the Fund. We recognize that enhancing the Fund's ability to support members with a UCT program, where requested and assessed as appropriate in such situations of exceptionally high uncertainty, thereby helps limiting high reputational and financial risks to the Fund including possible adverse spillovers and other costs of inaction.

We consider that the Fund demonstrates once more its capacity to innovate and adjust its toolkit and policies to meet evolving needs of the membership and take risk-informed and principle-based decisions. We thank staff for the clarity of this framework to ensure uniformity of treatment and alignment with the Fund's legal and policy frameworks.

We agree that, in these cases of exceptionally high uncertainty, a modified program design involving two scenarios (a baseline and a downside) would be required to give the Fund sufficient confidence about the program's ability to resolve the member's balance of payment problem and restore medium-term external viability, in line with legal and policy requirements for Fund lending. We recognize the inherent challenges and higher lending risks. However, we are convinced that the proposed changes to the Fund's financing assurances policy and extension of a capacity-to-repay assurance to a UCT context provide adequate safeguards and appropriate risk mitigant. We also agree that the capacity-to-repay assurance should complement the Fund's ex-ante risk management framework.

Overall, we judge that the net benefits of the proposed policy changes outweigh the costs of inaction and additional risk.

We support the ongoing work program to reassess the Fund's policies and lending toolkit to ensure it is responsive to the needs of the membership, including discussing potential policy reforms and guidance to provide a better mix of member engagement, creditor incentives and Fund safeguards in debt resolution situations, building on the existing policy framework as we discussed on February 16.

**Statement by Ms. Shortino and Mr. Keating on Changes to the Fund's Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing Under Exceptionally High Uncertainty
Executive Board Meeting 23/19
March 15, 2023**

Given the current challenging and uncertain global environment, we welcome that staff have brought forward a detailed, considered request to adjust policies on financing assurances in cases where member countries are facing exceptionally high uncertainty. While such cases may be extremely rare, it is important for the Fund to have the capacity to lend in situations of exceptional uncertainty—particularly in instances where there are high costs of inaction and risks of significant spillovers to the wider Fund membership from a failure of the IMF to engage. **We therefore support the proposals for early Board consultation on engagement in cases of exceptionally high uncertainty and the corresponding proposed changes to the Fund's financing assurances policy to enable the Fund to lend in an upper credit tranche (UCT) context.** We offer a few specific comments on the proposals below.

We support the procedural safeguard for prior Board consultation to determine whether the Fund can consider UCT financing in a case of exceptionally high uncertainty. We also agree with staff's proposed definition of exceptionally high uncertainty and note that such situations are distinct from those facing most fragile and conflict-affected states, where the Fund has an established approach for handling issues related to institutional quality, lack of capacity, and domestic uncertainty. We note that early Board engagement should also take place to determine whether a country is emerging from exceptionally high uncertainty.

We appreciate the work staff have done to lay out a framework based on both a baseline and a downside scenario to increase the likelihood that the Fund program will restore medium term viability. We also see merit in program documents including an upside scenario in cases of exceptionally high uncertainty to map out more fully the broader potential path of developments. In all scenarios for a UCT program, careful program design and conditionality, strong program ownership, and close engagement with the authorities on program implementation should remain the first lines of defense.

We support the two proposed policy changes on financing assurances. We see a two-stage approach to restoring debt sustainability as a sensible approach, and we stress the need for transparency around Fund assumptions in the downside scenario. We recognize that creditor assurances, including in the form of strong political support and a track record of financing, will help to assure the country's ability to repay the Fund alongside strong program ownership and program execution. We note that the Fund's preferred creditor status and its multilayered risk management framework must remain important components of any framework to assure repayment to the Fund.

We appreciate the inclusion of a section on enterprise risks to the Fund and agree with the overarching conclusion that risks from inaction are far higher than the risks from changing these policies.

**Statement by Mr. Mizuguchi, Ms. Kashima, and Ms. Fukuda on Changes to the Fund's
Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing
Under Exceptionally High Uncertainty
Executive Board Meeting 23/19
March 15, 2023**

We welcome the staff proposal on changes to the Fund's financing assurances policy, which would enable Fund engagement with UCT programs with countries facing exceptionally high uncertainty with a UCT program.

We strongly support all of the staff's proposals including the policy changes to allow for a two-stage approach and to extend capacity to repay assurance to a UCT context, and would like to offer the following points for emphasis.

It is of material importance that the Fund stands ready to support countries facing exceptionally high uncertainty while ensuring adequate safeguards. The staff's characterization of exceptionally high uncertainty is appropriate and well-balanced. As we acknowledge higher-than-usual risks from exceptionally high uncertainty, the Board should be well-informed of risks associated with decisions both for and against the proposal. In this regard, the comprehensive analysis on enterprise risks is very much appreciated. We agree with staff that not changing the policy not only entails reputational risks but could also lead to spillovers to the global economy and specifically other vulnerable economies, and thus the risk of inaction outweighs by far the risk of action. Broadening the potential scope of the cases where the Fund could provide support with a UCT program would further enhance the global financial safety net. Further, we agree on introducing a procedural safeguard to secure prior Board engagement in assessing whether exceptionally high uncertainty exists in specific cases.

The proposed program approach and policy change have been carefully and appropriately designed to ensure risk mitigation as well as feasibility. Key elements in practically establishing a UCT program under exceptionally high uncertainty would include:

- *Capacity and ownership of the authorities to implement committed reforms.* As the most important prerequisites for success of every program, ensuring the authorities' capacity and strong ownership is even more critical under exceptionally high uncertainty as a program anchor against challenging external factors. We agree that a SMP or PMB could support a country in such a situation build a positive track record and prove its capacity and ownership.
- *Robust and resilient program design supported by reasonable central and downside scenarios.* This is critical for ensuring program durability and maximizing projection clarity, which would offer risk mitigation against exceptionally high uncertainty. The proposed mechanisms of two scenarios are solid while flexible. In practice, we encourage staff to put reasonable assumptions for both scenarios and to closely collaborate with other institutions with relevant expertise. The proposed two-stage approach of assurances is convincing given the uncertainty around those scenarios.

- *Strong involvement of the international community.* Securing international support throughout the program period is critical both to address debt sustainability and the financing gap and to ensure ex-ante adequate lending safeguards against the Funds' resources with needed assurances.

**Statement by Ms. Lim, Mr. Hendrayadi, Ms. Abu Bakar, and Mr. Khatiwada on
Changes to the Fund's Financing Assurances Policy in the Context of Fund Upper Credit
Tranche Financing Under Exceptionally High Uncertainty
Executive Board Meeting 23/19
March 15, 2023**

We thank staff for the comprehensive paper, which proposes important changes to the Fund's financing assurances policies. While we commend the Fund's agility in responding to members' evolving needs, any policy changes should be driven by the needs of the broader membership with subsequent policy applicable in transparent and consistent manner. As a matter of good policy-making, we stress that **any policy changes should be principles-based and not fitted to specific circumstances; uphold the utmost principle of evenhandedness so that any members finding themselves in such situations would be given the same treatment when seeking for Fund assistance; and withstand the test of time rather than be applied as a one-off, ad-hoc case only to be tweaked when faced with another case.**

The characterization of exceptionally high uncertainty entails material additional enterprise risk for the Fund, which the Fund needs to be clear about and be comfortable to accept.

- The fat tail risk could cause the situation to deteriorate rapidly with greater magnitude which might exceed the ability of the Fund to absorb the impact. Such a condition, if materialized, could impair the Fund's capacity to support other members. For this reason, the exceptionally high uncertainty policy should be tightly ringfenced and engagement in UCT lending in such situations undergo careful and thorough scrutiny. The spillover risks due to inaction must be defined carefully with proper objectivity and specific measures, such as the extent to which a member is interconnected to financial markets, or how its position in global productions or value chain create significant negative externalities to wider members.
- The characterization of exceptionally high uncertainty would also involve a considerable amount of complex judgments, especially in cases where authorities' data collection ability may also be impaired. Consistencies might be difficult to maintain in applications across countries. This might raise concern on evenhandedness and negatively impact the Funds' credibility and reputation. *That said, we are interested in understanding the practicality of the policy change. Can staff comment on past requests that have not been surfaced to the Board due to perceived situations of high or exceptionally high uncertainty. How would the policy change affect staff's assessment, if any?*
- Credible, specific, and sufficient financing assurance must be available upfront to cover the risks. Any relaxation on this might leave the Fund only partially covered and this requires awareness and acceptance on the part of the Board from an enterprise risk perspective. In this instance, we see a more structured framework to guide the process and catalyze broader support to be useful.

We view that modified program design involving two scenarios (instead of one central scenario) is a practical approach in dealing with exceptionally high uncertainty. Nevertheless, while useful, the scenarios might not by themselves give sufficient confidence that the member's Balance of Payments problem can be resolved, and medium-term external viability will be restored. Confidence would depend more on the assessment of the scenarios, the member capacity and

commitment to implement the program as well as sufficient and credible financing assurances from creditors/donors.

Modification of financing assurances policy could help to catalyze broader and larger support from creditors/donors. It is paramount that creditors/donors committed not only to provide upfront credible, specific, and sufficient financing assurance for the baseline scenarios, but also extend to the downside scenarios. We could go along with the proposed change in Fund's financing assurances policy and extension of a capacity-to-repay assurance to UCT context. Considering the crucial role in this arrangement, it is paramount that creditors/donors have strong financial strength and track record of previous contributions to support multilateral debt relief initiatives. We note that financing assurances are not legally binding guarantees, which would imply higher financial risks to the Fund if creditors/donors do not fulfil their assurances. *Given that the Fund is lending into situations of exceptionally high uncertainty and that such assurances are important safeguards for Fund resources, can staff comment on how there can be more certainty to such assurances for better mitigation of Fund's risks?*

**Statement by Mr. Jennings and Mr. Villeneuve on Changes to the Fund's Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing Under Exceptionally High Uncertainty
Executive Board Meeting 23/19
March 15, 2023**

We thank staff for the clear paper and their hard work and innovative thinking to bring this to the Board so quickly.

It is critical that we ensure that the Fund can play its role as the lender of last resort—and catalyze other elements of the global financial safety net—in as many situations as possible. Clarifying the path to a UCT program, where requested and appropriate in such situations of exceptionally high uncertainty, will help ensure that the Fund can play its important role at the center of the global financial safety net in such cases—and will help to mitigate adverse spillovers and other costs of inaction.

We fully support the proposed policy changes, which will help to enhance the Fund's ability to support member countries in need in situations of exceptionally high uncertainty, while at the same time securing adequate safeguards.

- We agree with the characterization of situations involving exceptionally high uncertainty, and that in such circumstances where UCT program engagement is considered, a procedural safeguard as outlined in paragraph 18 should apply. We thank staff for the clarity of this framework to ensure uniformity of treatment.
- We agree that, in these cases of exceptionally high uncertainty, a modified program design involving two scenarios (a baseline and a downside) can give the Fund sufficient confidence about the program's ability to resolve the member's balance of payments problem and restore medium-term external viability. However, we would also see merit in showing an illustrative upside scenario to map out more fully the potential range of outcomes and developments.
- We agree with the proposed changes to the financing assurances policy and extension of a capacity-to-repay assurance to a UCT context, as described in paragraphs 23-26. In addition, we agree that the capacity-to-repay assurance should complement the Fund's ex-ante risk management framework.

We look forward to addressing other obstacles to UCT arrangements. We recognize that these policy changes will not address all current and future obstacles to UCT engagement, and welcome that other issues will be considered as part of the ongoing Board work program—including improvements to Fund safeguards in debt resolution situations.

**Statement by Mr. Nicholl, Ms. Doss, and Mr. Yoo on Changes to the Fund's Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing Under Exceptionally High Uncertainty
Executive Board Meeting 23/19
March 15, 2023**

We support the proposed changes to the Fund's financing assurances policy for upper credit tranche financing under exceptionally high uncertainty. We understand that the Fund may face difficult situations in determining a financing program for members with high balance of payments needs under circumstances of exceptionally high uncertainty. We welcome the comprehensive and candid assessment on enterprise risks associated with this policy change. We note the risks from inaction but understand this to be a contributing rather than a deciding factor for program approval in the circumstances to which this policy would apply. *Can staff confirm?*

Staff have successfully managed a difficult task in articulating a set of principles, together with guidance on how they can be applied in support of consistent and transparent decisions over time, and have carefully balanced this against an alternative of overly prescriptive or narrow definitions. We agree that it is neither wise nor possible to try and identify an exhaustive list of definitive scenarios to which the proposed policy change could apply in future. However, the flexibility and adaptability afforded by the policy changes will be critical to maintaining the Fund at the center of the Global Financial Safety Net in extreme conditions. These policy changes highlight the underlying tensions between the Fund's core mandate and role on one hand, and its responsibility to the membership to protect their financial interests as Fund owners on the other. We note that sound judgement in applying the policy appropriately and even-handedly will be the Executive Board's responsibility and offer the following responses to the issues for discussion.

We agree with the characterization of situations involving exceptionally high uncertainty. Requiring that an exogenous shock and its impacts are outside the control or economic policies of a country's authorities should set a sufficiently high threshold to limit the usage of this policy to rare cases. In this regard, we support the principle that situations may arise where extraordinary risk tolerance assessments are warranted but they must relate to existential threat. Each case brought to the Board must demonstrate relevant characteristics on its own merits at the time of consideration. Requests for such UCT engagement, however, must be evaluated on the same principles and using the same assessment procedures from case to case. In this regard we believe that the proposed policy changes will require a degree of transparency to support confidence in equal opportunity, even if that does not result in equal outcomes.

We welcome the procedural safeguard proposed, so that initial engagement with the Board can establish the extent to which exceptionally high uncertainty applies and the circumstances in which the Fund is expected to accept higher risks. Not prescribing the circumstances by which exceptionally high uncertainty applies necessarily requires that the Board apply judgement in considering whether it is appropriate. To this end, we emphasize the need for early engagement so that the Board can form a view on the extent of relevant risks as well as an assessment of an authorities' willingness and ability to implement complementary measures and reforms that aim to

maximize the overall success of a program. A Staff Monitored Program with Board Involvement is one means of achieving early and transparent engagement.

We support the proposed modifications to program design and agree that a framework involving consideration of both a baseline and downside scenario improves confidence in being able to resolve the balance of payments issue. Given the exceptionally high uncertainty and the lack of control of country authorities, staff's transparent analysis of a baseline and downside scenario would also be important in coordinating donor support and providing a sense of the likely scale of effort required. We note that the preparation of a downside scenario does not eliminate tail risks and that this should be carefully communicated in staff's analysis. The emergence of tail risks under exceptionally high uncertainty may warrant more regular and careful monitoring than usual.

We support the proposed extension of a capacity-to-repay assurance from emergency financing to a UCT context under exceptionally high uncertainty. We agree that these assurances will be critical in ensuring the UCT program provides adequate safeguards for the Fund's lending under exceptionally high uncertainty. The criteria as articulated offer a useful means by which the Board can judge the additional credit risk considerations it may be facing in support of a particular program.

**Statement by Mr. Subramanian and Mr. Hansda on Changes to the Fund's Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing Under Exceptionally High Uncertainty
Executive Board Meeting 23/19
March 15, 2023**

1. We thank staff for the exploration on necessary changes to the Fund's financing assurances policy for a UCT program under exceptionally high uncertainty driven by exogenous factors. We have the following observations on the staff proposals:
2. Fund has so far carried out its lending program amidst high uncertainty through emergency financing – RFI/RCF (Rapid Financing Instrument/ Rapid Credit Facility), eg, Iraq (2005), Lebanon (2007) and Ukraine (2022). In all these cases, donor assurance has been obtained to secure adequate safeguards for capacity to repay the Fund.
3. Under the Highly Indebted Poor Countries (HIPC) relief initiative, creditors' upfront commitment to debt relief has been helpful to finance the program by the Fund in some cases.
4. As against EF (ie, emergency financing) facility, UCT could be appropriate for many countries given the need for policy adjustments. Further, a UCT like an extended fund facility (EFF) being a multi-year program could help spread out the adjustment process unlike a standard standby facility. This is particularly important in the context of exceptionally high uncertainty.
5. To deal with cases of member countries requesting UCT financing in a situation of exceptionally high uncertainty, staff have proposed: (i) early Board consultation about the Fund's engagement as a procedural safeguard; (ii) official bilateral creditors' upfront commitment to debt relief; and (iii) a capacity-to-repay assurance from official bilateral creditors/donors.
6. Risks and challenges to global economic recovery have been aggravated by the conflict in Europe and other parts of the world. Climate change poses additional risks adding to the existing high uncertainty. Amidst the ongoing crisis, rising interest rates will further exacerbate vulnerabilities and uncertainties, making debt repayment expensive for

governments, particularly low-income countries (LICs), over half of which are already in (or at high risk of) debt distress. Currency depreciation *vis-à-vis* the US dollar in many of these countries, and in emerging markets, will add to their BoP vulnerabilities. Therefore, **in our view, the characterisation of situations involving exceptionally high uncertainty, originating in an exogenous shock, i.e., in factors beyond the authorities' control, involving severe and continuing balance of payment impact, making the scale of the BoP challenge difficult to assess with the usual degree of confidence associated with UCT lending is acceptable.** Staff have attempted to characterize situations involving exceptionally high uncertainty as distinct and different from those covered under the FCS (fragile and conflict-affected states) strategy.

7. While staff have proposed the procedural safeguard in terms of early Board consultation, this may be taken in the spirit of a green signaling for exploration of a UCT program under exceptionally high uncertain conditions. Finally, the staff and the borrowing country concerned have to come back with a UCT proposal as acceptable under the Fund's Articles of Agreement.

8. Staff have mentioned: "A first policy change would provide for a modified way for a set of official bilateral creditors to deliver credible upfront assurances...A second change would establish the need for a set of official bilateral creditors and donors (as necessary)..." (para 24). **Again under para 26, staff have talked about 'significant' group of creditors/donors' without defining 'significant'. Staff are welcome to describe and clarify the details on 'set' and 'significant'.**

9. Staff have mentioned: "management and staff would be expected to draw on the expertise of other organisations to help guide judgement" (para 21). **Staff are welcome to elaborate on 'other organisations'.**

10. Staff themselves have recognized that designing a UCT program in a downside scenario is challenging for a number of reasons. So, the issue is whether such designing can itself give the Fund confidence about the borrowing country's external viability in the medium term. **In our view, mere designing may not be sufficient and may not even mean much, particularly, in a grave situation of persistence of the exceptionally high uncertainty driven by exogenous factors.** If the exceptionally high uncertainty were to

escalate or continue for too long, and the program fails to resolve the member's BoP problem, lending under the arrangement would become infeasible. In this context, designing itself cannot give the Fund confidence about the borrowing country's external viability in the medium term as exogenous factors may not be fully captured in the design of the program and therefore would need further analysis.

11. Given the recent experience of difficulties in obtaining or timely obtaining upfront credible and specific assurances on debt relief from official creditors even for standard UCT programs, it becomes all the more doubtful whether the proposed policy under exceptionally high uncertainty would really take off in view of its over-dependence on assurances – a 2-stage assurance process. If it remains a rarest of rare case, it may be a challenge for the Fund to sustain its claim of even-handedness and obtain traction among members, even inviting reputational risk for the institution. **Staff may, therefore, think through, share their views on how to resolve the often-encountered gridlock in obtaining assurance and move towards incorporating the same as part of the Fund's financing assurances policy under normal circumstances as also under exceptionally high uncertainty.**

12. Members cannot provide financing assurance without a debt restructuring plan in place. Providing financing assurance implies that creditor countries are in agreement with the debt restructuring plan that will be reviewed by the IMF after receiving the assurance. **Such fait accompli can be avoided if a technical session is held by the IMF staff before seeking financing assurance from creditor countries. Such a session could also provide an opportunity to present the Debt Sustainability Analysis by the IMF staff.** This will ensure that the need for any such assurance is anticipated and addressed before it arises.

13. In staff's view, the proposed changes to the Fund's financial assurances policy and its application to any specific country case in an exceptionally high uncertainty would involve material additional enterprise risks as identified mitigating factors would only partially reduce them. The proposed shift in modalities for UCT lending raises operational and broader issues, and in any particular application would involve many challenges. At the same time, not making such changes may lead to the Fund being perceived as ineffective in

delivering its mandate. **Given this assessment, we are inclined to accept the view that the capacity to repay assurance should complement the Fund's ex ante risk management framework to guard against overdue financial obligations.**

**Statement by Mr. Vasiliauskas, Ms. Ogmundsdottir, and Mr. Wallin on Changes to the
Fund's Financing Assurances Policy in the Context of Fund Upper Credit Tranche
Financing Under Exceptionally High Uncertainty
Executive Board Meeting 23/19
March 15, 2023**

We thank staff for the proposal on Changes to the Fund's Financing Assurances policy in the Context of Fund UCT Financing under Exceptionally High Uncertainty. **The circumstances that may cause exceptionally high uncertainty are clearly set out by staff.** These circumstances involve significant adverse tail risks of a shock of external origin, beyond the authorities' control and reach of their economic policies, leaving no sufficient confidence about the baseline scenario to guide a UCT program.

We support the two proposed targeted policy changes to the Fund's financing assurances policy. We agree that these changes provide a modified way for a set of official bilateral creditors to deliver credible upfront assurances. They would also extend the use of a capacity-to-repay assurance from emergency financing to a UCT lending context. Assurances extended by a significant group of official creditors/donors would sufficiently complement the Fund's risk management framework and establish ex ante adequate lending safeguards.

We support the proposal for a procedural safeguard with early and full Board engagement. In circumstances with exceptionally high uncertainty, Board engagement is of paramount importance as these cases involve a material increase in risks to the Fund. Early Board engagement could also mitigate the risk of setting a precedent for UCT lending with higher credit risks.

In exceptionally uncertain circumstances a program design involving baseline and downside scenarios should establish higher confidence that the member's BoP problems can be resolved, and medium-term external viability restored. We acknowledge the challenges related to a UCT program in situations of exceptionally high uncertainty, as assumptions under the baseline and downside scenarios originate from factors beyond the control of the country.

We appreciate the detailed overview of the related enterprise risks of the changes in policy. We acknowledge that the proposed policy changes will raise enterprise risks to the Fund. In order to mitigate financial risks, the proposed policy changes are targeted and properly ensure uniformity of treatment and alignment with the Fund's legal and policy framework. In addition, we emphasize that there are also risks involved with inaction, including spillover risks and financial risks to the Fund if a member's BoP problem is not addressed and medium-term external viability restored.

**Statement by Ms. Koh and Mr. Boehme on Changes to the Fund's Financing Assurances
Policy in the Context of Fund Upper Credit Tranche Financing Under Exceptionally
High Uncertainty
Executive Board Meeting 23/19
March 15, 2023**

We thank staff for their proposal on how to support members in handling severe BOP impacts through a UCT-quality program in situations of exceptionally high uncertainty stemming from an exogenous shock outside the authorities' control and reach of their economic policies.

We agree with staff's overall assessment that under such circumstances, the Fund should be able to support members in their efforts to address their balance of payment needs, thereby catalyzing additional international donor support. We support the proposed targeted changes to the Fund's financing assurances policy with assurances to be delivered in two steps and an extension of a capacity-to-repay assurance. These changes will enhance the existing policy and provide an effective framework for official bilateral creditors to deliver upfront credible assurances to help restore debt sustainability. They will also allow creditors and donors to provide credible assurances with respect to the member's capacity to repay.

That said, we share staff's concern that Fund UCT-financing in situations of exceptionally high uncertainty would involve elevated financial and operational risks for the Fund. It requires a careful judgement whether such a UCT design is credible, feasible and in line with legal requirements including adequate safeguards. Fund inaction could have significant undesired ramifications, including adverse spillovers at a global scale as well as reputational and financial risks to the Fund. We therefore agree with the proposed procedural safeguard of early Board engagement to determine whether exceptional uncertainty exists as defined above and to underpin subsequent risk-informed decision-making by the Executive Board. We also agree with staff that designing a UCT program would require a robust judgement about the authorities' sufficient commitment and capacity to implement a UCT program including the timely and adequate provision of data to the Fund and an established Fund track record. We urge staff to build on and further strengthen the Fund's internal review process and ensure application of Fund policy including on conditionality in line with the Fund's uniformity of treatment principle.

Statement by Mr. Giammusso and Ms. Quaglierini on Changes to the Fund's Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing Under Exceptionally High Uncertainty
Executive Board Meeting 23/19
March 15, 2023

We thank staff for the concise and helpful paper on the changes to the Fund's financing assurances policy in the context of Upper Credit Tranche (UCT) financing under exceptionally high uncertainty. Though we recognize the increased level of risks to the Fund in these circumstances, we fully support the proposed policy changes, which strike the right balance between supporting member countries in need, thereby limiting the high reputational risks to the Fund and possible adverse spillovers and other costs of inaction for the international economy and/or relevant economic regions, while securing adequate safeguards to the Fund. We offer the following comments.

- We support the procedural safeguard described in paragraph 18 that envisages an early involvement of the Board on Fund's engagement in cases of exceptionally high uncertainty. We concur with staff on the characterization of exceptionally high uncertainty and note the clarification on how this uncertainty relates to fragile and conflict-affected states. We emphasize that, in case of exceptionally high uncertainty, there is an exogenous shock that is outside of the authorities' control. We underline the importance for the member countries that request an UCT program in these circumstances to have the capacity and the sufficient commitment to implement a Fund's program. We thank staff for the clarity of this framework to ensure uniformity of treatment and alignment with the Fund's legal and policy frameworks.
- We agree with staff that, in case of exceptionally high uncertainty, a modified program design involving two scenarios – a baseline and a downside – is fully warranted to give the Fund sufficient confidence about the program's ability to resolve the balance of payment problem and restore medium-term external viability, as is requested by the legal and policy requirements for Fund's lending.
- We support the changes to Fund's financing assurances policy and the extension of the capacity-to-repay assurance to a UCT context as staff described in paragraphs 23-26, with an upfront commitment to debt relief with a contingent second-stage element. We agree that the capacity-to-repay assurance should complement the Fund's ex-ante risk management framework.
- We recognize the inherent challenges and higher lending risks. However, we are convinced that the proposed changes to the Fund's policies provide adequate safeguards and appropriate risk mitigation.
- We support the ongoing work program to reassess the Fund's policies and lending toolkit to ensure it is responsive to the needs of the membership, including discussing potential policy reforms and guidance to provide a better mix of member engagement,

creditor incentives, and Fund safeguards in debt resolution situations, building on the existing policy framework as discussed on February 16.

- We appreciate the enterprise risk analysis presented in the paper though we would have emphasized more the importance of significant potential spillovers in case of inaction in the consideration of exceptionally high uncertainty. Overall, we judge that the net benefits of the proposed policy changes outweigh the costs of inaction and related additional risk.

Statement by Mr. Herrera and Mr. Corvalan on Changes to the Fund's Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing Under Exceptionally High Uncertainty
Executive Board Meeting 23/19
March 15, 2023

We appreciate the clear and concise paper provided by staff and its efforts to design a UCT program in the face of high uncertainty and address the Board's concerns. We acknowledge the Fund's responsibility to support member countries in addressing immediate balance-of-payment needs and restoring medium-term external viability while ensuring adequate safeguards for Fund resources.

We agree that exceptional uncertainty arises from exogenous shocks resulting in severe and prolonged balance-of-payment impacts, limited economic policy reach, and a wide range of potential outcomes, such as conflicts, pandemics, and natural disasters. However, we have concerns about the assessment that official bilateral creditors may not be able to provide sufficient upfront debt restructuring due to uncertainty considering the natural tension between debtor and creditor perspectives on the required debt restructuring. *Could staff elaborate on the criteria to determine the inability of official creditors to provide upfront debt relief to borrowers due to high uncertainty? Additionally, how can we ensure that this possibility does not distort ex ante incentives for an efficient and timely debt restructuring process in both the official and private sectors?*

Given the high enterprise risks associated with a UCT program under exceptionally high uncertainty, we agree that exceptional procedural safeguards are necessary to ensure early Board engagement. The Board should assess criteria for exceptional high uncertainty, the feasibility of Fund support with adequate safeguards, and the availability of broad international community support. Early engagement would allow for timely assessment of enterprise risks, the calibration of program characteristics according to the stated risk tolerance, and early coordination with creditors and donors for catalytic financing.

We agree that multiple scenarios can provide flexibility in designing a program to address exceptionally high uncertainty. Two scenarios could capture high uncertainty and allow the Fund to build a contingent program that restores macroeconomic sustainability and ensures repayment to the Fund in a wide array of scenarios. Preparing a downside scenario during program design could boost confidence in its success by having all financial assurances in place from creditors, donors, and development partners. However, it is crucial to ensure that proposed contingent actions, including financial support, debt restructuring, and financial backstop to the Fund from official sources, are time-consistent and that all players will have the right incentives to fulfill their commitments in downside scenarios. *Could staff elaborate on its views on how to ensure time-consistency in a downside scenario?*

To adapt the policy of financial assurances to the unique circumstances of a UCT program with exceptionally high uncertainty, **we agree that official creditors can provide credible assurances to restore debt sustainability in a state-contingent manner** with specific actions depending on actual outcomes. **We also agree that the capacity-to-repay assurance should be extended to the UCT context.** *We would appreciate further clarification from staff on how the multilayered protection*

of the Fund will work in extreme situations, such as when tail risks materialize, compared to a projected downside risk scenario.

To ensure repayment to the Fund, assurances to restore debt sustainability and do 'what it takes' must be specific, credible, and public. Given the challenges in designing a robust UCT program with high uncertainty and limited policy flexibility, repayment to the Fund may mostly rely on financing assurances from bilateral creditors and donors. These assurances should be of high quality, specific, and upfront to safeguard the Fund's resources.

**Statement by Mr. Peter, Mr. Loszewski, and Mr. Kuth on Changes to the Fund's
Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing
Under Exceptionally High Uncertainty
Executive Board Meeting 23/19
March 15, 2023**

Enabling upper credit tranche (UCT) financing under exceptionally high uncertainty is a challenge for the Fund and its risk management. We are concerned about the substantial additional financial and operational risks involved. The approach set out in the report would present many challenges in any particular application, raising operational and broader issues.

We support the proposed procedural safeguard. In a context of exceptionally high uncertainty, program design, implementation, and monitoring are very challenging, while securing strong safeguards and assurances and effectively mitigating risks is critical. Early, structured engagement of the Board on these issues is therefore critical.

We agree that a modified program design involving two scenarios could provide confidence that the member's BOP problems can be addressed. Formulating plausible scenarios while avoiding misspecification and moral hazard would require securing the relevant external expertise about factors outside the control of the authorities' economic policies. We also emphasize that the two scenarios need to remain sufficiently separated to give confidence that the program will succeed.

UCT-quality financing under exceptionally high uncertainty requires adapting the Fund's financing assurances policy, as outlined in paragraphs 23-26. We concur with the necessity for creditors and donors to deliver firm commitments upfront for (i) the required flow financing to support the program; (ii) debt flow/stock relief and additional highly concessional financing if necessary to restore the member's debt sustainability within the program period, including in the feasible downside scenario; and (iii) assurances to secure the member's capacity to repay the Fund, including under tail-risk scenarios, while confirming the Fund's de facto preferred creditor status (PCS). The presence of a credible process to restructure private claims that is likely to deliver an outcome in line with program parameters is another key requirement.

It will be critical to carefully ring-fence the application of the policy so as not to weaken the Fund's safeguards and debt sustainability standards. In particular, creditors and donors would have to provide assurances in explicit recognition of the presence of exceptionally high uncertainty driven by exogenous factors. In addition, we agree that the application of the two-stage approach would require a very high level of confidence in the creditors and donors involved. The assurances would have to be extended by a sufficiently large group of creditors/donors with a sufficient shareholding in the Fund and a very strong track record of cooperation with the Fund in contributing to multilateral debt relief initiatives

commensurate with the scale of their collective assurance. In light of the uncertainty and timing inconsistencies, we still see a risk that upfront assurances for debt relief and additional financing may ultimately prove insufficient and/or unfulfilled. More generally, we agree with staff on the distinction between elevated uncertainty due to exogenous factors and elevated uncertainty due to mainly domestic factors.

Preserving the Fund's PCS remains paramount. In particular, explicit recognition of the PCS by donors and creditors is a key requirement.

Careful communication would also be needed to explain the very extraordinary nature of UCT lending under conditions of exceptionally high uncertainty. Such a communication would also help protect the catalytic role of Fund arrangements. Evidently, very limited recourse to such lending would be critical to rendering this communication credible.

On this basis, we can go along with the proposed targeted changes to Fund policies. We note that, even with these policy changes, the path to a UCT-quality program is narrow under conditions of exceptional uncertainty driven by exogenous factors, and that the Fund would be taking on substantial enterprise risks with such a program.

**Statement by Mr. Palotai, Mr. Just, Mr. Mert, and Mr. Hagara on Changes to the Fund's
Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing
Under Exceptionally High Uncertainty
Executive Board Meeting 23/19
March 15, 2023**

We thank staff for the proposed changes aiming to give members confronted with exceptional uncertainty, caused by exogenous factors outside of the member's control, the option of Fund financial assistance in form of an Upper Credit Tranche-program, while staying in line with the Fund's legal and policy frameworks. While such cases are expected to remain rare, lending under exceptional uncertainty needs to be accompanied by appropriately strong safeguards. In addition, whether a UCT-program is the most suitable avenue, should be carefully evaluated in view of the demanding terms and conditions of such a program, and also given that Fund debt is non-restructurable. Following the broad support expressed during the preceding informal meeting, **we can go along with the proposed changes.** We would like to offer following additional comments.

We welcome staff's efforts to provide a more precise definition of exceptionally high uncertainty. In general, we can accept such characterization of certain situations when this approach could be applied as some of those being caused by an exogenous shock, while the shock itself as well as its balance-of-payments impacts are outside of the control of the authorities and where it would be difficult to establish a baseline scenario with sufficient certainty. We note that, in practice, the role of judgment will be important and will need to be supported by thorough argumentation with respect to the Fund's mandate. We note with some concern that in staff's proposal a broader range of underlying issues, typically of institutional and social fragility character, which eventually can be affected by domestic policies, can differentiate fragile and conflict affected states from a country experiencing exceptionally high uncertainty. This risks adding (further) stigma to standard UCT-programs, where domestic factors will seem to have contributed to the underlying difficulties as opposed to the new "exceptional uncertainty" cases where the root cause of challenges is deemed to be external.

These considerations notwithstanding, we support that the program should be based on two scenarios. The modified program design involving two scenarios (instead of the standard one central scenario) can improve the confidence that the agreed policies would address the imbalances, although we acknowledge that designing the program based on two scenarios would be more challenging.

We note with concern the comprehensive discussion on potential enterprise risks. A UCT arrangement under exceptional high uncertainty would bring about significant risks. Hence, a thorough assessment will be needed, including of the alternative use of RFI/RFC facilities. **We support the proposed procedural safeguard of early Board consultation about an engagement.** At the same time, the member will need to prove sufficient commitments and capacity to implement the program in a forward looking manner. Any member's potential request for a Fund-supported program under exceptional uncertainty should be preceded by an emergency financing under the RFI/RCF in combination with the successful completion

of a PMB. This would help ascertain that the member has the capacity to implement a program and for the Fund to get a better understanding how the specific uncertainty affects the economy in order to design a relatively robust macro framework, identify possible areas for conditionality so that the Fund can monitor program implementation. *We would welcome more detailed information on how a member's ability would be assessed. Would the successful completion of a PMB be required? What other options do staff envisage?*

Upfront, credible, secure and well-specified financing and capacity-to-repay assurances will be necessary conditions for a UCT arrangement under exceptionally high uncertainty. Nevertheless, we see several risks and issues that would deserve more in-depth discussion. Ex ante unconditional assurances for the member's debt could make it difficult to disentangle lack of motivation from lack of capacity to implement necessary reforms. On the creditors/donors side, there is a strong need for more clarity how the creditors/donors' commitment will be assessed in successive reviews. *We would welcome staff's comments on the above-mentioned issues.* The staff report would have also benefited from an analysis of how the revised assurances policy is likely to impact the demand for Fund resources.

Regular reviews of programs are essential and for programs, which are subject to extremely high uncertainty, all commitments from the member's creditors/donors need to be re-assessed at each review. *We wonder whether quarterly reviews should be the norm in such circumstances.* The Fund must be able to monitor implementation of the program including through the member's ability and willingness to provide timely and accurate data to the Fund.

**Statement by Mr. Zhang, Mr. Bai, and Ms. Qi on Changes to the Fund's Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing Under Exceptionally High Uncertainty
Executive Board Meeting 23/19
March 15, 2023**

We thank staff for the concise and comprehensive paper on potential changes to the Fund's financing assurances policy in the context of Upper Credit Tranche (UCT) financing under exceptionally high uncertainty, and for the comprehensive outreach with our office. In general, we support the reconstruction of the post-conflict countries. Meanwhile, we highlight that any support from the Fund to fragile and conflict-affected states (FCS) and policy changes should uphold the principles of uniformity of treatment and evenhandedness. Against this context, we would like to join many other EDs to express our concerns and reservations on the following aspects.

Any changes to Fund's lending policy should ensure the evenhanded access to Fund's resources. Since the outbreak of Covid, there has been a strong perception that uneven treatment in terms of speed, access, conditionality, and tailored facilities was applied when the Fund processes members' program requests. Some of the program applications were presented to the Board and got approved with unprecedented speed, while others got delayed, or blocked for various reasons. The sharp contrast inevitably raises concerns on uniformity of treatment and evenhandedness. At this juncture, if any policy changes would be perceived as subjectively favoring a specific member, the reputation of the Fund will be at stake, which will in turn impair the effectiveness of the global financial safety net. To eliminate potential reputational risks, concrete measures should be taken to make sure the Fund's policy changes will benefit all members based on the same rules.

The proposed definition of exceptionally high uncertainty should be within the FCS strategy. According to the characteristic-based definition, the exceptionally high uncertainty could be the result of a wide range of issues such as natural disasters and domestic conflicts, which are subject to the existing policy on FCS. If the proposed policy were to be approved, we should avoid breaking the coherence of the lending policy. Case-by-case justification of exceptionally high uncertainty might be needed for the FCS, resulting in differentiated treatment and therefore a persisting evenhandedness issue.

We appreciate staff's candid and useful analysis on enterprise risk management. We take note of the financial, operational as well as reputational risks involved in the policy changes, which could only be partially mitigated. We're particularly concerned that the policy applied in a conflict situation would make the Fund take sides in conflicts and undermine the Fund's duty of neutrality. Careful communication would be required to

distinct the Fund support from direct financing of one side of the conflict and contributing to geo-economic fragmentation. At the same time, as stated by the staff, exceptionally high uncertainty makes it difficult to design program scenarios. If the exceptionally high uncertainty were to escalate or continue for too long, the higher probability of program design misspecification could lead to higher probability of program failure, especially when the capacity of the member to undertake macro-economic policies is in question. Also, over-reliance on financing assurances and capacity-to-repayment assurance from official bilateral creditors and donors may cause moral hazard. Authorities' commitment to satisfactory program implementation is the most critical factor to keep the program on track. We also acknowledge that there is a risk that creditor and donor failing to act on assurances and the Fund's burden sharing mechanism would take effect when extreme scenarios happen. Whether or not a financing assurance is credible depends on staff's judgement. We highlight that staff should treat all creditors equally when making this kind of judgment.

Lastly, we join with many other Directors that the scope and speed of envisaged policy changes may not allow for sufficient discussion and reflection of its consequences.

Changes to the Fund's Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing Under Exceptionally High Uncertainty

Responses to Technical Questions Posed by Executive Directors in Advance of
EBM/23/19—March 15, 2023

Staff's responses to technical and factual questions are below. Broader policy questions in the areas of implementation, risks and safeguards will be addressed in staff's oral intervention at the Board meeting.

Definition of exceptionally high uncertainty

1. *The report lists several factors (paragraph 13) as constituting situations of exceptionally high uncertainty. We wonder whether, to that end, all the factors listed have to be simultaneously present?*

- Staff takes the view that all factors listed need to be met for a situation to qualify as exceptionally high uncertainty. Thus, if one or more of the elements do not hold there will generally be a solution within the confines of the Fund's standard UCT lending approach. However, an element of judgment has to be exercised about each factor. The involvement of the Board in deciding whether the definition is met, with the advice of management and staff, will be important to ensure this is applied in line with the uniformity of treatment principle.

2. *Could staff elaborate on the criteria to determine the inability of official creditors to provide upfront debt relief to borrowers due to high uncertainty?*

- There are two elements at play here. The first concerns an inability to exactly calibrate the debt restructuring need at the start of the UCT program (since there is not a single scenario underpinning the program); the second concerns financing needs that go beyond the outstanding stock of restructurable debt (meaning a total debt write off is insufficient and additional financing has to be catalyzed to restore debt sustainability). Both need to be present at the same time, and the latter can be assessed using the macroframeworks/scenarios articulated.

Fragile states

3. *Whether the flexibility allowed under the Fund's lending toolkit, which is also reflected in the recent Fund's strategy for FCS, would not be appropriate to deal with UCT lending in situations of exceptionally high uncertainty.*

- Without the proposed policy changes, the Fund cannot undertake UCT lending under the current policy framework in a situation of exceptionally high uncertainty as it is defined in this policy paper. As explained in the paper, UCT lending in such circumstances creates frictions with the Fund's financing assurances policy. Thus, Fund members facing exceptionally high uncertainty, including fragile states who are in

this situation, cannot take advantage of the flexibility in the Fund's lending toolkit at present.

4. *We would appreciate staff's views on the differences between the factors characterizing exceptionally high uncertainty and those facing fragile and conflict-affected states (FCS) and whether the Board-approved FCS strategy would not have been the appropriate context for addressing lending in situations of exceptionally high uncertainty.*

- As explained in the paper, fragile states may face exceptionally high uncertainty. However, fragility can often arise from domestic factors like weak institutions. Meanwhile, states which are not fragile by the Fund's definition could face exceptionally high uncertainty, due to an unexpected shock. The two sets overlap, but far from fully. On why the FCS strategy would not be sufficient, see the previous response.

Procedural safeguards

5. *This meeting would (i) ascertain whether the exceptional high uncertainty threshold has been met; (ii) evaluate the quality of the financing assurances being offered; and (iii) determine whether the membership can go along with the proposed level of access for that case. Only then the risks to the Fund's balance sheet could be properly appraised. While the "procedural safeguard" mentioned in paragraph 18 of the staff report covers some of this ground, we believe the discussion should be broader and subject to a formal Board decision.*

- Note that items (ii) and (iii) are subject to a formal Board decision at the time the program is approved. An effort to approve them earlier would require almost the same level of progress as with presenting a Fund supported program for Board approval, rendering such an approach largely redundant from a governance perspective, and giving it an air of fait accompli. Staff has instead proposed to position the procedural safeguard considerably earlier in the process to give Directors an opportunity for input. Note that in weighing risks in the context of the Informal Board meeting, Directors could solicit staff and management views and give early guidance about (ii) and (iii).
- In designing this early engagement with the Board, staff was guided by the design of and experience with other policies (such as the exceptional access policy) which provide for similar early Board engagement.

Baseline and downside scenarios

6. *Whether having a “realistic” scenario based on information available at the time of the program design is unlikely or would not be appropriate in those situations of exceptionally high uncertainty.*

- The proposal articulates a program design involving two fully fledged scenarios precisely for the reason that it is difficult to pin down a single realistic scenario under exceptionally high uncertainty. Thus, we can gain confidence knowing that a program would work across a range of assumptions. Still, it would be challenging and that is why the paper calls for staff to draw on the expertise of other organizations, where relevant. Note that we do need to have a scenario on which to base conditionality and guide the program initially, which is why staff refer to one of the two scenarios as a “baseline”, though each is equally important.

7. *We would welcome staff’s comments on whether the downside scenario would reflect the materialization of the most adverse tail risk, as well as on the pros and cons of using such a rather extreme financing needs assessment approach.*

- The downside scenario captures the significant risk that exceptionally high uncertainty persists. It should aim to have adverse assumptions that place the program close to the limit of what would be feasible to resolve the country’s BOP problems and restore medium-term external viability. It is not meant to reflect the most adverse tail risk possible, and indeed a fat tail beyond the downside scenario is highly likely.
- The downside scenario is necessary to generate sufficient confidence that a program can work; it also plays the role of informing donors/creditors about the scale of the potential relief/support needed to restore debt sustainability (and this is critical given the contingent nature of their second stage commitment—the Fund cannot expect them to sign a “blank check”).

8. *Also, the suggestion that no one scenario can be seen as “sufficiently” central in a situation of exceptionally high uncertainty raises the question of how the assessment of “sufficiently” central would be made. Staff’s comments on these two matters would be appreciated.*

- There is no central scenario in this framework, so such an assessment does not need to be made. Staff needs to articulate a baseline and a downside scenario both reflecting the sources of the exceptionally high uncertainty, drawing on other organizations’ expertise, as needed. Then staff needs to translate this into two macroeconomic scenarios, which define a sufficiently wide range. Note that there is a need to have a scenario on which to base conditionality and guide the program initially, which is why staff refers to one of the two scenarios as a “baseline”, although each is equally important as noted above.

9. *Staff have mentioned: “management and staff would be expected to draw on the expertise of other organizations to help guide judgment” (para 21). Staff are welcome to elaborate on ‘other organizations’.*

- Exceptionally high uncertainty has several characteristics as outlined by staff in paragraph 13. Such characteristics could in principle be observed in different types of events and understanding these events would require different types of expertise. The paper cites a large-scale war as an example of exceptionally high uncertainty. In such an example, understanding how it would play out would require speaking with national security experts from different countries and organizations.

Capacity and commitment by the member

10. *Limiting such programs to cases where the authorities have the capacity and commitment to implement them is key. Could staff comment on how this will be assessed? Would a PMB be a pre-requisite?*

11. *Ex ante unconditional assurances for the member's debt could make it difficult to disentangle lack of motivation from lack of capacity to implement necessary reforms. (...) We would welcome staff's comments on the above-mentioned issues.*

12. *We would welcome more detailed information on how a member's ability would be assessed. Would the successful completion of a PMB be required? What other options do staff envisage?*

- As in all UFR cases, whether the authorities have the capacity and commitment to implement the Fund-supported program is an overall judgment (first by staff and management, and then by the Board). Past track record, political consensus, availability of information, and strength of existing policy tools would all be considerations.
- A PMB would not be a pre-requisite, but could be used to test whether the authorities have the capacity and commitment to implement a program. Note also that the Board could be expected to have a view on commitment and capacity at the point of the procedural safeguard and may indicate a desire to have a PMB to establish a track record for a UCT arrangement.

13. *Staff's comments on the merit of subjecting any new UCT arrangement with a member country under exceptionally high uncertainty to the authorities' track record of policy implementation would be welcome.*

- A Fund-supported program under exceptionally high uncertainty can only succeed if there is sufficiently strong commitment by the member. Track record and performance under a PMB can strengthen the case for that commitment and ownership being present—and can help build the track records towards a UCT Fund arrangement—but the judgment and decision will ultimately be made by the Board.

14. *We stress the need for satisfactory program implementation and would welcome staff's views on ways to emphasize this expectation in the summing-up of our discussion.*

- As in any UCT arrangement, per the Guidelines on Conditionality, staff will only recommend and the Board may only complete a review if the backward- and forward-looking elements of a review are satisfied. The policy changes proposed in the paper do not change that requirement in any way. Strictly speaking, it is unnecessary to reiterate this in the Summing Up, but Directors could choose to acknowledge the continued application of the Guidelines and other aspects of Fund policy to cases of exceptionally high uncertainty.

Debt sustainability assurances

15. *We understand that upfront credible and specific assurances should cover the baseline scenario and the downside scenario (...). Is this assessed in each review of the program? Given the high degree of uncertainty, are we expecting quarterly reviews?*

16. *Regular reviews of programs are essential and for programs, which are subject to extremely high uncertainty, all commitments from the member's creditors/donors need to be re-assessed at each review. We wonder whether quarterly reviews should be the norm in such circumstances.*

17. *On the creditors/donors side, there is a strong need for more clarity how the creditors/donors' commitment will be assessed in successive reviews. We would welcome staff's comments on the above-mentioned issues.*

- Yes, assurances covering both scenarios need to be in place at every program review. At each review, staff will first assess the factors creating the exceptionally high uncertainty and whether their evolution motivates a change in the scenarios. To the extent this is the case, the estimated second stage restructuring need could change (in either direction). Note that at some point the exceptionally high uncertainty would be expected to abate, and at this point the program would align into one central scenario with one estimate of restructuring need and triggering the second stage restructuring.
- Given the high economic uncertainty, under the Fund's policy on phasing, quarterly reviews would be expected in such circumstances.

18. *We also invite staff to elaborate on the compatibility of the engagement in UCT program under exceptional uncertainty with the Fund's lending into arrears policies.*

- The Fund's arrears policies are separate from the financing assurances policy, though they are closely related. The proposed modifications to the financing assurances policy would apply in both pre and post default cases given exceptionally high uncertainty and the need for additional safeguards beyond those provided by the arrears policies.

19. *Additionally, how can we ensure that the inability of creditors [to provide debt relief] does not distort ex ante incentives for an efficient and timely debt restructuring process in both the official and private sectors?*

- The problem is not one of incentives, but that creditors are unable to provide *definitive* debt relief (because of the exceptionally high uncertainty) and may not have the capacity to fully resolve the problem (requiring donors to be involved as well, with highly concessional financing). In any event strong assurances are sought at program inception and, as necessary, at each program review, keeping creditors informed and incentives aligned. The proposed policy modification also defines when the second-stage restructuring must occur, and this should help avoid any misunderstandings about timing.

Capacity to repay assurances

20. *What does staff understand by a significant group of creditors/donors? Which percentage of the membership needs to be involved in the process?*

21. *Under para 26, staff have talked about ‘significant’ group of creditors/donors without defining ‘significant’. Staff are welcome to describe and clarify the details on ‘set’ and ‘significant’.*

- What constitutes a significant group creditors/donors would be assessed on a case-by-case basis, and would depend on circumstances prevailing at the time, including notably, their collective shareholding in the Fund, their track record of contributions to multilateral debt relief initiatives on a scale commensurate with the size of the assurance, and other considerations outlined in paragraph 26. As such, there is no pre-determined percentage for a share of the membership that the group of creditors/donors providing assurance to capacity to repay the Fund would need to have. Note that the flexibility to exercise some judgment is standard in Fund policy, especially where thresholds would otherwise be involved (and this helps avoid the need to constantly change Fund policy).

22. *What happens if, in successive reviews, a creditor decides not to cover the necessary guarantees?*

- As noted in the paper, the capacity to repay assurance provided by creditors/debtors is not a legally-binding guarantee, but it is an integral part of the design of UCT programs in situations of exceptionally high uncertainty and plays an important role in ensuring “ex ante” adequate lending safeguards.
- Creditors/debtors that are providing the assurance would be expected to provide sufficient financial support to the borrower to stay current on all its obligations to the Fund. Any creditor/donor extending the assurance would be expected to honor the assurance. The requirement that such an assurance needs to be extended by a significant group of creditors/donors, helps give confidence that it could be amended as needed during program reviews, if necessary (for instance, by the remaining group members absorbing it). This would have to be addressed at each program review. Where an assurance from a creditor/donor became a problem it would need to be addressed immediately and would never reach to a successive review.

23. *We would welcome staff's comments on the possibility and implications of having financing assurances provided by creditors without a track record of previous contributions to support multilateral debt relief initiatives, as well as the associated risks and how to mitigate them.*

- Individual members of the group providing assurances should have a collective history of contributions to multilateral debt relief initiatives commensurate with the scale of their collective assurance. A prospective assurer with no such track record would be seen as adding no value to the assurance. However, the proposed approach would allow individual creditors/donors with a relatively weaker track record of contributions to support multilateral debt relief initiatives, and to participate in a group providing capacity to repay assurances, provided that as a group, the track record of contributions would be commensurate with their collective assurance. In this context, it would be the requirement for a significant group of creditors and donors to provide such assurance that would provide for risk mitigation.

24. *We note that financing assurances are not legally binding guarantees, which would imply higher financial risks to the Fund if creditors/donors do not fulfil their assurances. Given that the Fund is lending into situations of exceptionally high uncertainty and that such assurances are important safeguards for Fund resources, can staff comment on how there can be more certainty to such assurances for better mitigation of Fund's risks.*

- While financing assurances are not a legally binding guarantee, overall, the Fund has a good track record in relying on assurances provided by creditors/donors in the context of its lending operations. If the creditors/donors failed to fulfil their assurances, this would imply significant reputational costs for them.
- Under the proposed approach, the capacity to repay assurances would have several features designed to increase their credibility and strength. First, such assurances could be extended only by a significant group of creditors/donors, which would help ensure that adverse changes in individual members' external position would not undermine the credibility of the assurance and give confidence that it could be amended as needed during program reviews, if necessary. Second, having a significant group of creditors/donors extending the assurances would also ensure that a sufficient shareholding in the Fund is represented (and the group would thus bear a meaningful collective cost of not standing behind the assurance). Third, individual members of the group should be participants in the Fund's FTP and have a collective history of contributions to multilateral debt relief initiatives commensurate with the scale of their collective assurance—both features that help underpin the credibility of the assurances. Finally, the joint nature of the capacity to repay assurance would leave space for the group to manage different domestic processes, thereby helping ensure that the providers of the assurances can provide adequate financial support to the borrower in a timely manner.

25. *We would appreciate further clarification from staff on how the multilayered protection of the Fund will work in extreme situations, such as when tail risks materialize, compared to a projected downside risk scenario.*

- The capacity repay assurance by a group of creditors and donors aims to prevent any overdue financial obligations to the Fund from the borrowing member in tail risk circumstances that are more adverse than the program's downside scenario.
- However, there could be instances where the borrowing member could not exercise its rights and obligations in the Fund (e.g., where there is no government recognized for the member by the international community) and in such an extreme case the assurance would cease to be effective. In such cases, where the member does not have the ability to meet its obligations to the Fund, the standard elements of the Fund's multilayered risk management framework would apply. In particular, after 6 months, when overdue financial obligations would become protracted, the Fund's burden sharing mechanism would take effect, and the Fund's creditor and debtor members would contribute financing to cover the amount of unpaid basic charges and surcharges through increases in the rate of charge paid by debtor members and reductions in the rate of remuneration to creditor members. At some point, concerns about a member's ultimate repayment could trigger recording a provision for expected credit losses under International Financial Reporting Standards, which would reduce the Fund's income and (accumulation of) precautionary balances.

Risk mitigation

26. *We are also interested to hear from staff how issues relating to program design misspecification, which could lead to higher probability of program failure, would be mitigated.*

- Program design misspecification is indeed a key implementation risk. Upfront, it can be mitigated by a PMB (to build or rebuild a track record to a UCT program including information quality and monitoring ability), and by adequately drawing on the expertise of other organizations to inform judgments about the scenarios. The approach of having two fully fledged scenarios—baseline and downside—can also attenuate misspecification risk. Within the program, it can be further attenuated by the standard Fund approach involving reviews and phasing of disbursements.

27. *We note the risks from inaction but understand this to be a contributing rather than a deciding factor for program approval in the circumstances to which this policy would apply. Can staff confirm?*

- Yes, we can confirm that is the correct interpretation. There are a number of risks that the Board must weigh in each specific case, and these cover both risks of proceeding (paragraph 29) and not proceeding (paragraph 30)

Uniformity of treatment

28. *While we recognize that the Fund policies do not rule out UCT lending under “exceptionally high uncertainty”, we would have liked staff to provide a clearer justification of the policy changes that would benefit all other members facing similar circumstances. Staff’s comments are welcome.*

- The proposed policy changes are designed to promote uniformity of treatment via the transparent, clearly articulated, and characteristics-based definition of exceptionally high uncertainty. Still, all legal and policy conditions for Fund lending in these circumstances need to be met, and thus the outcomes will be case specific. As noted in paragraph 28, a Board determination that the situation exists is not a guarantee that the Fund can lend. However, as also noted the Fund can and should pursue other routes for support in such instances (emergency financing, if conditions are met; or catalyzing donor support otherwise).

29. *A judgment element in the process of characterizing such situations is necessary to accurately confirm whether the defined “exceptionally high uncertainty” exists. Staff are welcome to comment, particularly on ways to ensure that the judgment element would be applied uniformly across member countries.*

- The reforms proposed by staff have two key features built in to support uniform treatment of the Fund’s members. First, a clearly articulated definition of exceptionally high uncertainty, which is based on characteristics (and not on specific events). Second, a role for the Executive Board in deciding, at an early stage and advised by management and staff, whether the definition of exceptionally high uncertainty is met and whether the Fund would be prepared to accept higher risks and pursue a UCT arrangement. This provides ample opportunity for different views to be heard and to ensure uniform application of the policy.

30. *How do staff expect the proposed policy changes to be applied evenhandedly if its application is ringfenced?*

- The Fund should retain its preeminent approach to assisting countries, where the program is itself the solution and the safeguard. This works and is relatively flexible and easy to implement and understand. It should only go into this special framework if it is absolutely necessary to allow the Fund to help. That can be understood as ringfencing, but in a way designed to maximize our effectiveness in supporting the membership. Thus, in a broader sense the reform promotes uniformity of treatment coming from being able to assist all members, instead of excluding special cases of exceptionally high uncertainty. Moreover, within the class of exceptionally high uncertainty cases, the transparent and characteristics-based definition proposed via these reforms further helps ensure uniformity of treatment.

31. *That said, we are interested in understanding the practicality of the policy change. Can staff comment on past requests that have not been surfaced to the Board due to perceived situations of high or exceptionally high uncertainty. How would the policy change affect staff's assessment, if any?*

- It is difficult to speculate about past cases, not least because we do not know how easy it would have been to assemble the necessary assurances. However, the question does point to an additional advantage of the reform. Namely, the Fund will have a rules-based framework to use to assess such circumstances, and when the Fund is unable to provide support through a UCT arrangement, this can be done with a transparent explanation.

32. *Staff may, therefore, think through, share their views on how to resolve the often-encountered gridlock in obtaining assurance and move towards incorporating the same as part of the Fund's financing assurances policy under normal circumstances as also under exceptionally high uncertainty.*

- Staff is considering in a separate workstream the question of how to address the broader question facing some of our members about the inability to obtain the assurances for debt restructuring ("assurance gridlock"). In the February 16th informal Board meeting staff promised to return to the Board with specific proposals as soon as possible. However, note that a key proposal for the exceptionally high uncertainty case (i.e. allowing a second-stage contingent element to the assurance) would not be appropriate in a more normal context. Delaying debt resolution tends to depress investment and growth, and should accordingly be used only when needed and when the conditions for these side effects are not in any event present (e.g. situations where uncertainty is exceptionally high already).

33. *However, it is crucial to ensure that proposed contingent actions, including financial support, debt restructuring, and financial backstop to the Fund from official sources, are time-consistent and that all players will have the right incentives to fulfill their commitments in downside scenarios. Could staff elaborate on its views on how to ensure time-consistency in a downside scenario?*

- Time consistency problems could occur, which is why there are requirements on the types of creditors/donors that would give assurances. These are meant to ensure that the Fund deals with those who have a track record of support in similar circumstances, and who have an incentive to deliver it regardless (e.g., because they would bear a meaningful collective cost of not delivering it). Program design also mitigates this risk. At each review, the relevant creditors/donors will have the opportunity to see how the program is evolving (and this could include towards the downside scenario) and better pinpoint the implications for their assurances. And management, staff and the Board need to be satisfied that the conditions remain in place to proceed, including the strength of the assurances.

CONSTITUENCY CODES

OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC

China

OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDec

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF

France

OEDGR

Germany

OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA

Japan

OEDMD

Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, Somalia, United Arab Emirates, and Yemen

OEDNE

Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU

Russian Federation and Syrian Arab Republic

OEDSA

Saudi Arabia

OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK

United Kingdom

OEDUS

United States