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June 9, 2020

**Statement by Mr. Tanaka, Mr. Chikada, Mr. Harada, and Mr. Shimada on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting
June 11, 2020**

We thank staff for the valuable report regarding the Fund's risk management, which focuses on the increasing risks and mitigation measures under the current crisis. **We broadly agree with the thrust of the staff's risk assessment**, and will provide following comments.

General remarks

As the report rightly points out, during the COVID-19 pandemic, we acknowledge that the Fund has accepted de facto higher risk to help membership countries. While we welcome the swift Fund's response to membership needs has enhanced the Fund's reputation as the center of GFSN, we should continue to improve the risk management framework. In this regard, we welcome the board will discuss the enterprise risk management framework based on the OIA audit report going forward, as we requested. Furthermore, the institutional risk acceptance should be cautiously determined in a steady situation and therefore in order to decide appropriate timing of its review, we should carefully monitor the current fast-moving situation as well as enterprise risk through monthly and quarterly updates.

It is indispensable for the Fund to efficiently and effectively cooperate with other international organizations to address the current crisis while focusing on its core competence areas. Given the pressure on financial and human resources (HR) has been increasing, the allocation of limited resources under the crisis situation can impact on the Fund's reputation and strategic decisions. We are of the view that the Fund should continue to focus on its core competence areas, mainly the policy advices on fiscal policy, monetary policy and financial sector policy. Ambitious expansions of the Fund's business coverage,

particularly at the current juncture, could increase reputational risk through policy advice in the area of lacking its expertise and HR risk due to the HR shortage in core business areas.

It is also important to analyze the current crisis itself, given its unprecedented characteristics. Providing swift and valuable analytical reports are important for the membership countries as well as the Fund's own risk management.

Given the high uncertainty around the Fund and membership countries, **we reiterate that the communication has been and will be more important than usual, namely internal communication between management, staff and the Board, and external communication between the Fund and the public.** In the crisis, while the Fund needs to act swiftly, it also warrants closer communication. Should the public judge that Fund does decide without full communication among membership countries, there would be doubt on the Fund's strategic decisions, which could severely damage its reputation. We, therefore, urge management to continue to be vigilant of both of internal and external communication.

Strategic Directions

We emphasize the importance of the Fund's continuous efforts to address the current crisis. While the risk for strategic directions is maintained as low, the Fund is still amid the crisis. It is ongoing judgement whether the Fund fulfills the membership countries expectation. We should be vigilant of the risks, considering the biggest risk for the Fund is being judged that the Fund does not function appropriately in the crisis.

Program, resource and financial risk

We agree with staff that the risk profile of program, resource and financial risk have risen due to the skyrocketed borrowing demand from the membership countries. It is critical to mitigate these risks effectively in order to maintain the Fund's lending capacity as the center of GFSN and consequently continue to support membership countries in the crisis as well as in the recovery phase.

While we welcome that the Fund has effectively responded to the crisis as "first responder", the risk from rapid financing needs to be managed. We agree with staff that the absence of ex post conditionality could pose greater risk, and that the analysis of DSA and capacity to repay would mitigate these risks. We also welcome the effective use of prior actions used in some countries, to ensure the appropriate use of the support and safeguards for the Fund resources. While the paper mentions that rapid financing does not increase program risk given its one-time disbursement, we are of the view that the effectiveness of rapid financing as the measures to this crisis needs to be evaluated once the crisis abates. We

also underscore that program risk caused by large access programs, including Argentina, warrants continuous monitoring and careful communication (as mentioned above).

We welcome collaboration with non-Paris club countries mentioned as a mitigation measure. This is also important in the context of DSSI. We expect the Fund would encourage the membership countries to improve transparency, by providing necessary data regarding DSSI.

The adequacy of the Fund's resources as well as its financial strength, needs to be secured. In this regard, we reiterate that increase in the access level, potential demand for the Fund facility and the adequacy of resources should be holistically discussed. This is indispensable to correctly grasp risks and take necessary mitigation measures.

As for GRA, we note that while its resources are adequate with high uncertainty in the near term, and that the probability of NAB activation is high. This clearly shows that the procedures of the NAB doubling and 2020 BBAs must be done as swiftly as possible, and we strongly encourage NAB participants and 2020 BBAs creditor countries to accelerate domestic procedure, in order to secure the adequacy of the Fund's resources. We also welcome more regular review of resource adequacy as the mitigation measure.

As for PRGT, we note that its self-sustainability risk surged higher and that fundraising is necessary in the baseline scenario. We reiterate that grant fundraising is difficult and time-consuming task as is the case of CCRT fundraising. In this regard, we expect the timely update to the Executive Board.

Surveillance

The current crisis has heightened surveillance risk due to extraordinary challenges to forecasting and temporary extension of Article IVs. It is critical to analyze the current crisis well to mitigate its risk. We therefore would like staff to elaborate more on potential impact on the quality of surveillance going forward.

Capacity Development

The COVID-19 crisis highlights the importance of capacity development (CD), which is one of three core functions of the Fund. The current travel restriction has made it difficult to conduct CD as before the crisis and the limited IT capacities in fragile countries could be the obstacles for the remote CD delivery. In this regard, we expect further discussion regarding the appropriate strategies on CD delivery at the Executive Board.

Internal Operation

We commend staff for shifting the Fund’s operation to Work from Home (WFH) smoothly and holding the virtual Spring Meeting successfully. We note that risk of information security has increased due to WFH, and thus encourage staff to mitigate the risk effectively. We also encourage staff to develop plans to back to “new” normal under the leadership of Crisis Management.

Human capital

We are strongly concerned about lack of progress in regional diversity, as East Asia and MENA+ remain severely under-represented. It is regrettable that the 2020 benchmark was not achieved in these regions. While we acknowledge that the current travel restriction would cause some difficulties in recruit missions, we expect that further risk mitigation would be taken to improve regional diversity of the Fund’s human capital.