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**Joint Statement by Ms. Levonian, Ms. Mahasandana, Mr. Ray, Ms. Riach, and Mr. Rashkovan on 2020 Mid-Year Risk Update  
(Preliminary)  
Executive Board Meeting  
June 11, 2020**

We thank the Office of Risk Management (ORM) for the 2020 Mid-Year Risk Update and the First Deputy Managing Director for his Buff statement. The Fund's work entails inherent risks and a robust risk management framework that facilitates measured risk-taking is necessary to execute the Fund's mandate. We acknowledge that COVID-19 is dominating the Fund's risk profile and uncertainty remains elevated. The Fund's response to COVID-19, while necessary, carries enterprise risks that need to be managed.

**Risk management at the Fund**

**We continue to strongly support the ORM's work and welcome the progress made in strengthening risk management at the Fund.** This has included closer integration of risk considerations into the work program, increased ex ante risk assessments in key policy papers and proposals (such as the SLL), regular Board briefings (including on IT risk), and the provision of consolidated monthly financial information to the Board. In the Risk Update itself, we welcome the identification of key risks and mitigation priorities (Box 1) and the greater attention to interconnections between risk areas.

**Nevertheless, more remains to be done.** We look forward to discussing the findings from the internal audit of the Fund's Enterprise Risk Management Framework in June and welcome the First Deputy Managing Director's assurance that management is carefully considering enhancements to the risk management function. We hope that the audit will provide a basis for reform. We look forward to further discussing the Fund's risk governance framework, including ORM's reporting lines, mandate and resources. We continue to see priorities to further strengthen risk management at the Fund as including:

- **Enhancing the integration of risk and budget discussions** – We welcome efforts to better integrate risk analysis and its mitigation into the budget framework; while improvements have been made, more remains to be done. In order for the Board to take informed decisions, it is important to receive a comprehensive overview on costs, risks and objectives, and consider them simultaneously. Likewise, the Risk reports should provide more candid discussion of risk prioritization, which is crucial for focusing attention and resources on the most urgent needs. We welcome the initial steps taken in the 2020 Risk Update to provide a clearer sense of prioritization.
- **Strengthening ex ante risk assessment** – Further progress is needed in strengthening ex ante discussion of enterprise risks in program, policy, and operational decisions affecting the Fund’s overall risk profile. Providing a risk impact assessment of proposed decisions within accompanying Board documentation should become common practice in the short- to medium-term. More consideration could also be given to reputational risk going forward.

### **Risk assessment and mitigation**

We note staff’s assessment that enterprise risks have increased since the 2019 Risk Report for 8 of 14 risk areas, with the impact of the COVID-19 shock offsetting gains from risk mitigation. On staff’s assessment that the Board has implicitly agreed to a higher risk acceptance, we would welcome a conversation about risk acceptance, and would see a case to do this prior to the November Risk Report, if possible.

Progress made with risk mitigation in many areas is welcome, along with the shift to address risks associated with the initial phase of the crisis. In this heightened risk environment, however, it has become more urgent to see progress on risk mitigation for information technology and third-party vendor risks, as discussed below. We welcome the largely positive transition to the remote working procedures.

### **On specific risk areas:**

- **Program and credit risks** – Program performance risks and associated pressures on credit and financial risks are extremely high, reflecting the higher volume and changing nature of Fund lending. This comes on top of already elevated risks associated with Argentina and other large programs. We agree that while evenhanded implementation of existing lending policies, including the use of safeguards measures and attention to governance considerations, can mitigate concerns over the use of Fund resources, it should be balanced against the risk of unduly delaying financing. We encourage continued close monitoring of risks in this area. IEO evaluations remain an important additional safeguard and should continue during this period.
- **Surveillance** – IMF surveillance is a global public good, highly valued by the membership. Bilateral surveillance operations have been temporarily suspended to focus

on lending needs, a reprioritization that we support. But we would have liked to see more on the risks that accumulate from suspended bilateral surveillance in non-UFR contexts or an extended period of remote surveillance, including for program design and effective IMF policy advice. We think mitigation of these risks could go further.

- Increasing the frequency of multilateral surveillance products, covering both financial sector and real economy developments, and with rich context-specific policy advice, would help fill some of this gap. Timely forecasts on macroeconomic developments are key for lending decisions. We also think presenting the Vulnerability Exercise to the Board, with appropriate information security safeguards, would represent a significant enhancement of the risk identification role of surveillance.
- We remain concerned about the relatively limited number of staff with program experience in PRGT and fragile states and/or short tenure on country assignments. This has implications for program design as well as policy advice on managing the crisis and recovery.
- **Adequacy of Fund resources** – Risks to the adequacy of Fund resources have risen amid growing resource commitments and modifications to the lending toolkit. Given residual risks in this area, we emphasize the importance of regular and candid communication on likely resource demands, including analysis based on forward-looking scenarios, so a case can be built to the membership for the mobilization of additional resources, if needed.
- **Information technology** – We appreciate the regular updates from ITD and acknowledge the additional demands that COVID-19 related disruptions have created on ITD staff. We note with concern that the information security roadmap has been delayed from Q4 2023 to Q2 2024, particularly in a worsening cyber-environment and with a high volume of work in a work from home environment. *“Not in progress” is reported on restoring cyber threat intelligence capacity and insider threat monitoring in the background paper – Could staff elaborate on the barriers to progress in this area?*
- **Medium-term budget** – While we acknowledge that adequate resources are necessary for the Fund to deliver on its mandate, we would like to re-iterate our call for staff to make a clear case for additional resources, as agreed during the FY2020 budget Board discussion. These discussions should not be pre-empted but be held in due time with all the necessary information available – including the financial outcomes by department for FY2020.
- **Human capital** – We welcome ORM’s assessment that swift actions have helped mitigate immediate human capital risks from the pandemic, with staff adapting to work from home well and mechanisms in place to address resource reallocation. We also welcome efforts to reduce pressure on staff by extending existing contracts and rehiring

recent retirees. Nonetheless, we would see scope for further consideration of the impact on staff of an extended period of work from home, in terms of occupational health and safety, work-life balance challenges, staff morale and team bonding. *What actions are being taken to monitor this (e.g. surveys), what are the conclusions from those exercises, and what actions are being taken in response?*