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Statement by Mr. Mouminah, Mr. Alkhareif, and Mr. Keshava on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting
June 11, 2020

We thank the Office of Risk Management (ORM) for the insightful mid-year Risk Update, which provides pertinent details about enterprise risks and related risk mitigation. We appreciate staff's bilateral outreach, which helped us in clarifying a number of issues. We also thank the First Deputy Managing Director for his Buff statement.

We agree that the COVID-19 crisis dominates the enterprise risk landscape of the Fund at this time and welcome the Fund's swift and decisive response, which has enhanced its reputation. We also support the management's well-timed plan to consider enhancements to the risk function at the Fund and look forward to internal audit recommendations and Board discussions. We would like to focus our remarks on a few issues raised in the report.

Risk Profile: Figure 1 provides a helpful snapshot of the Fund's risk profile. It is evident that risks are higher relative to the 2019 Risk Report as well as the March 2020 update. Indeed, helping members respond to a global shock of unprecedented scale can be seen as justifying acceptance of de facto higher risks than is warranted "in normal times". However, balancing these considerations raises fundamental issues regarding the Fund's risk tolerance. To this end, **we consider that it would be important to review institutional risk acceptance as planned in November in the 2020 Risk Report.**

Emerging Risks and Related Mitigation:

- **Risks related to Fund program portfolio** are extremely high and residual risks have risen despite risk mitigation. Looking ahead, the absence of conditionality in emergency financing warrants close monitoring of the appropriate use of Fund resources. On the use of prior actions in emergency financing cases, we emphasize the need to mitigate any perception of lack of evenhandedness. As regards high precautionary arrangements, we need to be particularly vigilant given their high share in total committed Fund resources as well as the regional concentration of these arrangements. In particular, the Fund needs to be operationally ready to address any challenges associated with their simultaneous drawl. We also reiterate the need to take a broader approach to lending risk, in real-time, as program decisions are taken. This will help the Board in fully understanding the cumulative impacts and risks of its decisions while not prejudicing its view on individual country cases.

- **Risks related to the adequacy of GRA resources seem to be limited, but PRGT adequacy and self-sustainability risks are high.** The FCC of SDR 164 billion as of June 5 from quotas together with substantial borrowed resources provide comfort that the Fund would be able to meet demand from the membership. Here, we look forward to regular updating of scenarios for demand for Fund resources based on plausible assumptions. As regards mitigating risks related to the PRGT, we look forward to a full and comprehensive discussion on concessional financing arrangements and should be guided by three important principles: (i) maintaining the Fund's catalytic role; (ii) preserving the self-sustainability of the PRGT and (iii) ensuring the equitable distribution of scarce PRGT resources.

- **On surveillance**, we take note of the rising risks to the accuracy of forecasts given the uncertainty in understanding the path and impact of the pandemic. This is especially important for emergency financing cases, which do not have ex post conditionality. Here, we agree on the need for mitigating these risks in order to get the assessment of economic fundamentals right. The temporary extension of Article IVs consultation cycles was the right move to focus attention on programs and the resumption of work in this area should give priority to those countries where debt sustainability and financial vulnerabilities are of particular concern in the wake of the crisis.

- On **medium-term budget**, we would support continued efforts to prioritize work and achieve efficiencies in order to help reduce stress on staff. In this context, we do not think that mitigation necessarily includes additional resources in order to ensure continued effective Fund service to the membership. At the same time, we are willing to consider with an open mind the effects of the crisis work on the budget but do not support the presumption of an exceptional increase in structural resources over the medium term.

- On **human capital,** we agree with the assessment that the crisis has put significant pressures on staff, particularly from the scaling up of program engagement and WFH challenges. In this context, we welcome mitigation measures and take positive note of the results of staff sentiment survey. **Since the preparation of emergency financing cases has somewhat slowed, there may be a case to restore the normal**

departmental review period to alleviate some pressures on staff. While immediate mitigation to increase staff resources was swift, the residual risks include those related to WFH and regional diversity. Indeed, increased workload and challenges to work-life balance under WFH have been identified as an important residual risk to staff's wellbeing. Here, we would like to highlight the importance of appropriate measures to address these issues as preserving staff morale and motivation should be at the center of our attention. **We would like to express our extreme disappointment that the 2020 diversity benchmarks for the MENA+ and East Asia were not met.** This development was not surprising, as over the last five years, external recruitment of nationals of underrepresented regions (URR) has declined significantly. Indeed, the overall decline in external recruitment has been responsible for the lack of meaningful progress especially for MENA+ and East Asia. In this context, it is important to implement swift mitigation measures, which should include development of a clear strategy and implementation plan to recruit nationals from under-represented regions in a timebound manner.

Advancing Risk Management: We strongly support the initiatives to advance enterprise risk management at the Fund, as outlined in Table 4. We especially appreciate frequent Board engagement and continued efforts to strengthen ex ante risk assessment for significant program or operational decisions. These efforts should continue in the period ahead. Furthermore, the OIA's audit to assess the effectiveness of the risk management framework and processes and its recommendations would provide an opportunity to further strengthen enterprise risk management. In this context, we look forward to the upcoming Board discussions.