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**Statement by Mr. Mojarrad and Mr. Nadali on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting
June 11, 2020**

We thank the Office of Risk Management (ORM) for an insightful mid-year risk update that discusses enterprise risk developments and mitigation in the context of the Covid-19 crisis, indicates shifts in the risk profile, and outlines steps to further strengthen risk management at the Fund. The Fund's decisive and rapid response in meeting the membership's unprecedented demand for emergency financing has helped mitigate strategic and reputational risks but at the same time carries enterprise risks that need to be managed. We broadly agree with the staff analysis and recommendations, underscore the need to address the remaining key residual risks, and wish to comment on some of the 14 individual areas of the Fund's risk register.

1. The rising volume and pace of Fund lending has further increased the already high **use of Fund resources (UFR)** portfolio risks. We note ORM's assessment that the proportion of the aggregate GRA and PRGT program at high risk of needing a successor program or an augmentation relative to pre-Covid-19 levels has likely increased. The new Short-Term Liquidity Line (SLL) is said to better meet members' needs but its successive use could entail a residual risk to the revolving nature of Fund resources. However, SLL's low access level and short repurchase period vis-à-vis FCL with same stringent qualification criteria act against widespread use of this instrument. *Could staff indicate if there has been any expression of interest for an SLL since its creation in April 2020?* Prior actions, independent audits, and attention to governance considerations could help mitigate concerns over the appropriate UFR in connection with Covid-19, but such measures should be risk-based and applied evenhandedly.

2. Risks to the **adequacy of Fund resources** have increased substantially due to emergency Fund support related to the coronavirus pandemic. Doubling of the NAB and renewal of proportionately reduced BBA by end-2020 will help maintain the current size of the Fund's lending capacity. However, exceptional uncertainty and downside risks call for increasing Fund's permanent GRA resources and making progress with governance reforms under the **16th general quota review** by end-2023. Urgent augmentation of PRGT resources is also warranted, given the likely depletion of uncommitted PRGT loan resources in the baseline scenario and a further increase in demand for concessional financing over time.
3. Eight consecutive years of **flat real administrative budget**, four successive years of full budget utilization, and increases in the upfront allocation of the carry forward have eroded the remaining budgetary buffers to handle unforeseen resource needs. New program demand in FY2021 alone, under the post-Covid-19 baseline scenario would imply an annual budget impact in the range of US\$ 60-100 million over the next three years. Following the recently-approved increase in the maximum allowable carry forward of general administrative resources from 3 percent to 5 percent, we look forward to Board discussions on a supplementary budget in November 2020 and a likely increase in structural resources for the next three years.
4. Absence of ex-post conditionality in emergency financing places a premium on **surveillance** to ex-ante assess fundamentals. However, the temporary 6-month extension of Article IVs consultation cycles, while necessary for focusing staff resources on programs, compounds surveillance risks and in turn amplifies program risks. Notwithstanding forecasting challenges posed by the pandemic, work should continue to address forecast optimism, including by specialized training, better knowledge sharing, and improving data quality. We see merit in staff continued virtual engagement with country authorities on Article IV issues and look forward to upcoming Board discussion on surveillance during the Covid-19 crisis.
5. Increased program engagement and work-from-home (WFH) challenges have placed pressure on Fund's **human capital**, and necessitated work prioritization, process simplification, staff reallocation within and between departments, extension of contractual employees, and reappointment of recent retirees. We note the relatively limited number of staff with program experience in PRGT and fragile states, *and appreciate staff elaboration on the new career framework for fungible macroeconomists approved by management in April 2020 to help mitigate such risk*. Travel restrictions pose residual risks to recruitment and retention of staff from underrepresented regions (URRs), including from MENA+ which has a shortfall of 59 nationals vis-à-vis the 2020 diversity target. We expect that the two Board meetings on **diversity and inclusion** later

this year will further explore the reasons behind failure to meet the 2020 targets, set the 2025 diversity benchmarks, and provide a roadmap to address the staffing deficit from the URRs.

6. The cyber threat landscape has worsened, as evidenced by several high-profile institutions having been hacked and a surge in malicious threats targeting the Fund. We welcome ITD Fund-wide guidance on secure work practices, extending the **information security** policies to OED personnel, and ongoing work to improve third-party access and controls. Work should continue to advance the crown jewels project, including by addressing staff capacity constraints in ITD as well as online training and awareness program for all departments, and ensure completion of the information security roadmap by end-2023.

Finally, we welcome significant strides made since 2014 to establish and develop the existing risk function at the Fund, see merit in further enhancing the ORM's mandate and resources, and look forward to the finalization of the roadmap to strengthen enterprise risk management by incorporating the recommendations of the ongoing internal audit of the risk management framework.