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June 9, 2020

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

- 1. We thank the Office of Risk Management (ORM) for an insightful set of papers on the 2020 mid-year risk update, as well as the First Deputy Managing Director for his Buff statement.** The reports provide a thorough analysis of the significant impact of the COVID-19 pandemic on the key risks facing the Fund. Thus, mitigation efforts have rightly been reprioritized to address the effects of the crisis on the Fund's various business areas. In particular, the Fund's strong response to the crisis through the support provided to the membership has contributed to not only alleviating the economic and social impact on members, but also to mitigating the institution's reputational risk. However, important residual risks remain which will require continued close monitoring from Management and Staff. These include, among others, the need for a rapid increase in Fund resources as well as the need to address the considerable pressures weighing on staff as a result of the crisis. In addition, important risks that preceded the crisis have become more prominent as a result of the pandemic. Urgent and sustained attention are therefore also needed to mitigate those risks, particularly those related to information technology and the external cyber threat.
- 2. We welcome the progress achieved in advancing risk management alongside the actions taken to mitigate risks.** We encourage staff to continue their work in this area along the lines discussed in the 2019 Risk Report. However, we would like to underscore the importance of making more rapid progress in the management of the risk stemming from third-party providers. The implementation of the information security roadmap is equally important and should continue as soon as conditions allow. A strong enterprise risk management function is vital for an institution like the IMF and we look forward to the required enhancements fueled by the upcoming recommendations by the Office of Internal Audit and related discussions by the Executive Board.

- 3. The Fund’s business areas have been, to a large extent, adversely affected by the pandemic.** We note, in particular, that eight areas out of the 14 included in the risk profile are subject to rising risks. Among those eight areas, lending (use of fund resources) and information technology face risks that had already been assessed as “high” in the 2019 Risk Report. In response to the crisis, the Fund has appropriately increased its emergency assistance to the membership. This, along with preexisting vulnerabilities related notably to elevated debt levels in some countries have in turn led to an increase in the risks associated to program portfolio performance. It has also put pressure on the lending capacity of the GRA and the PRGT, thereby contributing to raising the risks related to the adequacy of Fund resources. In the case of GRA resources, while the Fund’s short-term lending capacity has not been affected, we are concerned by the fact that over the medium-term the Fund’s capacity to lend GRA resources may be exhausted under some scenarios due to the considerable uncertainty over the duration and magnitude of the crisis. We also note that the activation of the NAB will be necessary to supplement quota resources. Against this backdrop, we would like to reiterate our call for a timely completion of the 16th General Review of Quotas. We are also preoccupied by the likelihood that PRGT resources will be insufficient even in the short-term and under the baseline scenario. It is, therefore, urgent to review the adequacy of Fund resources and step up fundraising efforts to ensure that the Fund has adequate resources to address the financing needs of its low-income members during these particularly challenging times. In a similar vein, efforts to continue to extend debt service relief through the CCRT for the most vulnerable members will be important.
- 4. We agree with the ORM that the COVID-19 has increased surveillance risks** given the uncertainty around the path and impact of the pandemic, possible spillovers and macro-financial linkages. In this context, while the temporary extension of Article IV consultation cycles was warranted, we would like to hear staff’s views on Fund surveillance risks’ mitigation measures.
- 5. While Capacity Development (CD) risks seem to be contained in FY21, we note that beyond the crisis, CD delivery will be subject to mounting risks.** Given that some countries have already experienced delays in the delivery of CD during these unprecedented times, we would like to encourage continued close collaboration with the most vulnerable countries which rely the most on Fund CD.
- 6. We welcome the steps taken to manage operational risks.** The transition to Work From Home (WFH) has been particularly effective. However, the pressures on human capital from increased demands from the membership against the backdrop of the Fund’s flat real budget envelop remains a source of concern. We, therefore, reiterate our call for giving due consideration to an increase in the Fund’s budget envelop to enable the institution to effectively fulfill its mandate. Furthermore, the necessity to work from home has raised the Fund’s vulnerability to cyber threats, thereby contributing a further deterioration of information security risks.
- 7. The rapid increase in the risks facing the Fund warrant a review of the institution’s risk acceptance.** We encourage staff to continue to carefully assess and monitor all

identified risks while implementing effective mitigation actions. In a severe economic downturn, the Fund's role is to take on more risk, especially by providing the membership with the substantial support it needs to mitigate the downturn. As staff rightly note, since the beginning of the pandemic, the Fund has, by its actions, accepted to take on higher risks. We look forward to the review of risk acceptance in November 2020.