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June 9, 2020

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

1. We thank the Office of Risk Management (ORM) for the helpful reports and the First Deputy Managing Director for his statement. The mid-year Risk Update appropriately focuses on the immediate risks associated with lending and Fund resources, as well as internal operations, namely, staff budget and security. We broadly agree with the ORM's assessment of risks and mitigation measures, with the following comments:
2. **Risk profile.** In the current exceptional circumstances, we are not surprised that risks are higher relative to the 2019 Risk Report as well as the March 2020 quarterly update, as reflected in eight out of fourteen risk areas being on an upward directional change (Figure 1). However, we consider that the Fund's rapid and sizeable support for the membership has mitigated risks to the Fund's strategic directions. With innovations in policies and procedures and rapid action, the Fund was among the key "first responders", as noted by staff, notwithstanding the Fund's inability to provide financing to some members. The Fund's role was well recognized by the membership at the Spring Meetings.
3. **Institutional risk acceptance.** Notwithstanding the important risk mitigation measures outlined in ¶19, we recognize a de facto increase in enterprise risks as part of the Fund's crisis response. Given the unprecedented extent and nature of the crisis, we see a need to amend our risk tolerance, particularly with regards to lending. We prefer reviewing the institutional risk acceptance in November 2020, as planned.
4. **Lending risks.** We don't share the assessment that the increase in emergency financing poses reputational risks related to the appropriate use of Fund resources (¶16). It is the Fund's mandate to support members with emergency financing when they are affected by external shocks. Given the prevalence of the crisis and resulting unprecedented demands for emergency financing, it was the Fund's responsibility to respond to members' needs with

decisive crisis response actions. We believe that a severe reputational risk would have arisen had the Fund not responded to the demand of emergency financing. Moreover, transparency and governance safeguards are incorporated into all emergency financing programs to mitigate risks of inappropriate use of Fund resources. Staff indicates that a higher likelihood of successor arrangements and higher access raise risks to the revolving nature of Fund resources (¶17). In the event that the crisis be protracted, it would be appropriate to have successor arrangements to address members' needs.

5. **Adequacy of Fund resources.** We share the ORM's concern on risks to the adequacy of Fund resources, which are discussed regularly with the Board. The likelihood that the forward commitment capacity would fall below the SDR100 billion threshold for activating the New Arrangement to Borrow in the next 12 months has jumped to 68 percent (four times its January level) in the baseline scenario and to 74 percent in the downside scenario, as indicated in the report. Moreover, several adverse scenarios presented by the Finance Department point to the possibility that demand could exceed the Fund's total lending capacity. We therefore see merit in a prompt review of resource adequacy, including possible acceleration of the *16th General Review of Quotas*, and envisage a substantial increase in quotas in this context.

6. We agree that PRGT adequacy and self-sustainability risks are high. We share the ORM's assessment that mitigation is ongoing, particularly with the immediate start of the fundraising effort and its success so far thanks to the generosity of member countries who already committed resources.

7. **Budget risks.** We thank the ORM for the detailed assessment of medium-term budget risks and agree with them that the risk profile has increased. The crisis response is depleting already diminished budget buffers. For example, the internal review process, which is a key control for ensuring that the Fund's framework is followed, is under strain because of the increased workload associated with COVID-19 under a flat budget. Area departments facing multiple requests for emergency financing are also under pressure. We supported the proposed increase in carry forward in the budget discussion and are ready to support an increase in the budget envelope to allow the Fund to respond to the needs of the membership in a satisfactory and timely manner. ORM's input into the supplementary budget discussion would be useful.

8. **Human capital risks.** We expressed concern in the May 15 discussion about the low experience of staff especially mission chiefs, relative to the programs in our most vulnerable members, many of which have requested or already received emergency financing. There are limits to reallocation and work pressures have increased tremendously and are being accommodated by a considerable increase in overtime. Restoring surveillance and program monitoring operations will add to this pressure. Moreover, the informal staffing arrangements that have allowed to meet sudden needs will expire early in FY2021, raising the risk that under the current envelope, the Fund will not be able to deliver effectively on its

commitments to the membership, as noted in the report. *Can staff comment on recruitment efforts and other ways to mitigate human capital risks in a timely manner? Can staff also comment on what is being done to alleviate work-life pressures, which we found to be elevated in the work from home experience so far?*

9. We are pleased that the gender diversity benchmark was met. We remain particularly concerned about the lack of progress in regional diversity, as East Asia and MENA+ remain severely under-represented, as acknowledged in the report.

10. **Information security risks.** Information security risks remain elevated. The cyber threat landscape has worsened and the shift to work from home expands the Fund's attack surface and increases risks. Meanwhile, risk mitigation has run into delays with the Crown Jewel project, mainly owing to staffing factors and COVID-19-related disruptions, and we encourage an acceleration of efforts in this important area. We are pleased to note that extending the information security policies to OED personnel, which was initially set aside, is now resuming.

11. **Risk management at the Fund.** We appreciate the continued advancement in risk management along the line set out in previous reports, the reorientation toward the COVID-19 shock, and we welcome recent improvements, notably the monthly information on financial and program metrics. We also welcome consideration by management to enhance the risk management function, including ORM's mandate and resources, with input from the internal audit recommendations and discussions with the Board. We encourage more systematic consideration of a risk perspective in key policy discussions and are pleased to read in the First Deputy Managing Director's statement that this will be a priority.