

The contents of this document are preliminary and subject to change.

GRAY/20/2400

CONFIDENTIAL

June 9, 2020

**Statement by Mr. Rosen, Mr. Farber, Ms. Pollard, and Mr. Grohovsky on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting
June 11, 2020**

The Fund has responded forcefully to the COVID-19 crisis in a challenging operating environment. This response has been quick and commendable. Nevertheless, the rapid increase in disbursements—particularly through emergency financing facilities—occurring while the Board, management, and staff are working from home and restricted in travel has significantly increased risks. We welcome this timely discussion on risks to the Fund and the increased engagement that the Board has had with the Office of Risk Management (ORM) over the past several months. We agree with many of the assessed areas in the report and will focus our comments on the following issues.

We appreciate that this year's mid-year update focused heavily on the increase in lending and credit risks to the Fund. The crisis has highlighted a point we have been making consistently, namely that the Board needs better information on financial and credit risks facing the Fund and that the ORM needs to be empowered to weigh in on the enterprise risks stemming from the Fund's lending activities. The prioritization of lending and financial risks in this year's mid-year risk update is a good step in that direction. *Could staff comment on whether the program risk index could be utilized with other forward-looking indicators to help assess potential risks?* We also welcome the steps that have been taken in recent months to provide more regular financial information to the Board. We further welcome that the discussion on precautionary balances is currently planned to occur before the August recess. Given the changing financial profile of the Fund, it is imperative that this discussion take place as planned.

We would also note that other parts of the Fund's response to the crisis have provided new opportunities as well as risks. For example, the creation of the SLL was an important addition to the Fund's lending toolkit. We agree with staff that this instrument should make the Fund more effective but that there are also risks to the temporary use of Fund resources from its revolving nature. We would add that there may be a risk to the Fund's reputation if

no countries take up use of the facility and think this is an area that should receive close attention. Another area of the response where the Fund has been a leader is in the Debt Service Suspension Initiative. Nevertheless, slow uptake by potential beneficiary countries poses a key reputational risk to the Fund, and we encourage debtor and creditor countries to work constructively to ensure that the full benefits of the initiative are realized.

There were a few areas where we disagreed with the assessment. First, on the medium-term budget, we understand that the crisis has led to increased resource needs in some areas. Nevertheless, we believe there are a number of areas in the budget that can serve as offsets, and we continue to see work brought forward that we do not view as a high priority or critical to the crisis response. A more balanced assessment on the medium-term budget in the Risk Update, noting the reputational risks to the Fund should it request more resources, would have been warranted.

Additionally, but relatedly, we agree with the increased risks related to surveillance. Surveillance has been a key pillar of the Fund's work since its founding and has only increased in importance with the pandemic's economic fallout and the rapid increase in emergency financing without ex-post conditionality. While always difficult to get right, the challenges of working from home have made this even more acute. However, we question the assessment that "the risk that the need to deal with the crisis crowds out attention to other vital issues, like climate change, inequality, and the nature of work." In our view, this is not a risk but is instead appropriate prioritization towards the pressing issues presented by the crisis. More of this prioritization towards crisis-related issues, not less, would ensure that the Fund is responding appropriately to the most immediate challenges facing the membership while maintaining the flat real budget.

Finally, we take note of the indication that there will be further improvements to the risk management framework. We look forward to the report on the OIA's audit of enterprise risk management and urge management to respond and implement changes quickly. We also look forward to further refinements, potentially including the optimal reporting structure, the flow of information to the Board, and changes to the role of ORM in the review process.