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**Statement by Mr. Mahlinza, Mr. Odonye, Mr. Sitima-wina, Mr. Abdullahi, and Ms. Nainda 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. Overall, we welcome the progress made across all risk areas in risk mitigation especially during the COVID-19 crisis which has heightened the Fund's enterprise risk profile. More importantly, we note staff assessment that the Fund's reputation has been enhanced owing to its agile and effective response to the crisis. It is important that this reputation be safeguarded. In this context, we urge for enhanced coordination and monitoring to ensure that all risks are properly addressed given the interconnectedness of risks across the Fund's core operations. In the meantime, as risks mount during this highly uncertain environment, frequent Board briefings will be necessary to ensure timely decisions by the Board. At the same time, the Fund has to stand ready to implement bold measures against rising internal risks, particularly in areas where it has control, such as the budget. That said, we have the following specific comments:

1. **Program portfolio risks**, which were already high prior to COVID-19 crisis, have worsened with the rapid shift in the program portfolio mix to emergency financing. Accordingly, in the absence of ex-post conditionality in emergency financing, there is need to ensure that fundamentals are properly assessed ex-ante, notably through DSAs and capacity to repay assessments. In conducting the DSAs, we believe the application of judgment should carefully consider borderline debt stress cases that could have been exacerbated by the pandemic. At the same time, caution should be exercised in communicating the debt risk assessments to avoid market risks. Further, there is need to consider additionality of resources in cases where Fund support is still needed to contain the pandemic. In this context, the inability of the Fund to lend directly to some of its members

during the COVID-19 pandemic, including those burdened by existing fragilities, could hurt the Fund's reputation and needs further consideration.

2. Given the rapid increase in the volume of lending precipitated by the unique and unprecedented crisis, the Fund has rightly accepted a temporary de facto increase in enterprise risk. In this regard we would support a flexible approach to the review of the institutional risk acceptance, depending on the duration of the crisis. This would allow for an evaluation of the elevated risk associated with COVID-19 and whether they are of a permanent nature.
3. **On adequacy of Fund resources**, there is merit in activating the New Arrangements to Borrow (NAB) for GRA and to urgently augment PRGT resources. With the extreme uncertainty surrounding the duration of the pandemic, it is important that the Fund remains in a position to, at least, meet both the near and medium term demands from its membership. Exploring additional mitigation measures including the review of the adequacy of Fund resources as well as accelerating the 16th General Review of Quota remains appropriate. *We would appreciate an update from staff on the progress in Fund raising for the PRGT.*
4. **On operational risks**, we note the mitigation measures that are in place to support the crisis response, including the transition to WFH and the temporary increase in carry forward resources. On human capital and resources, there is need for continued monitoring of the residual risks related to staff health and well-being as well recruitment and retention. In this connection, we note the progress made in diversity and inclusion and urge for vigilance to ensure that this progress is not reversed in the course of the crisis. In this light, efforts to achieve the diversity and inclusion benchmarks should continue to be prioritized in recruitment to ensure a representative staff complement that better serves the needs of the membership.
5. We note that **the risk on medium-term budget** has already materialized as the Fund has stepped up its efforts to meet members' needs under a flat real budget. As staff notes, new program demands in FY2021 under the post-COVID-19 baseline scenario, point to an annual budget impact of up to \$100 million over the next three years. In this regard, we look forward to the presentation of the supplementary budget and the review of the medium-term structural resources to ensure that the Fund can deliver on its core mandates.
6. Prior to the pandemic, the risk on **Information Technology** was already above the Fund's risk acceptance level and it is concerning that cyber security threats have tremendously increased during the pandemic. While the pandemic has affected progress on the implementation of the information security roadmap, we encourage staff to intensify the current mitigation measures that have so far helped in detecting the increased threats. In this context, reinstallation of the cyber threat intel capabilities should be prioritized. At the same time, we hope that the

roll-out of the CCBR will adequately address the recruitment and retention shortcomings, particularly in the area of specialized cyber security skills.

7. Finally, we support the actions taken to further strengthen enterprise risk management in the recent period. Nevertheless, the COVID-19 related events highlight the need for enhanced governance on risk management and a review of the role of the ORM. In this regard, we see the need for an expanded mandate of the ORM and thus look forward to the report of the ongoing-internal audit on enterprise risk management. In addition, while our current attention is rightly focused on the elevated enterprise risk due to the crisis, we should not lose sight of the other risk areas. In closing, we commend management and staff for all the hard work. We also recognize the extra efforts by the Fund Risk Committee (FRC) chaired by the FDMD which now meets monthly.