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**Statement by Mr. Fanizza, Mr. Spadafora, and Ms. Korinthios on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting
June 11, 2020**

*We thank the Office of Risk Management (ORM) for a comprehensive and detailed Mid-Year Risk Update and strongly appreciate its focus on the impact of the Covid-19 pandemic on the Fund's risk profile. We agree that strategic and reputational risks have remained basically unchanged. If anything, the rapid and comprehensive response to the Covid-19 has strengthened the Fund's position at the center of the GFSN as it has been greatly appreciated by the membership. In this context, we agree that lending, adequacy of Fund resources and financial assets/income face heightened risks along with some internal operations (HR, budget and information security); we share ORM's assessments of the applied mitigation measures. **We believe that these heightened risks call for stepping up both Fund's surveillance efforts and UCT financial support to members, which emergency financing has clearly crowded out.** We welcome the First Deputy Managing Director's stepped-up work on possible enhancement to the enterprise risk management function and its governance, including with regard to ORM's mandate and resources. In this regard, the look forward to the forthcoming report by the Office of Internal Audit will constitute a key input.*

We offer the following additional comments:

- **The Fund's welcome response to the crisis through the provision of emergency and precautionary financing has no doubt raised the Fund's overall credit risk.** The lack of UCT conditionality together with reduced Fund involvement through surveillance has *de facto* diminished the Fund's capacity to influence members' policies through constructive policy advice and therefore heightened the risks that national policy responses end up being inadequate to foster a global recovery. The proposed increase in annual and cumulative access limits for both GRA and PRGT programs should help mitigate the risks that emergency financing substitutes for the use of Fund resources under UCT conditionality.
- **We believe that the main source of risks stems from holding off the Fund's critical surveillance function because of the inability to provide much-needed policy advice**

to member countries – notably on the right policy mix in the face of the challenges and tradeoffs posed by the Covid-19 pandemic – rather than in potential inaccuracy of forecasts, analyses, and DSAs as suggested by the paper. Fund’s advice is particularly needed on two issues: (a) how to best finance the unprecedented increase in fiscal deficits; and (b) the appropriate monetary policy stance in face of the assessed relative likelihood of deflation versus inflation risks. We believe it is essential that the Comprehensive Surveillance Review incorporate available lessons from the Covid-19 crisis and its possible impact on surveillance priorities. However, we are looking forward to concrete proposals for resuming Fund’s surveillance activities as soon as possible and for increasing its traction. Our member countries need our inputs to shape their policy response under these unprecedented circumstances.

- We appreciate the focus on Capacity Development and welcome the Fund’s swift adaptation to new modalities of delivery. However, we cannot help but wonder whether the CD-related risks for FY21 and beyond are somehow underestimated. While we appreciate the ongoing efforts to mitigate the risks associated with donor funding – by deepening and diversifying the partnership base – we would like to emphasize that other relevant challenges are posed by some countries’ difficulties in accessing digital communication and weak institutional and organizational capacity. Moreover, we would suggest adopting a cautious approach for the medium-term horizon, given that staff’s estimates reflect a still uncertain scenario with possible absence of additional fundraising drives. Contingency plans and further mitigation measures might be useful, should this scenario materialize. *Staff’s comments are welcome.*
- We agree that information security risks are elevated and on the rise; Work-From-Home (WFH) practices – while necessary and broadly successful – pose distinct challenges, which are even more concerning given that the WFH might be the ordinary way of work still for some months to come. The additional delay in the Information Security Roadmap – the key measure for risk mitigation – is unfortunate but perhaps inevitable as a result of the Covid-19 challenges. However, except for the pandemic, the factors – staff capacity constraints in ITD and ITD reorganization – that are referred to as causes of the above delay in the key Crown Jewels project pre-date the pandemic so that it is not clear why they are now presented as unexpected. *Staff’s comments are welcome.* Any further delay in the roadmap should be carefully avoided to contain further risks. Against a backdrop of fast-changing technological and cyber-security landscapes, it remains essential to assess on a regular and timely basis the need for corrective measures and adjustments in order to safeguard the effectiveness of a costly project that is now expected to be finalized in Q2-FY2024.
- We welcome the information-rich Box 2 and agree that the Third Party Risk Management project takes on an increasingly important role and needs to be strengthened with priority (paragraph 46), not least because of the sheer value (\$1.7 billion) of the contracts awarded to vendors and the critical functions that they cover (including WFH).