



Executive Board Minutes 20/70-1

June 11, 2020–9:30 a.m.

2020 Mid-Year Risk Update—Enterprise Risks and Mitigation Amid COVID-19

Documents: SM/20/95 and Cor. 1, and Cor. 2, and Sup. 1

Staff: Ivaschenko and Arora, ORM

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CEDA OGADA
Secretary

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¹ Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

Executive Directors welcomed the 2020 Mid-Year Risk Update focusing on enterprise risks associated with the COVID-19 crisis. They broadly concurred with the analysis and appreciated the updated picture of how risks have shifted across the Fund's business areas since the 2019 Risk Report. While the pre-crisis risk mitigation efforts had progressed in most areas as envisaged in the previous report, the Fund's move to a crisis footing delayed some of those efforts.

Directors underscored the importance of the Fund's decisive and timely response to the crisis in line with its mandate to support the membership. The response has helped members deal with the crisis and mitigated strategic and reputational risks for the Fund. At the same time, Directors noted that the COVID-19 crisis has increased the Fund's enterprise risk profile, both directly and through its impact on members. While key risks are being mitigated, some residual risks have risen reflecting in part the limits of mitigation in the short term and risk drivers that are beyond the Fund's control (notably the pandemic itself).

Directors noted that risks related to Fund lending have risen as the Fund increased its financial support to the membership. They concurred with the mitigation priorities outlined in the Update, calling for further strengthening the ex-ante discussion of enterprise risks for large financial and operational decisions building on existing controls, recognition and recording of key risk tradeoffs, ex-ante safeguards (including assessments of debt sustainability, capacity to repay, and external financing need), evenhanded application of governance measures to ensure the appropriate use of Fund resources, greater use of contingency planning in programs, and plans for dealing with the challenges of high debt cases. Directors looked forward to a discussion of the Fund's precautionary balances, with some Directors highlighting the need to reflect risk considerations in determining credit buffers. A number of Directors stressed that measures to mitigate risks in the use of Fund resources should be balanced with ensuring timely financing support to members. Some other Directors noted that such measures lead to better-informed decisions and not necessarily to less financial support. A few Directors highlighted the importance of ensuring evenhandedness in the application of prior actions when required by the policy for emergency financing. Directors noted that more active engagement with country authorities through policy advice and capacity development (CD) will help further mitigate lending and surveillance risks. Close attention to CD implementation and funding risks will also be important.

Directors agreed that risks to Fund resources remain elevated, highlighting the need to closely monitor the adequacy of the resource envelope together with a thorough assessment of financing needs. A few Directors also emphasized the need to carefully consider access vis-à-vis the Fund's lending policy and safeguards. Remaining vigilant to activating the NAB and the bilateral borrowing agreements, when needed, and having a contingency plan would also be important. Directors reiterated the need for continued efforts to mitigate risks to Fund resources, including through fund-raising for the PRGT, and

for progress with governance reform under the 16th General Review of Quotas. Some Directors also reiterated a call for a general SDR allocation.

Directors appreciated that internal operations have responded to the crisis challenges effectively, validating prior risk mitigation that identified crisis priorities ex ante and ensured adequate technology. They acknowledged the effectiveness of the Crisis Management Team in coordinating the crisis response with consistent support from management. They welcomed the measures to mitigate the human capital risks and urged continued monitoring of residual risks to staff's well-being and staffing risks. Stronger efforts will also be needed to achieve staff diversity targets. Many Directors acknowledged a likely need for additional resources, including to enable the Fund to reengage in surveillance effectively. Many other Directors, on the other hand, emphasized seeking further efficiencies through resource reallocation. A few of these Directors recommended focusing the Fund's work on core or crisis-related issues. Directors stressed that any request for additional resources should be fully justified. Directors looked forward to an operational resilience risk mitigation roadmap that includes lessons from the recent experience.

Directors expressed concern about the delay in completing the information security roadmap. They called for the roadmap to be prioritized and completed without more delays. Directors welcomed the resumption of work on extending the information security policies to OED personnel, and encouraged swift completion of the effort. They took note of third-party risks arising from the Fund's growing reliance on managed services and called for moving forward urgently with the next phase of third-party risk management. Directors also emphasized the need for continued efforts to address residual risks related to the Fund's modernization agenda and change management.

Directors stressed the importance of robust enterprise risk management at the Fund. They appreciated ORM's regular informal engagement with the Board in recent months, the increased flow of information on financial and program metrics, and other moves to strengthen risk management. They also highlighted the importance for risk management of appropriate communication. Directors looked forward to an initial informal briefing in September on the institution's risk acceptance, prior to the formal review at the time of the annual Risk Report in November. Some Directors saw a need to further embed risk management into the day-to-day decision-making of the Fund. Directors looked forward to the results of the upcoming audit of the enterprise risk management function and the subsequent discussions on enhancing risk management at the Fund, including ORM's reporting lines, mandate, and resources.

EXECUTIVE BOARD ATTENDANCE²

G. Okamoto, Acting Chair

Executive Directors

M. Raghani (AF)

N. Ray (AP)

A. Bevilaqua (BR)

R. Kaya (EC)

A. Buisse (FF)

R. von Kleist (GR)

S. Bhalla (IN)

D. Fanizza (IT)

T. Tanaka (JA)

J. Mojarrad (MD)

H. Beblawi (MI)

M. Poso (NO)

A. Mozhin (RU)

M. Mouminah (SA)

A. Mahasandana (ST)

M. Rosen (US)

Alternate Executive Directors

O. Odonye (AE)

R. Morales (AG), Temporary

P. Sun (CC)

A. Guerra (CE)

A. McKiernan (CO)

V. Rashkovan (NE)

P. Trabinski (SZ)

D. Ronicle (UK)

H. Al-Atrash, Acting Secretary

J. Morco, Summing Up Officer

D. Al-Jarbou / R. Smith Yee, Board Operations Officers

M. McKenzie, Verbatim Reporting Officer

Also Present

African Department: M. Kamel Farid Mohamed Farid, F. Queiro Pedroso de Lima, C. Sdrlevich, D. Simard, A. Sode. Asia and Pacific Department: K. Harada, T. Helbling, P. Lopez Murphy. Communications Department: N. Ismail, W. Murray. Corporate Services

² For countries in each constituency, please see the Constituency Codes in the annex.

and Facilities: B. Christensen, C. Svensson. European Department: A. Tuladhar. Fiscal Affairs Department: A. Israr. Finance Department: S. Bradbury, S. Cauchi, T. Krueger, N. Pequignot, A. Tweedie, E. Zoli. Human Resources Department: K. Kochhar, J. Lee. Institute for Capacity Development: A. Bordon, R. Nord, T. Redfern. Independent Evaluation Office: C. Collyns, L. Stedman. Information Technology Department: E. Anderson, F. Gheriss, O. Okutubo. Legal Department: J. Jansen, G. Rosenberg, R. Weeks-Brown. Middle East and Central Asia Department: A. Holland, C. Johnson. Monetary and Capital Markets Department: A. Alter, P. Ananthakrishnan. Office of Budget and Planning: A. Schimmelpfennig, M. Shannon, J. Tyson. Office of Internal Audit and Inspection: P. Murugan, N. Onyango. Office of Risk Management: V. Arora, V. Bakhtina, Q. Chen, T. Chen, M. Dal Corso, I. Ivaschenko, A. Jamaludin, J. McCoy, G. McDonald. Research Department: P. Koeva Brooks. Strategy, Policy, and Review Department: R. Gregory, S. Hassan, S. Panth, D. Zakharova, Y. Zhao. Statistics Department: S. Arslanalp, A. Richter. Executive Director: A. Andrianarivelo (AF), L. Levonian (CO), I. Mannathoko (AE), P. Moreno (CE), S. Riach (UK). Alternate Executive Director: R. Alkhareif (SA), K. Chikada (JA), M. El Qorchi (MD), F. Fuentes (BR), S. Geadah (MI), Y. Indraratna (IN), C. Just (EC), L. Palei (RU), P. Rozan (FF), B. Saraiva (BR), J. Sigurgeirsson (NO), F. Sylla (AF), L. Villar (CE), C. White (AP). Senior Advisors to Executive Directors: S. Ahmed (MD), M. Choueiri (MI), R. Farber (US), B. Jappah (AE), L. Johnson (AP), S. Keshava (SA), B. Lischinsky (AG), M. Maida (AE), L. Marek (EC), S. Potapov (RU), M. Sidi Bouna (AF), T. Sitima-wina (AE), F. Spadafora (IT), G. Vasishtha (CO), J. Weil (CO). Advisors to Executive Directors: A. Abdullahi (AE), F. Al-Kohlany (MI), P. Al-Riffai (MI), D. Andreicut (UK), A. Arevalo Arroyo (CE), E. Cartagena Guardado (CE), K. Carvalho da Silveira (AF), V. Djokovic (SZ), R. Edwards (CO), S. Evjen (NO), K. Florestal (BR), A. Grohovsky (US), Z. Huang (CC), T. Iona (AP), A. Korinthios (IT), P. Mooney (CO), G. Nadali (MD), A. Nainda (AE), A. Olhaye (AF), A. Park (AP), B. Rankin (CO), M. Shimada (JA), L. Siliva (AP), B. Singh (IN), N. Vaikla (NO), S. Yoe (ST), J. Yoo (AP), J. Al Saud (SA).

DISCUSSION RECORD³

The Acting Chair (Mr. Okamoto):

It is a very consequential time for the Fund, in terms of risk and risk management.

I want to emphasize a point that several Directors captured in their gray statements: risk is a theory, but it arises from our business activities. In other words, if we had no business activity, we would have no business risk. As the gray statements point out, in that case, we would not be fulfilling our mandate and could suffer other risks, for example, reputational risks. We are trying to approach this crisis to fulfill our mandate. As a result, I and others, especially our staff in several departments such as the Finance Department (FIN) and the Legal Department (LEG), led by the Office of Risk Management (ORM) and Mr. Arora's team, are doing our best in mitigating the risks arising due to the choices we have made in this crisis. Ms. Kochhar from the Human Resources Department (HRD) is on the participant list. Risks related to personnel are quite important too, and she has been an excellent leader in that regard.

I chair the Fund's Risk Committee. We have broadened its agenda. It was considering a robust suite of enterprise risks before I arrived. Since then, we have decided to increase the frequency of the Risk Committee meetings to monthly in the current period and broaden its agenda to include risks related to the program portfolio and Fund resources. It is also facilitating the prioritization of risk mitigation activities that are occurring across the Fund.

The Director of the Office of Risk Management (Mr. Arora):

I can be brief because we answered all but one of the questions raised in the gray statements in the written answers that we circulated to you last night. I want to make three brief points.

First, I appreciate the recognition in the gray statements of the steps that ORM and risk management has taken in the recent months to follow up on the actions with respect to advancing risk management, as set out in the 2019 Risk Report. I also appreciate the suggestion in several gray statements on going ahead, subject to the forthcoming audit.

Second, regarding the characterization of the risks associated with the Fund's response in the paper, a few chairs point out that the Fund has been doing exactly what it should be doing, in line with its mandate and responsibility to the membership. Indeed, not responding adequately to the

³ Edited for clarity.

crisis would also carry enterprise risks for the Fund. Let me reiterate, in agreement and also in line with the First Deputy Managing Director's comments a moment ago, the position in the paper that the Fund's crisis response has been important for helping the membership. It has contributed to managing global risks, and it has also helped to mitigate strategic and reputational risks for the Fund. We have tried to make this point in a couple of places in the paper. At the same time, the crisis and response to it have entailed a rise in risks that the Fund needs to manage, including by observing adequate safeguards--an argument that the paper also tries to develop.

The spirit of the paper is to suggest that the Fund should act in response to the crisis, in line with its mandate, but it should act with an awareness of the risks entailed and the extent to which the risks are mitigated—for example, through safeguards—or need to be further mitigated or accepted. I want to make it clear, in case there was any ambiguity about the thrust of what we were trying to convey in the paper.

Lastly, on risk acceptance, and how and when to have a discussion on it, several gray statements touched on this point. In November 2019, when we had the last full Risk Report, Executive Directors had asked about the plan for reviewing risk acceptance, which was set in 2016. The staff's position was that we planned to do a comprehensive review of the risk acceptance in the 2020 Risk Report. The question was whether it remains a sensible plan or Directors would prefer to be more flexible on the timing, given the COVID-19 crisis and the ongoing changes in Fund policies and procedures.

We would suggest that having a conversation—for example, an informal Board briefing—earlier than the Risk Report in September. The informal engagement would be an opportunity to present Directors with the background, the basis concerning the existing risk assessment levels, the key facts and relevant developments in the subsequent period, reflecting also on departments' views, and point to a few directions or options of where the risk acceptance would go. It would provide an opportunity to get Board feedback before formulating the formal review.

There is no proposal today or in the Risk Update to change the risk acceptance levels. It would be considered by the Board only at the formal review of the risk acceptance, when one could decide whether to maintain the existing risk acceptance levels or alter them, taking into account the experience of risk mitigation, updated Fund policies and decisions, and other factors that may have changed in the intervening period since the risk acceptances were set, including the Board's views, which may have shifted since 2016.

We would also seek to define quantitatively the risk tolerance in areas where doing so is feasible. We would also have to take into account, any recommendations that the audit might have.

Mr. Rashkovan:

The Risk Update is particularly important in the context of the current crisis that can be considered as a unique stress test for the Fund and provides an opportunity to fine-tune its programs and operations. We have issued a joint gray statement with four colleagues and would like to emphasize a few points and ask two additional questions.

I will start by welcoming the progress in many areas when it comes to risk governance. Many of the Article IV reports state that the "progress has been made, but more needs to be done." In the last years, there has been a strengthening of the risk function, not the least because of the efforts of the ORM team, which we would like to commend and continue to fully support. We look forward to receiving and discussing the relevant audit report.

We also appreciate the statement of the Chairman, and his support for a strong risk management function. We look forward to working with the Chairman on this important matter.

While the last discussions focused on the importance of adequate reporting lines of the ORM to the Board, and while we continue to believe that this is a vital point or a robust, independent risk function today, I would like to focus on two interrelated points, areas our chair sees improvements.

The first is related to the timeliness of the information. In order for the Board to take informed decision, it is important for Directors to better understand what the costs of certain decisions are and what impact it has on the risk profile in order to weigh these trade-offs. To illustrate, we did see the costing examples of the context of the discussion on cyber risks. On a larger scale, however, we believe that these efforts remain necessary. Here, further streamlining the budget process to better interact with the Risk Update and Work Program would make sense.

Secondly, we believe that receiving *ex ante* information on the impacts a certain proposed Board decision has on the risk profile should be done consistently in the underlying Board documentation. While such assessments were included in several larger policy discussions a brief assessment, possibly done by the ORM, should become common practice also for the other Board decisions, including lending decisions. Again, such information, in our view, is necessary for the Board to take informed decisions about costs, risks, and desired outcomes. It will, certainly, further raise risk awareness.

Let me mention three specific risk categories.

First, regarding the use of resources, we are concerned that successor arrangements and high access raise risks to resources, given the revolving nature of the IMF resources, as mentioned in paragraph 17. In this context, when it comes to program design, we need to be mindful of the Fund's catalytic role toward external creditors. We welcome the staff's assessment regarding likelihood of a New Arrangements to Borrow (NAB) activation and would like to ask the staff whether they have any similar assessment regarding the possible activation of the bilateral borrowing agreements (BBAs).

Second, regarding the medium-term budget, we look forward to the discussion on possible additional resources in the autumn when all the necessary information is available, as agreed upon during the Board discussion in the 2020 budget. This discussion should not be preempted. We understand the strain for the staff, and we fully acknowledge the impressive and commendable efforts made by them.

Let me also take this opportunity to thank the Secretary's Department (SEC), the Information Technology Department (ITD), and others for their efforts in making a smooth transition to the work-from-home mode.

Finally, I wanted to encourage ORM to extend their work on reputational risks, for instance, by improving the metrics and measurement. I believe that more interactions with the private sector could help to understand how decisions by the Fund are perceived and what the expectations are.

The Acting Chair (Mr. Okamoto):

Mr. Arora and I have had several discussions to Mr. Rashkovan's point on the timeliness of information to the Board and being able to provide timely updates in a manner that provides good information, too.

Mr. Buissé:

We have issued a gray statement, but I would like to make a few points for emphasis.

First, at the current juncture, the main risk for the Fund is the risk of inaction. While the IMF has stepped up its engagement amidst what is probably the worst crisis since this institution was created, one could still ask whether we are doing enough. This crisis is a test for the multilateral system, and it is essential that the institution at the center of the global financial safety net plays its role fully. I hope that we will not lose track of what is our *raison d'être* while discussing risks today. It is clear to me that we agree that when the Fund provides swift and substantial financing to its members, with due

respect to the IMF rules and processes, this is a global risk mitigant. I would, therefore, not characterize discussions around our toolkit and on additionality solely as increasing risks, as the Risk Report does, but also as a mitigating factor for the world economy and a global public good, just like a general Special Drawing Right (SDR) allocation would be.

Second, as a direct consequence of what I have just said, I would like to touch upon the question of our risk acceptance. We are currently accepting an increase in risk acceptance levels, notably concerning the Use of Fund resources (UFR). One view could be that the crisis warrants a temporary increase in the risk acceptance level and we will return to the historic level, once the crisis ends. Another view could be that we are structurally excessively risk-averse as an institution, which limits our capacity to fully play our role as a lender of last resort. This is a key question that we will have to answer in the coming months.

Third, as a concrete example of what I have just said, we agree with the ORM assessment, that the high number of emergency programs that we have implemented over the last two months has created additional risks to the use of IMF resources. Yet we think these additional risks are fully warranted by the type of crisis we are experiencing. Going forward, we think the best mitigation strategy is to follow up these emergency engagements with upper-credit tranche (UCT) programs, with appropriate conditionality and safeguards.

Fourth, the adequacy of Fund resources should be a strong focus of our attention in the coming months, both for the Poverty Reduction and Growth Trust (PRGT) and the General Resources Account (GRA).

Fifth, regarding the evolution of enterprise risk management (ERM). While we are OK to pursue this discussion going forward, we are concerned that focusing too many resources on this agenda, while the Fund is under tremendous pressure could end up being a distraction to the delivery of our mandate. We think that risk management has dramatically improved over the last few years, notably due to the work of ORM. The Board is much more informed, and we remain convinced that the existing risk management framework, notably, through the review process and the central role of the Board, is broadly adequate and has been tested for the last 75 years.

Mr. Pösö:

Perhaps it was because of Mr. von Kleist and his reference to German philosophers on Monday, the wisdom by a Chinese philosopher, Confucius, came to my mind, when I was reading this interesting Risk Update. Confucius said: *What you know, you know. What you do not know, you do not know. This is true wisdom.*

We do not have the experience with this kind of crisis, and we do not know how the crisis will evolve, even in the near-term. At the same time, we have no alternative but to act forcefully and fast. This combination creates risks: by not acting decisively now, we would risk even more.

The Fund frameworks were not designed for this kind of crisis in which several members must rely on Fund support at the same time and for extended periods. We share the assessment that the risks related to the use of Fund resources are flashing red in all subcategories. With constrained surveillance, our tools to mitigate these risks are limited, therefore, we need to use them skillfully.

Traditional ex ante safeguards, such as Debt Sustainability Analyses (DSAs), capacity to repay, and prior actions, as well as governance safeguards, such as independent audits and expenditure transparency, are the tools we can use.

The risks related to the adequacy of Fund resources and, thus, the Fund's ability to fulfill its mandate are likely to be even more important risks. We appreciate the information the staff is providing to the Board. The quantitative assessments of the potential need for Fund resources under different scenarios, including the simultaneous use of precautionary credit lines, are very helpful. The risks related to the adequacy of Fund resources is one of the reasons why this chair has been against increasing cumulative access limits. In the current situation, we cannot forget the revolving nature of our lending resources. The less our resources revolve, the more resources we need.

On the PRGT side, successful fundraising is key to reduce the risk of running out of resources for much-needed concessional lending. Going forward, we also emphasize the importance of maintaining self-sustainability.

I regret that I leave many important risks unmentioned. However, I want to highlight the risks to our staff, which have increased not only due to the increased workload and health risks but also due to the work-from-home-related challenges. We welcome the initiatives taken by management and the HRD to swiftly address the immediate work pressures.

Lastly, we welcome the steps taken to improve risk management and look forward to discussing the recommendations of the internal audit of enterprise risk management soon.

Mr. Ronicle:

Whether by design or accident, I think the timing of this update could not have been better, for two reasons. First, the first phase of our response to COVID-19 is now sufficiently mature for us to reflect on the extent of the residual risks that might need mitigation. Second, it coincides with the Work Program discussion, which means risk considerations can better inform our view of the right priorities for the next six months.

We issued a joint gray statement with four other chairs. Let me emphasize a few areas of risk and comment briefly on the Fund risk processes.

First, the IMF surveillance is a global public good. At its best, it provides a candid assessment of the outlook for members and context-specific policy advice. We support the temporary suspension of bilateral surveillance as a sensible prioritization measure, but we think more needs to be done at this stage to consider the risks that it poses, both in terms of identifying the risk of potential UFR cases and for maintaining effective and influential relationships with the authorities. There are three obvious mitigating steps that could be taken. First, stepping up the frequency and scope of multilateral surveillance. For this chair, it means helping members achieve the right recovery, which is green, open, robust, and sustainable. Second, bringing the vulnerability exercise to the Board, with appropriate safeguards, would enrich the Board's understanding of the evolving risk landscape amongst members. Third, the Independent Evaluation Office's (IEO) views need to be fed into ongoing reviews of our surveillance toolkit and wider policy thinking.

The second group of risks I wanted to emphasize concerns lending. We agree that the revealed risk appetite in this area has risen, which has been the right response to the pandemic. It is our job to take risks that others will not. We think there is a careful balance to strike between the appropriate safeguards for Fund lending and meeting the urgency of financing needs. We think raising the access limits to make emergency lending additional, is an important risk mitigant in this area that would allow those who most need additional support following the immediate crisis to access funds with a UCT conditionality with all the safeguards that it brings for the IMF and its members.

Third, risks to the adequacy of Fund resources have clearly risen. We value the recent discussions on this topic and think the continuation of those will be an important mitigant. We particularly value the use of forward-looking scenarios and probabilistic tools, which will prove useful in building momentum around mobilizing additional resources for the PRGT and the GRA, should the need arise. We support the comment by Mr. Buissé in his gray statement about the important role a general SDR allocation could play here.

Finally, a few brief comments on the risk management at the IMF. We welcome recent innovations in the work at ORM, including the focus on the risk profile in this update, the regular financial updates, greater integration with the Work Program, and greater ex ante risk assessments in policy considerations; but there is scope to go further. Ultimately, an appreciation of the enterprise risks needs to be the starting point for the enterprise decisions, especially now when the risk environment is so complex. The Work Program and the budget should follow our risk discussions. As it is, the risk processes are too often an ex post reflection on decisions already taken. We hope the forthcoming audit will be an important step forward, and we look forward to the discussion.

Let me also say that Mr. Arora's proposal for an informal Board meeting on risk acceptance, ahead of the 2020 Risk Report was a welcome suggestion.

Mr. Mojarad:

We have issued a gray statement, in which we expressed our views on some key areas of the Fund's Risk Register and supported further enhancing the ORM's mandate and resources. However, we wish to comment on two additional risk areas.

First, the Fund capacity development (CD) is a highly valued form of this institution's interaction with the membership and is most effective when integrated with surveillance and lending. To mitigate the risk of CD being unduly influenced by donor mandates, externally financed CD must be demand-driven, fully aligned with the IMF's priorities, and additional to internally financed CD. While the existing donor funding appears sufficient to cover expected CD delivery over the next 12 months for most externally advanced vehicles, additional fundraising drives are needed to ensure resource adequacy over the medium-term. Work should also continue to align our expertise with the emerging risks, implementing the Capacity Development Management and Administration Program (CDMAP), and strengthening the implementation of results-based management.

Second, technology risks have remained steady, but the modernization projects have underspent, and the third-party risk management does not match the scale of the Fund's engagement, with nearly 1,000 vendors at an aggregate contract amount of about \$1.7 billion, a few covering critical functions, including financial transactions. The materialization of a vendor risk last month highlights the vulnerabilities in this area and places a premium on further strengthening and expanding third-party risk management, including by allocating adequate resources and providing appropriate staff training.

ORM should continue to play an important role in ex ante risk assessments of key projects. We welcome the successful shift to work from home and the efficient conduct of the virtual Spring Meetings. However, with the risks associated with videoconferencing and given the likelihood that the 2020 Annual Meetings will also be held in a virtual format, we would welcome the staff's comments on related risks, and if there are any plans to provide simultaneous translations for the delegates.

Mr. von Kleist:

We issued a comprehensive gray statement, so I can be brief.

Like others, we appreciate the increased Board engagement on risk matters and look forward to further strengthening the enterprise risk management and mitigation processes, which is very important. The findings of the current internal audit of enterprise risk management are expected to give useful input for that discussion.

The staff report shows that the risks to the Fund's risk profile have increased significantly, compared to the results of the 2019 Risk Report. This is particularly due to the fast and financially necessary support from the IMF in the context of the pandemic, which was largely without ex post conditionality. We reaffirm that the higher risk acceptance, from our point of view, is only temporary and must be reduced as soon as possible. This does not contradict the comments of Mr. Buissé, for instance, on the risks of inaction, but complements them, with a view to ensure the sustainability of the Fund.

We noticed that the IMF's catalytic role does not appear in the reports. Private sector funding can play an important role in reducing the risks to IMF resources, therefore, its catalytic role is of absolute importance. The staff's comments on this would be welcome.

The delays in processing and the implementation of the IT road map, given the high risks and the current almost complete dependence of all IMF activities on the IT infrastructure, are highly worrisome and must be addressed as a priority. We urge the staff and management to prioritize the strengthening of information security.

Mr. Trabinski:

As we issued a gray statement, let me focus on a few additional issues not covered in our written statement.

First, the heightened risks associated with the Fund lending underline the need for more pronounced mitigation efforts. We support actions aimed at

strengthening the ex-ante conditionality and safeguards. We emphasize the need for a consistent application of the DSA. From a broader perspective, ensuring transparency and addressing governance issues related to COVID-19 spending will help to mitigate the associated risks and foster the appropriate use of Fund resources. Further, the access limits remain a crucial mitigating element, and the additional scrutiny in high access cases is critical to allow a robust ex-ante discussion of risks.

Second, the risk to the Fund's resources have increased, even if the timely NAB decision and the renewal of the BBAs are providing a substantial cushion in the near-term. Increased risks to financial assets and income, and the further deterioration of credit buffers, call for close monitoring.

Third, with the cyber-attacks, which rose during the COVID-19 pandemic by roughly 400 percent globally, ensuring the Fund's information security remains a key organizational priority, within the context of vendor management. We take note of the staff's response to technical questions, that a small information security team may not be enough to respond to the complex and rapidly changing cyber threat landscape. Therefore, we call on management to ensure adequate levels of human and financial resources that would help increase our cybersecurity posture, including restoring the cyber threat intelligence functions for forward-looking cyber risk mitigation.

Fourth, advancing the enterprise risk management framework at the Fund should continue. We welcome the management's intentions in this regard. We know that the road map for strengthening the risk function at the Fund has been drafted by the ORM and will be updated by the forthcoming Office of Internal Audit and Inspection (OIA) report and the recommendations. In the environment of substantially heightened risks, the formal review of institutional risk acceptance should be postponed in favor of a more complex approach, as also proposed by our chair and Japanese colleagues in their gray statement.

Finally, on the risk of inaction, I support Mr. von Kleist in saying that we are not in a position to choose between the inaction and actions, as the Fund is apparently currently active globally. However, higher Fund activity cannot preclude the regular risk mitigation function, as both the Fund factions should complement themselves.

Ms. Mahasandana:

We have issued a comprehensive joint gray statement with a few other Directors. I will highlight a few points to add to the discussion.

First, on the sovereign risks: the Risk Report has rightly pointed out that sovereign risks can affect program risks, especially for emergency

financing, which does not have an ex post conditionality. Given that the crisis-related lending has increased the concentration of Fund's lending amongst specific regions, we wonder if there are any mitigating measures to be taken, even as the Fund faces a limited ability to diversify its loan portfolio. ORM's comments are welcome. Would regional surveillance or providing policy advice and public communications on a regional basis help to mitigate contingency effects and reduce the compensation risks?

In addition to program risks, surveillance risks can also impact the Fund's reputation, as the Fund has been regarded as a key first responder in this crisis. It is even more important for the Fund to be ahead of the curve in sounding out potential risks and providing policy advice. We are pleased to note that, although Article IVs have been suspended temporarily, the staff is continuing with other forms of informal bilateral engagement. In this regard, we would like to hear the ORM's view on whether further mitigation is needed in the interim to help the staff maintain its continued engagement with country authorities.

Also, ahead of the Board discussion on restarting bilateral surveillance, we wonder if there is scope to consider, for example, a blended approach, as suggested by Mr. Bevilaqua today, to conduct more focused missions or remote missions without placing a major burden on both the authorities and staff. The ORM's views on this issue are welcome.

Also, on the reputational risks, as the crisis continues to linger on, we are concerned that different views within the membership's overall appropriate policy response could hinder the Fund's ability to act quickly and timely. This could, in turn, affect the Fund's reputation. We, therefore, stress the need to consider an SDR allocation and the Sixteenth General Review of Quotas ahead of time to allow a consensus to be formed, in case of the downside scenarios.

We also support Directors' call for frequent updates on resource adequacy, including contingency planning. Concurrently, we agree with Mr. von Kleist in his gray statement, that the Fund must be careful in its communications to avoid any impression that the Fund's resources are being exhausted.

Mr. Bevilaqua:

We fully support the work of ORM on strengthening the enterprise risk function within the Fund, and stepping up to the challenge supporting the swift and timely response to the COVID-19 crisis. We issued a gray statement, broadly agreeing with the characterization of enterprise risks and the measures implemented to strengthen risk management, but would like to highlight four points for emphasis.

The Fund's rapid response to the crisis has certainly helped it mitigate important strategic and reputational risks. This outcome is largely influenced by the institution's willingness to take risks when others are not, which is an essential feature of its unique mandate, a point addressed by the Chairman. If the Fund fails to deploy its financial firepower to support its membership during a 'crisis like no other', its very existence could be put into question.

Continuous engagement with the countries in need will be crucial to avert the risks for the member countries and for the Fund itself, as put by Mr. Buissé and Ms. Mahasandana. Furthermore, as the pandemic's socioeconomic impacts linger, the institution is expected to continue playing its role beyond emergency relief by providing financial assistance and policy advice to support the recovery. Hence, it is understandable that lending risks have substantially increased and will continue to do so as the institution responds to the pandemic. Therefore, while we should continue strengthening the Fund's capacity to fully examine the risks undertaken and establish strong safeguards and active risk controls, the current situation calls for a higher risk tolerance.

At this point, I just want to caution against an overly risk-averse culture that would diminish the Fund's risk-taking role on behalf of its membership. But we'll have a good opportunity to discuss these issues when the results of the audit of the risk management framework is brought to the Board.

With the growing and yet uncertain demand for Fund assistance, the focus on resource adequacy is appropriate, considering that the risks associated with both the GRA and the PRGT have intensified substantially. A well-resourced IMF at the center of the global financial safety net is critical to provide support to member countries and we should effectively mitigate the risk of having the Fund rationing financial assistance because of less-than-adequate resources. Under these conditions, anticipating the calendar established for the Sixteenth General Review of Quotas (GRQ) should not be ruled out.

Finally, I take note on the quick rise in information security risks in a context where the institution continues to rely heavily on remote work and join the call for greater attention to cybersecurity. In that regard, we must ensure the timely implementation of the information security roadmap and avoid underspending in IT project and the modernization agenda. In addition, while we welcome the third-party risk management project, the materialization of vendor risk last month suggests the need to expand the scale and coverage of this framework, including on monitoring strategic vendors during the lifetime of their contracts.

The Acting Chair (Mr. Okamoto):

Several Directors have mentioned IT and cybersecurity risks. The Fund Risk Committee is active on these issues. Mr. Arora can talk about it later.

Mr. Tanaka:

We appreciate the staff's comprehensive risk assessment. We will mention the program-related risks and financial position issues here in this intervention, as other issues are discussed in our gray statement in detail.

The ORM's work is increasingly in parallel with the policy implementation of the IMF to respond to COVID-19. During the COVID-19 pandemic, we acknowledge that the Fund has accepted de facto higher risks to help member countries, and the Fund's spontaneous response has enhanced the Fund's reputation as the center of the global financial safety net. Upon these circumstances, we should continue to improve the risk management framework in this regard. We welcome that the Board will discuss the enterprise risk management framework based on the OIA audit report going forward, as we requested.

While we welcome the Fund has effectively responded to the crisis as a first responder, beyond the lender of last resort, risks from the rapid financing need to be managed. We are of the view that the effectiveness of rapid financing, as measures to address this crisis, needs to be evaluated at a later stage, once the crisis abates. I can safely say at this moment that the absence of ex post conditionality could pose a greater risk and that the analysis of the DSA and the capacity to repay could mitigate these risks, as the staff also pointed out.

We also welcome the effective use of prior actions used in some countries to ensure the appropriate use of safeguards for the Fund's resources.

Risk management needs oversight on the change in the IMF's financial position, which is a natural consequence of the positive response to the pandemic. The adequacy of the Fund's resources, as well as its financial strength, need to be secured. In this regard, we reiterate that the triangle among the increase in access levels, potential financial needs for Fund facilities, and the adequacy of resources should be discussed; it is indispensable to correctly grasp the risks and take necessary mitigation measures.

On the GRA, we note that while its resources are adequate, with high uncertainty in the near term, the probability of a NAB activation is high. This clearly shows that the procedures of the NAB doubling and the 2020 BBAs

must be done as swiftly as possible. We strongly encourage NAB participants and 2020 BBA creditor countries to accelerate domestic procedures in order to secure the adequacy of the Fund's resources. We also welcome more regular reviews of resource adequacy as a mitigation measure.

As for the PRGT, we note that itself-sustainability risks surged higher and that fundraising is necessary in the baseline scenario. We reiterate that grant fundraising is a difficult and time-consuming task, as is the case with Catastrophe Containment and Relief Trust (CCRT) fundraising. In this regard, we expect a timely update to the Executive Board.

Overall, the Risk Management Office should monitor the process of the funding efforts to seek the right balance among the financial needs and the adequacy of the Fund's resources in an effective way.

Mr. Rosen:

Risk management is a high priority for our chair and for our authorities. We welcome the Mid-Year Risk Update and today's discussion. The update is a significant improvement on previous reports, with a clearer prioritization of risks that notably focus on lending and credit risks; we have been calling for it. Given the amount of lending the Fund has carried out in such a short period, lending and credit risks are heightened and are likely to remain going forward. These risks will continue to deserve close attention from ORM.

In order to fulfill its objectives, the ORM needs to be further empowered to weigh in on lending and credit risks. This will likely require changes to the structure of the risk management framework and the office's involvement in the review process. We need the ORM to provide to the Board an independent and unfiltered assessment of major credit risks from large programs or concentrated exposures and also to provide input to the Board *ex ante* so that the Board can make informed decisions. This flow of information is not at all about the Fund taking less risk, nor in any way limiting its role as the lender of last resort. I fully associate myself with the comments of Mr. Buissé that the Fund must take on more risk right now to stabilize the global economy in this severe crisis.

Where I differ from Mr. Buissé, however, is that enhancing and improving risk management right now is a distraction. Indeed, not. Improving risk management to bring it to the level of other international financial institutions, such as the World Bank, will only enhance the capability of the Fund to take on more risk, as we will have the appropriate information and analyses to do so.

We are interested in reviewing the OIA's audit of enterprise risk management and the recommendations, but we should also recognize that the audit is just a start, not the end. We, therefore, welcome the FDMD's comments in his buff statement that management is working on enhancements to the risk management function, including further embedding risk considerations in the day-to-day decision making and having the Fund Risk Committee meet monthly and, for the first time, to discuss program risks.

Finally, we would echo the point made in the joint gray statement by Ms. Levonian and others, that we will still need to consider ORM's reporting lines, mandates, and the resources. We think a follow-up report from the IEO focused narrowly on these issues, governance, and the structure of risk management at the Fund, to be produced on a short timetable, may be useful for the Board to come to conclusions on what changes are needed.

Mr. Mouminah:

Let me highlight at the beginning that the Fund's swift and decisive response to the crisis has served the membership well and has been highly appreciated by the international community. At the same time, despite the considerable risk mitigation efforts, important residual risks remain. In this context, we look forward to the regular updates as we are the lender of last resort, and we need to live with a certain level of risk, as many Directors have mentioned, while ensuring that we have the right mitigants in place. That is why the acceptance of higher de facto risk is warranted than normal times, and we support reviewing the institutional risk acceptance level, as planned in November.

We also support the plan to further advance risk management. In this regard, we look forward to the Internal Audit's recommendations. I agree with Mr. Rosen and others, that the ORM needs to be empowered, and we need to rethink the way forward for them to enable them to do their mandate, briefing their reporting line and resources.

We issued a detailed gray statement, and I will limit my remarks to a couple of things: the program portfolio, adequacy of Fund resources, surveillance, and human capital. I will try to be as brief as possible.

With regard to the program portfolio, residual risks have risen, despite the risk mitigation efforts. In this context, we agree with Mr. Pösö on the need to strengthen our ex ante risk assessments in programs. We also reiterate the importance of taking a broader approach to lending risks in real time as the program decisions are taken. This will help the Board in fully understanding the cumulative impacts and risks of its decisions, while not prejudging its view on individual country cases. I know this is tough, but I think it is very

much needed, in order for us to be informed. We are taking the risks, but need to be informed about the level of the risks.

On the adequacy of Fund resources, we share the view of Mr. von Kleist and Ms. Mahasandana on the need to exercise caution in the communication strategy. Given catalytic role of the Fund, we consider the Fund's resources to be adequate in all plausible scenarios. Indeed, we should be careful in raising the possibility that demand for the use of Fund resources could exceed the lending capacity in certain scenarios. In this regard, we look forward to the risks related to the PRGT and the discussion on the PRGT resources.

With regard to managing the risk on surveillance, we welcome the staff's informal bilateral engagement, with a focus on ensuring continuity and supporting the authorities with tailored advice. These efforts should continue. Here, we agree with Mr. Rosen that a prioritization of crisis-related issues would ensure that the Fund is responding appropriately to the most immediate challenges facing the membership, while maintaining a real flat budget.

Lastly, on the risks related to human resources, like Messrs. Beblawi, Tanaka, and Mojarrad, we are concerned about the lack of meaningful progress in the MENA Plus and East Asia regions when it comes to diversity, which remain severely underrepresented at the Fund. I would also like to recognize the risk of the working from home arrangement and appreciate the Crisis Management Team's plan to address these issues, as highlighted by Mr. Pösö.

Ms. McKiernan:

We issued a comprehensive joint gray statement with four other chairs, which clearly sets out our position on priorities. I will make a few brief remarks today.

As many others have said, while risk mitigation has progressed, the crisis, of course, has raised risks across most of the Risk Register, notably, for our lending portfolio and resources. I have really enjoyed the thoughtful discussion this morning on the role of the Fund in the current context and striking this balance between taking on more risks now to reduce others in the global economy and how we can ensure more safeguards.

We tend to agree with ORM's assessment that the higher risks partly reflect a rise in the Board's de facto risk acceptance, but we acknowledge that there is a range of Board views. We think it is very important to have a discussion on the risk acceptance. We really welcome ORM's plans to have that informal discussion in September, as Mr. Arora referred to. It is a very useful input for the broader November Risk Report.

Second, as others noted, we are also concerned about the slippage in the information security road map again. It is happening at a time when the cyber threat landscape is worsening. While we are sympathetic to the staffing shortages and the COVID-related disruptions impacting ITD, like others, we urge ITD and management to get risk mitigation back on track and to include the implementation of the crown jewels projects.

Finally, on the risk management framework, we look forward to OIA's audit results, too, as an important input in identifying ways to strengthen risk processes and address governance matters. We have raised these issues consistently in the risk discussions. We expect that audit to provide a holistic review and comprehensive recommendations with regard to the risk governance framework, including reporting lines, mandates, and resources. But regardless of the audit's findings, there are other priority areas which can progress, including strengthening ex ante risk assessments, better integrating and sequencing risks and budget discussions, as several others mentioned, and sharper and more frequent risk reporting.

Mr. Raghani:

We have issued a gray statement and would like to add the following comments for emphasis.

First, the increase in the Fund's emergency assistance in the context of the COVID-19 crisis has reduced the lending capacity of the GRA and the PRGT. Decisive actions are, therefore, needed to rapidly increase Fund resources. We would like to call for stepped-up fundraising efforts to increase PRGT resources and for a timely completion of the Sixteenth General Review of Quotas. We also want to echo many Directors' call for an SDR allocation, as reiterated today by Mr. Buissé, Mr. Ronicle, and Ms. Mahasandana.

Second, like Mr. Fanizza, we believe that halting the Fund's surveillance is also a key source of risk, which needs to be managed. We look forward to the staff's proposal for resuming surveillance as soon as conditions allow.

Third, the crisis had put considerable pressures on the staff due to the increased demands from the membership in a context of a flat real budget envelope, despite a very effective transition to work from home. We would like to associate ourselves with the chairs that have called for an increase in the Fund's budget envelope to allow the IMF to fulfill its mandate effectively.

Fourth, like Mr. Guerra, we, too, are concerned about the implementation risks of capacity development during the crisis, especially as it concerns more vulnerable countries that are the greatest recipients for the

Fund's technical assistance. Therefore, we also look forward to further discussions on how to best deliver CD to these members.

Finally, on the review of risk acceptance, we believe that the rapid increase in the risks facing the Fund warrants a review of the institution's risk acceptance. We look forward to such a review in November 2020.

Mr. Kaya:

First, on the Fund's mandate: undoubtedly, the Fund's role is to provide financial assistance to the membership in times of crisis, be it through standard programs, emergency financing, or CCRT debt relief; but we need to be aware of the respective financial risks, both in terms of the available resources and credit risks. Considering that the current economic downturn is far from being overcome and the outlook is highly uncertain, the demand for the Fund's financial engagement is likely to expand. Therefore, safeguards on the use of the Fund's resources are critical for emergency financing, in particular, given the absence of ex post conditionality, diligent monitoring will be a key test for staff to ensure that the resources are used for their intended purposes. In the same vein, we need to create a new surveillance mechanism under the current constrained conditions so that the Fund is abreast of the macro-financial developments in individual countries and can provide targeted data-driven and well-elaborated policy advice.

Second, turning to the operational challenges, the uncertainty regarding the duration of the lockdown, a gradual reopening of economies, or a potential re-introduction of restrictive measures poses an additional burden on the Fund's risk management. We also need to think about contingency planning for the Fund and to develop road maps that are more forward-looking and based on event and scenario analyses. It would allow us to be better prepared for operating within the context of heightened macro-financial uncertainty and gives us a framework of how to potentially flexibly adjust our day-to-day operations while maintaining the capacity to conduct surveillance and serve the membership remotely. Thus, we reiterate that the Board needs to be able to continue to fulfill its oversight role also in a virtual and cloud-based environment. Not only it should be involved, but it needs to be fully engaged in the Fund's decision making. In this context, we share the view of other Directors that further progress is needed in strengthening ex ante discussions of the enterprise risk program, policy and operational decisions affecting the Fund's overall risk profile. Against this backdrop, we tend to prefer a flexible approach to review the institutional risk acceptance, depending on the duration of the crisis, while keeping the Board engaged on individual decisions with significant risk implications.

Finally, let me conclude that we look forward to the findings of the OIA on the Fund's ERM framework. Like other Directors, we welcome the

First Deputy Managing Director's assurance that management is carefully considering enhancements to the risk management function.

Mr. Guerra:

Allow me to react with some specific points. First, on the risks to the lending portfolio, as many Directors said, we too acknowledge that there are higher risks related to the use of Fund resources, given the high demand for the preferred emergency financing toolkit. Many Directors link the absence of conditionality and reviews as the main culprits of the increased risk; but, as expressed by Messrs. Buissé and Rozan in their gray statement, the adjustment was fully warranted to support the most vulnerable of the members. Given its catalytic role, delaying our response to the crisis for a few weeks or even a month would have, without a doubt, heightened the reputational and strategic risks for the IMF. Allow me to quote the rock band Aerosmith: It is not that the IMF is living on the edge; it is just that the IMF is doing its work.

My second point: a substantial risk to the lending portfolio is the diminished, partial, and untimely surveillance. Enhancing surveillance in general and increasing it in countries where emergency financing instruments will play a major role in safeguarding the use of Fund resources, the financing response was swift and timely. Now surveillance should be steadfast and comprehensive. More broadly, delays in Article IVs and Financial Sector Assessment Programs (FSAPs) are a major concern. We look forward to the discussion on surveillance during COVID-19 as time is of the essence.

This brings me to my third point, that of the budgetary resources. We look forward to a timely, well-informed, and decisive discussion on the complementary resources needed. Delays in putting in place the necessary budget envelope would be a strategic mistake. If Fund engagement is reduced due to resource restrictions, this could erode the surveillance capacity and hamper its effectiveness.

My fourth point is on human capital risk. In our gray statement, we asked the staff about the risk indicators due to the binding resource constraints. The graph presented by the ORM in its response, depicting overtime above thresholds in all departments is a simple but potent indicator of the risks that we are facing. While we welcome the current mitigation efforts, more needs to be done to ensure the staff's well-being, as it is unsustainable to demand the current work level pressures for a prolonged period. In this regard, we fully support that the ORM aims to include human capital metrics in its quarterly risk management updates.

We support, as presented by Mr. Arora, the way forward in reviewing the risk acceptance levels. We also support Mr. von Kleist's call for a careful

communication strategy about the IMF's lending capacity and, we would add, to the possible activation of the NAB in due time.

Finally, we regard the Fund Risk Committee as an important part of the risk governance framework. We commend your decision to change the meeting's periodicity from a quarterly to a monthly basis. Going forward, we join other Directors in calling for a careful strategy. The changes that we implement to the risk management framework have to be taken step by step and after great consideration of our aims, goals, and best organizational setup. In this regard, we look forward to the discussion on the audit report on the risk management framework.

The Acting Chair (Mr. Okamoto):

To Mr. Guerra's point on considering where we are going on risk management and the framework going forward, I will also draw from Confucius, who said: *It does not matter how slowly you go, so long as you do not stop.* Several Directors have been quite interested in the risk function for a while and are seeing a few incremental improvements. Like I said, we are still considering what to do on this front and this meeting is quite informative for me and others as we consider it. We will be very cautious, we do not want to change things that are working well. We want to augment and improve what we already have.

Mr. Morales:

As we indicated in our gray statement, emerging enterprise risks are a consequence of the Fund performing its mandate in an environment of heightened uncertainty, which is to be welcomed, as this has helped member countries to better address the new emergencies. We would like to make four points for emphasis.

First, the Fund should start preparing for the use of the NAB and the BBA resources and identify any potential hazards ahead of time. Moreover, the high likelihood of a slow return to a sustainable growth path and a sound macroeconomic environment for many countries, suggests that the issue of rising demand for Fund resources may become structural. Therefore, consideration should be given to accelerate the governance reforms under the Sixteenth General Review of Quotas, while securing stable funding for the PRGT. Additionally, it appears necessary to have a full discussion on the pros and cons of a possible new SDR allocation, as indicated by Ms. Mahasandana and others. In fact, the argument that such an allocation would take long to materialize makes this discussion even more urgent.

Second, the need to step up surveillance and capacity development is likely to translate into higher demand for analytical work by the staff at a time

when many changes are already taking place in the way the institution operates. All efforts should be made to contain the risks to human capital to protect the staff's health and well-being, based on the highest human resource policy standards. This would not only be fair to the staff, but it would also be the best way to ensure that the most qualified staff could be recruited and retained down the road, while continuing to make progress in achieving the Human Resources Department's medium-term goals, such as diversity and inclusion.

Third, there were many reasons highlighted at the time of the budget discussion and, to some extent, during the discussions on capacity development and on financial surveillance, suggesting that the risk of the Fund not fully delivering on its mandate for the whole membership is rising. Moreover, the demands coming from the ongoing global crisis already require a further reprioritization, which may be constrained by the continuation of a flat real budget policy during this emergency period. It goes without saying that any request for additional resources should be justified, but the issue to be considered following today's discussion is how to give the staff a chance to put all the relevant considerations on the table, as highlighted by Mr. Guerra.

Finally, we welcome the proposal of an informal discussion on the Fund's risk acceptance in September to discuss the appropriate risk acceptance levels in November, as scheduled, given that many operational changes are yet to take place at a time when global uncertainty remains high.

Mr. Sun:

At the outset, we would like to echo Mr. Guerra and other colleagues that the Fund is a unique institution that is supposed to mitigate global risks and prevent crisis. For this purpose, the Fund may have to take risks, sometimes even greater risks that should not be judged by conventional enterprise risk standards. A few of the risks that we are discussing are medium- to long-term risks. We see merit in considering the way forward on the already very good work done by the ORM.

We would like to briefly emphasize the following points. On surveillance, we echo Mr. Fanizza and others, that a temporary suspension of the Article IV consultation cycle would be a source of concern. We believe a road map for a gradual return to a normal surveillance cycle might be warranted, starting perhaps from those economies that are systemically important, as conditions allow.

On the adequacy of the Fund resources, like Mr. Bevilaqua and other colleagues, we reiterate our call for a timely discussion and the completion of the Sixteenth General Review of Quotas and the governance reform. We

would like to echo Mr. Buissé, that the absence of a general SDR allocation at a time of crisis will be a significant risk to the Fund's reputation.

On the mid-term budget, after eight consecutive years of a real flat budget, a further reallocation of the resources may be reaching a limit. In order to better integrate risk analysis into budget discussions, the risk of underbudgeting should also be considered.

Finally, on the risk acceptance level, safeguarding the Fund's resources is critical. We are open to discuss this issue in November, but we do need to be clear whether the risk acceptance level is for crisis time or for peacetime.

Mr. Odonye:

Indeed, we took note of the Chairman's opening remarks, that the Fund's risk profile is the consequence of its business and the choices made over a range of issues.

COVID-19 has notably elevated the risk profile of the Fund and the membership, with extreme uncertainty surrounding its path and severity. In this context, we welcome the overall progress made on several fronts, which is helping to mitigate the Fund's strategic and reputational risks. We agree that the higher lending portfolio, with limited prior conditionality and emergency financing, has elevated the Fund's enterprise-wide risks. In this context, we broadly agree with the characterization of the enterprise risks and the associated risk mitigation measures in the report. I, therefore, wish to highlight a few points.

First, we underscore the need for continued vigilance and the timely implementation of risk mitigation measures to safeguard the Fund's reputation, which has been enhanced by its agile and effective response to the crisis. Strong surveillance and strict adherence to the agreed safeguard measures by members would facilitate effective containment and a quicker economic recovery.

Second, we cannot overemphasize the need to enhance risk governance at the Fund. In this respect, we look forward to the report of the internal audit on advancing enterprise risk management and a review of the ORM's role, in tandem with the rising risk landscape. Like several Directors, we see the need for an expanded mandate of the ORM, especially in view of the interconnectedness of risks. We also consider the extra effort by the First Deputy Managing Director on enhancing enterprise risk management in the current setting as appropriate and encourage a continued analysis and prudent policy prescriptions to address the identified risks.

Finally, we acknowledge that the lessons from the COVID-19 crisis have revealed the limitations of the ex-ante risk mitigation tools and should inform the Fund's post-crisis surveillance and program priorities. In this regard, we need to start preparing for a recovery phase and brace ourselves for the increased demand for the Fund's advice and technical support as the crisis abates.

Mr. Mozhin:

We have issued a rather lengthy gray statement, with many issues calling for urgent attention.

Even before the COVID-19 crisis, the risks facing the Fund were already very high, above the risk acceptance level in 9 out of 14 business areas. The COVID-19 crisis has significantly aggravated these risks. Now the Fund is facing difficult trade-offs, between moving toward a much higher risk acceptance and/or failing to quickly sharpen its tools and policies to support the membership under severe pressures. We would encourage the ORM to prepare a comprehensive assessment of possible implications from de facto changes in the Fund's risk acceptance.

Despite risk mitigation, many strategic and policy risks are acute, including those arising from the failure to improve the Fund's governance and the long and unwarranted delays in the key policy reviews, such as the Comprehensive Surveillance Review, FSAP Review, Conditionality Review, Communication Policy Review, Transparency Policy Review, and several others. The application of the exceptional access criteria and lending into arrears policies have also raised additional tensions. Could the staff please comment on the risks related to these situations: when the Fund cannot provide financing due to political or geopolitical reasons?

We believe that the ORM analysis clearly confirms the urgent need for a sizable increase in the Fund's structural budget resources. We note that, under the post-COVID-19 baseline scenario, new program demand in fiscal year 2021 alone would imply an annual budget impact in the range of \$60 to \$100 million over the next three years. In the adverse scenario, additional budget needs are expected to be much higher, at the level of \$130 to \$180 million. This assessment is a compelling evidence for the adoption of a supplementary budget later this year.

It is also quite obvious that the Fund needs additional resources to move from the initial emergency response to ongoing crisis management and recovery. This requires the resumption of bilateral surveillance activities, including Article IV consultations and FSAP activity. The lack of surveillance hinders the Fund's ability to support members and use the UCT-quality arrangements.

Finally, like many other Board members, we call for a further risk mitigation of the impact on the staff from the extended period of work from home and the unprecedentedly high work pressures.

The Acting Chair (Mr. Okamoto):

Many Directors have brought up the topic of surveillance and its relevance to risk. Management is actively discussing with the staff how to best resume a few things that we may have temporarily put on hold. We note this is not something that can continue indefinitely. As Mr. Mozhin pointed out, this has relevance in the risk setting but also in programmatic elements, as well. We will be happy to discuss that with the Board, when we have a firmer idea on where we can go.

Mr. Ray:

I want to start by expressing a strong support for the work of ORM and to recognize the significant progress made in strengthening the risk management in the Fund. We issued a joint gray statement with four other chairs, and I wanted to pick up on a few points that other colleagues have made.

First, on the question of risk acceptance, as I have said before, we are in a risky business, and the risk management framework is not about taking risks. As Mr. Rosen stressed, it is about taking on risks in a considered way, identifying actions to reduce risks, and consciously accepting residual risks.

Significant risks have emerged because of the COVID-19 shock. I suspect additional risks are going to materialize in the coming months. I tend to agree with the staff, that our actions in the Board demonstrate that our risk acceptance has increased. But I strongly agree with those who have stressed that this is both appropriate and, indeed, very necessary. As Mr. Bevilaqua put it, taking on this risk when the world economy is facing such a crisis is exactly what the membership expects us to do. But it would be better if the additional risks were explicitly accepted. There are a few different views around the Board table and there would be value in discussing them. I welcome Mr. Arora's suggestion for an informal discussion on risk acceptance around September. More broadly, a more conscious acceptance of residual risks would be assisted by an ex ante assessment of enterprise risks for key decisions. For example, it is far from clear if it has been done in relation to a few of the actions we have taken around our largest exposure.

Secondly, on information security risks, which we have under our control, the risks are assessed to be high for a long time, well above the tolerance. The Board has consistently called for a more urgent progress in

addressing risks in this area, yet we seem to be slipping further. As Mr. Fanizza noted in his gray statement, except for the pandemic, the factors that are referred to as causes for this further slippage predate the pandemic. With the threat landscape having worsened and additional pressures associated with working from home, it is even more important to prioritize risk mitigation in this area. I would encourage management to pay much closer attention to this.

Third, on human capital, I would like to thank the staff for the detailed answers to our question on monitoring the staff's well-being. I want to encourage very close attention to this. In my experience, people are resilient until they are not.

A related thing is around occupational safety. Working from home has probably elevated the occupational safety risk, and we need to think about it quite carefully.

Lastly, like other colleagues, I look forward to discussing the audit of enterprise risk management.

Mr. Fanizza:

I fully agree with Mr. Rosen.

I was really impressed by the speed and the extent of the improvement of the risk analysis in this year and a half. Let me remind you, a year and a half ago, when I first participated in a discussion on an update of the Risk Report and raised the issue about credit risk, the answer that we received from management was that it is not our business. This is the job of FIN and the Strategy, Policy, and Review Department (SPR), therefore, do not meddle with them as they do a good job, and they should do it. However, things have changed now. We should acknowledge that this has been a result of the positive reaction from management and from the staff who have listened to us, and they have had a very constructive interaction.

I agree with Mr. Buissé and several other speakers. The biggest risk that we run is not doing our job. to provide financial support to countries that run into difficulties. Second, provide input in members' policymaking to make sure that they adopt the right policies. Third, we contribute in overseeing that policies are in the right direction through multilateral surveillance. Fourth, the countries to which we give money take policies that put them in a condition to repay.

At this point, my impression is that we are doing only the first step, which is lending to countries that have a need. We have reduced our capacity to influence policies in a direction in which they reduce risk. We need to

resume this activity by resuming UCT program engagement, and surveillance with clear policy, institutional views on the policies of our members so that they can contribute to a better economic, global outlook.

When I look at the instructive table on the outstanding purchases through the GRA, the main source of risk is not the new lending for the crisis but something else that pre-existed. Why are we complaining that we are increasing too much risk at this moment? No. The big risk is what was done before and was done in a situation in which we did not have the tools to fully understand the risk that the lending decision exposed the Fund to. That is why we have had all the discussion. Let's revise it and 's fully understand how to have an active role. Looking at risk does not hamper our capacity to take risk. To the contrary, it will make us take risks when we do not fully understand what we are doing.

Mr. Bhalla:

We have issued a gray statement. I will emphasize three interrelated broad points.

First, we should note the wisdom of philosophers. We should evaluate what we know, and we should recognize the black box of unknowns. Also, since the keys are in the darkness, we should try to forecast where the keys are likely to be, not where the light will appear next. This is a job and risk profile of all economists and policymakers. Another Chinese philosopher said it best when he stated that we should feel the stones in the river of risk for effective guidance.

Second, we note that the risks related to the adequacy of Fund resources, which is crucial to the Fund's ability to fulfill its mandate, have increased substantially. While GRA resources appear to be adequate in the near-term, we agree with the staff that a contingency plan needs to be considered in the medium-term, especially in the event the crisis worsens.

Third, although knowns can guide us for facing the true risk, what we know--and if we do not know by now, we certainly should--is that inflation is no longer a noticeable risk. The most noticeable risk that the world faces and, indirectly the Fund, is one of income growth, especially in the poor countries and especially for the bottom 50 percent of the world's population. In this, I echo what Mr. Fanizza said. We also know that the cost of capital will be lower for longer. These three knowns are the light which is needed for forecasting the unknowns. The light suggests that the Fund should stand ready, as it creditably has, to do whatever it takes to help reduce the probability of a growth pandemic.

Mr. Ray has just reminded us of what another philosopher said: If we are in a risky business and we cannot handle the risk, we should get out of the kitchen.

The Director of the Office of Risk Management (Mr. Arora):

We thank Directors for the comments and questions. I will try to run through them quickly, rather than dwell on them in too much detail.

I want to begin by saying that our response to the crisis has increased enterprise risks. Some risk mitigation has been undertaken, and a few risks can be mitigated further, but there are also residual risks that, in the status quo, will remain. There is a distinction between risks that can be mitigated further and the residual risks that will remain under our current operations. Many Directors flagged the risks in the surveillance; cutting back and suspending the Article IVs was needed to focus resources on the crisis response. A few risks that come with it are being mitigated through virtual engagement, area departments, and stepped-up briefings. But, there is still a residual risk that remains: engagement in this virtual format is different from engagements via missions, where teams meet a variety of counterparties and form a rich view. Getting the benefit of Board views through Summing Ups and Article IV discussions is a fact of the status quo. There are other examples as well. Therefore, there is a distinction between risks that can be mitigated further and risks that simply exist with the status quo.

On surveillance, we tried to explain in technical answer No. 19 various measures being considered for mitigation. The FDMD explained that management is also considering this issue. There is going to be a draft paper on COVID-19 surveillance in this period, and there will be an upcoming informal engagement on restarting surveillance.

On the risk function itself and the audit, we will look forward to the audit recommendations and discussions. We have started to prepare a draft road map for improving the bread-and-butter functions of risk, along the lines that Ms. McKiernan described on risk reporting and the way we conduct the committees, but the audit is fundamental for defining what the road map might look like.

I take very well the points from Mr. von Kleist and Mr. Bhalla on not looking under the lamppost but trying to see around the corner. I should assure the Board that we have a variety of risk identification exercises, including the Fund at Risk survey that we conduct twice a year, a scenario analysis, interactions with outside contract research organizations (CROs), and the risk community in the Fund. The whole operation is basically dedicated to trying to look ahead, rather than looking only at the information that we might have

in the ORM. We report some of that in the second annex in this paper, but we have a substantial foundation that underlies it.

There were questions then on the Fund programs and Fund resources. Mr. Rashkovan asked: What is the status of the discussion on bilateral borrowing? Then there was a question on concentration risk and on the catalytic role and the risks of not lending to countries in need.

On the BBA process, my understanding from finance colleagues is that the staff has sent draft agreements to all 2020 BBA participants, and discussions are ongoing to finalize these agreements as early as possible. I understand that the staff expects to submit a first batch of agreements for Board approval before the summer recess. I would just note that the first step is an NAB activation. The Board and BBA participants will then have adequate time to subsequently consider a BBA activation, if that should become necessary.

Regarding the Fund's catalytic role, the Fund financing typically plays a catalytic role, and the impact of programs on Fund resources obviously depends on the proportion of Fund financing, versus other contributors. Now, more financing from others--that is, a greater catalytic role for the Fund--is, therefore, a mitigant in this sense. At the same time, the Fund, as a lender of last resort, takes on a greater role than it does in other cases, depending on the specific country circumstances.

In the analysis that we present in the Risk Update of risks to Fund resources, we assume that the Fund continues to play a catalytic role. The assumed access in the scenarios is 5.5 percent of GDP and 8 percent of GDP for the baseline and downside scenarios. Those amounts are calibrated to match historical trends when the Fund played its traditional role. Beyond that, if there is a view about what proportion of Fund financing is appropriate and consistent with the catalytic role, that is a broader discussion for the future. However, the catalytic role is a risk mitigant, and it is assumed in the scenarios that we have.

On the concentration risk, as noted in the paper, we do not have the capacity to diversify regional concentration. In fact, some argue that when we take into account regional linkages and spillovers, it can be argued that helping particular regions that are heavily affected by crisis can help reduce the risks that the Fund faces for the region as a whole.

Beyond this, we expect that other efforts to mitigate concentration risks, like a resumption of surveillance, will be important. Previous reviews of crisis episodes--like the Review of Conditionality and a few years ago the Review of Crisis Programs, which also took into account similar concentration issues that arose in Europe at that time--flagged the importance

of analyzing regional and global spillovers. It is another indication of the importance of surveillance. There are also ex ante enterprise risk assessments, which will be important, and taking into account the residual risks from the entire portfolio, but also a particular region when determining credit risk buffers.

On the risks of not lending to countries in need, I would say that the Fund can only lend when its lending safeguards are met and when the Board approves arrangements or approves lending. There may be situations where there are countries in need and the Fund does not or cannot lend. We cannot lend if our lending safeguards are not met because that would simply create further problems down the road: it would conflict with our policy framework and would also involve reputational risks in and of itself. However, there is a residual risk of the Fund being seen as not assisting countries that are in dire need.

There were a few questions on information security. The COVID-19 crisis has exacerbated the pressures that previously existed. The ITD had to re-orient its work to deal with the pandemic and work from home. They have quite limited resources allocated to information security, therefore, it was already a source of pressure. They have had a few unexpected staff departures and there is an ongoing reorganization. All these three things are occurring simultaneously. They do assure us that the implications for the risk mitigation road map is to delay it by six months, but that should not have an impact on the budget. It would simply be a reallocation of resources from here to six months out.

It implies that the information security risks remain elevated, particularly at a time when we see malicious actors and external cyber threat landscape are becoming more alarming. It is an issue of concern, but I am sure they fully appreciate the Board's urging to ensure that risk mitigation is implemented on a timely basis.

On human capital and the workload: management and the HRD have put forward a number of initiatives to address the pressures on the staff and the workload that, as Mr. Guerra pointed out, when one looks at the indicators, seems to be unsustainable by current trends.

Mr. von Kleist:

I would like to come back very quickly on two points. I very much appreciate the remarks that were made at the end on the ITD. I wanted to emphasize that what I said is not a criticism of the ITD. They are doing a fabulous job. It is an appeal to management to ensure that the ITD has the tools, the people, and the money available to do their job; because without the ITD, we are all out of a job.

Secondly, on Mr. Fanizza's comment that the larger risks are in the past, that may be true, but they do exist. Larger risks do not disappear, if new risks emerge these are added on. The question is: Do they just add on or is it an exponential increase? In that context, I am afraid I cannot support Mr. Fanizza's argument.

The Acting Chair (Mr. Okamoto):

Certainly, as Mr. von Kleist put it, without ITD, we would not be in this virtual Board meeting right now, and our work processes would grind to an abrupt halt. The point is well taken and noted, as I consider the budget and other things going forward. It is a big priority not just for the Board but for management to make sure that we have a well-resourced ITD that is capable of delivering on our business operations.

I think all of us are walking a very large tightrope, having to balance all the various things. Whether they are program risks, reputational risks, operational risks, or financial risks, we are trying to strike a balance to be able to deliver effectively on the mission. And that is because, at the end of this, there is also the reputational risk that we have to deal with and defend. We want our reputation to be one that we are proud of, and one that says we are managing a trillion-dollar-plus institution very responsibly. It is helpful to members, who are looking to us for financial, policy, and other economic advice.

The Chair adjourned the discussion

ANNEX

- First Deputy Managing Director's Statement
- Gray Statements
- Staff's Responses to Executive Directors' Technical Questions
- Constituency Codes

**Statement by the First Deputy Managing Director
on the 2020 Mid-Year Risk Update
Executive Board Meeting
June 11, 2020**

1. The COVID-19 pandemic is an unprecedented challenge for the world economy and is a key driver affecting the enterprise risk landscape of the Fund. The Fund's decisive and swift response to support the membership during the crisis in line with its mandate is helping to mitigate risks to the membership and strategic and reputational risks to the Fund. At the same time, the Fund's response requires us to manage a range of enterprise risks. The 2020 Mid-Year Risk Update provides a comprehensive picture of shifts in the enterprise risk profile across all of the Fund's business areas, while focusing on the risks associated with Fund lending, resources, and related internal operations. While the Fund is mitigating enterprise risks, important residual risks remain that are compounded by the operating environment, including the unprecedented uncertainty around the path of COVID-19 and its impact on the membership and the Fund, the Fund's reliance on third parties, and the external cyber threat landscape.

2. A robust enterprise risk management function is important for any large institution and Management is carefully considering enhancements to the risk function at the Fund. These deliberations will be informed by the upcoming internal audit recommendations and discussions with the Executive Board. More closely embedding risk considerations in day-to-day decision making remains a priority, building on the extensive risk management framework already in place. For example, key Fund policies and assessments are an endogenous part of the Fund's lending framework, where they play a critical ex ante risk assessment role.

Meanwhile, the risk management function has continued to advance since the 2019 Risk Report and to adapt to the challenges posed by the COVID-19 pandemic. As envisaged, regular informal engagements on risk have been held with the Executive Board and monthly information on financial and program metrics is being provided to Executive Directors. Enterprise risk considerations are integrated into key Fund processes and procedures, including the budget, Board work program, and operational crisis response, and are being reflected in key policy papers, including those responding to the pandemic. The Office of Risk Management keeps close track of risk events, participates in Fund-wide crisis response initiatives and discussions, and provides regular updates to management and the Fund Risk Committee on key enterprise risks.

3. The Fund Risk Committee, which I chair, is an important part of risk governance, and provides a forum for discussing key enterprise risks. I have moved to focus the committee's discussions more closely on risks associated with the Fund program portfolio and resources, and to convene meetings on a monthly (not quarterly) basis during the crisis. The committee has also continued to facilitate the prioritization of risk mitigation initiatives, based on Board-endorsed directions and the challenges presented by the COVID-19-related crisis.

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GRAY/20/2368

June 9, 2020

**Statement by Mr. Fanizza, Mr. Spadafora, and Ms. Korinthios on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting 20/70
June 11, 2020**

*We thank the Office of Risk Management (ORM) for a comprehensive and detailed Mid-Year Risk Update and strongly appreciate its focus on the impact of the Covid-19 pandemic on the Fund's risk profile. We agree that strategic and reputational risks have remained basically unchanged. If anything, the rapid and comprehensive response to the Covid-19 has strengthened the Fund's position at the center of the GFSN as it has been greatly appreciated by the membership. In this context, we agree that lending, adequacy of Fund resources and financial assets/income face heightened risks along with some internal operations (HR, budget and information security); we share ORM's assessments of the applied mitigation measures. **We believe that these heightened risks call for stepping up both Fund's surveillance efforts and UCT financial support to members, which emergency financing has clearly crowded out.** We welcome the First Deputy Managing Director's stepped-up work on possible enhancement to the enterprise risk management function and its governance, including with regard to ORM's mandate and resources. In this regard, the look forward to the forthcoming report by the Office of Internal Audit will constitute a key input.*

We offer the following additional comments:

- **The Fund's welcome response to the crisis through the provision of emergency and precautionary financing has no doubt raised the Fund's overall credit risk.** The lack of UCT conditionality together with reduced Fund involvement through surveillance has *de facto* diminished the Fund's capacity to influence members' policies through constructive policy advice and therefore heightened the risks that national policy responses end up being inadequate to foster a global recovery. The proposed increase in annual and cumulative access limits for both GRA and PRGT programs should help mitigate the risks that emergency financing substitutes for the use of Fund resources under UCT conditionality.
- **We believe that the main source of risks stems from holding off the Fund's critical surveillance function because of the inability to provide much-needed policy advice to member countries – notably on the right policy mix in the face of the challenges and tradeoffs posed by the Covid-19 pandemic – rather than in potential inaccuracy**

of forecasts, analyses, and DSAs as suggested by the paper. Fund's advice is particularly needed on two issues: (a) how to best finance the unprecedented increase in fiscal deficits; and (b) the appropriate monetary policy stance in face of the assessed relative likelihood of deflation versus inflation risks. We believe it is essential that the Comprehensive Surveillance Review incorporate available lessons from the Covid-19 crisis and its possible impact on surveillance priorities. However, we are looking forward to concrete proposals for resuming Fund's surveillance activities as soon as possible and for increasing its traction. Our member countries need our inputs to shape their policy response under these unprecedented circumstances.

- We appreciate the focus on Capacity Development and welcome the Fund's swift adaptation to new modalities of delivery. However, we cannot help but wonder whether the CD-related risks for FY21 and beyond are somehow underestimated. While we appreciate the ongoing efforts to mitigate the risks associated with donor funding – by deepening and diversifying the partnership base – we would like to emphasize that other relevant challenges are posed by some countries' difficulties in accessing digital communication and weak institutional and organizational capacity. Moreover, we would suggest adopting a cautious approach for the medium-term horizon, given that staff's estimates reflect a still uncertain scenario with possible absence of additional fundraising drives. Contingency plans and further mitigation measures might be useful, should this scenario materialize. *Staff's comments are welcome.*
- We agree that information security risks are elevated and on the rise; Work-From-Home (WFH) practices – while necessary and broadly successful – pose distinct challenges, which are even more concerning given that the WFH might be the ordinary way of work still for some months to come. The additional delay in the Information Security Roadmap – the key measure for risk mitigation – is unfortunate but perhaps inevitable as a result of the Covid-19 challenges. However, except for the pandemic, the factors – staff capacity constraints in ITD and ITD reorganization – that are referred to as causes of the above delay in the key Crown Jewels project pre-date the pandemic so that it is not clear why they are now presented as unexpected. *Staff's comments are welcome.* Any further delay in the roadmap should be carefully avoided to contain further risks. Against a backdrop of fast-changing technological and cyber-security landscapes, it remains essential to assess on a regular and timely basis the need for corrective measures and adjustments in order to safeguard the effectiveness of a costly project that is now expected to be finalized in Q2-FY2024.
- We welcome the information-rich Box 2 and agree that the Third Party Risk Management project takes on an increasingly important role and needs to be strengthened with priority (paragraph 46), not least because of the sheer value (\$1.7 billion) of the contracts awarded to vendors and the critical functions that they cover (including WFH).

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June 9, 2020

**Statement by Mr. Mozhin, Mr. Palei, and Mr. Potapov on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting 20/70
June 11, 2020**

1. We thank the Office of Risk Management (ORM) for the timely and comprehensive mid-year risk update. While this report was meant to be less prominent than it turned out, we recognize the extraordinary circumstances of the crisis and rapidly changing rules and practices. Hence, in our statement we raise many issues calling for urgent attention. The COVID-19 crisis has significantly elevated risks for the Fund that were already very high even before the pandemic. Now the Fund is facing difficult tradeoffs between moving toward much higher risk acceptance and failing to quickly sharpen its tools and policies to support the membership under severe pressures. We broadly share the ORM's assessment of emerging and residual risks. We support staff's efforts to identify the key risk mitigation actions. We understand that some risk drivers are beyond the Fund's control and mitigation efforts take time.

The COVID-19 impact on the Fund's risk profile

2. The Fund is facing an unprecedented surge in risks associated with the COVID-19 crisis. As rightly highlighted by the ORM, COVID-19 dominates the Fund's external and internal operating environment. The pandemic-related shocks have significantly affected the Fund's surveillance, lending, capacity development, work program, its operation modalities and, importantly, staff health and wellbeing. The surge in emergency financing requests from members has already raised concerns about the adequacy of the Fund's resources. Over the medium term, the Fund is expected to deal with many labor-intensive, complex, and sizable programs with ex-post conditionality. At the same time, as it was confirmed recently by the OBP, the Fund is facing an urgent need for a substantial structural increase in its budget envelope.

The Fund's immediate response to the crisis

3. We believe that the ORM's work on strengthening the enterprise risk function over the past several years has set a strong foundation for the Fund's COVID-19 crisis response, despite the relatively limited mandate and resources. The key recent enhancements include the push for more regular engagement with the Board, embedding risk management and ex-ante risk assessments in key strategic processes and policy papers, strengthening risk event reporting and engagement with departments to promote the risk culture. Risk mitigation has been helpful in adjusting internal operations in response to the crisis. Business continuity procedures were activated and technological capacity for remote work was scaled up. We are certain that the overall substantial strengthening of the Fund's risk management framework will be clearly recognized in the ongoing internal audit of enterprise risk management at the Fund. We also look forward to the discussion on further improvements in this area.

4. We agree with the ORM that the Fund's rapid response to the crisis has helped mitigate strategic and reputational risks. The Fund has quickly adopted its policies and procedures to support the membership and mitigate the immediate pandemic impact on the global economy. The Fund's operational resilience has withstood the initial shock.

5. At the same time, the crisis response has created additional risks for the Fund that need to be managed or accepted. As the ORM pointed out, the higher risks reflect a rise in de facto risk acceptance as a result of the Fund's decisions. *We encourage the ORM to prepare a comprehensive assessment of possible implications from changing the Fund's risk acceptance. Could staff also elaborate on the proposal to adopt a flexible approach depending on the duration of the crisis?*

Strategic risks

6. Despite risk mitigation, many strategic risks are acute, including those arising from the failure to improve the Fund's governance. Lagging governance changes, in turn, limit the Fund's legitimacy and its ability to facilitate international cooperation in the situation of rising geopolitical tensions.

7. We are concerned about the risk of diminished role of the Board in setting the Fund's strategic priorities. The Fund has to reformulate the work program and further postpone important policy reviews, in addition to putting on hold bilateral surveillance activities. The crisis dramatically highlighted the pitfalls of the past decisions on delaying key policy reviews, to a large extent, due to the rigid budget constraints. We refer to the long and unwarranted delays in the CSR, FSAP review, conditionality review, communication policy review, transparency policy review, and several other. Other residual risks have also intensified with rising tensions between the Fund's decisions and its policy frameworks, including in the context of debt sustainability assessments, the application of the exceptional access criteria, and lending into arrears policies.

Budget risks

8. The COVID-19 crisis will have a significant impact on the Fund's operations and budgetary needs. This impact should be addressed against the background of already diminished budgetary buffers in light of the rigid real flat budget strategy that has been in place for eight consecutive years. The scope for spending reallocations and prioritizations without adverse implications for the quality of the Fund's work and policy advice had waned even prior to the COVID-19 crisis. The ORM's analysis in the report confirms the urgent need for a sizeable increase in the Fund's structural budget resources. We note that under the post-COVID-19 baseline scenario, new program demand in FY2021 alone would imply an annual budget impact in the range of US\$60-100 million over the next three years. *Could staff elaborate on potential budgetary needs under the adverse scenario?*

The use and adequacy of the Fund's resources

9. We agree that lending risks have substantially increased across the Fund's portfolio. These risks were already growing before the wave of the COVID-19-related financing requests, reflecting the sizeable complex programs and the very large number of off-track programs. Credit risks are also exacerbated by the pre-existing debt vulnerabilities and extreme uncertainty, hampering judgment of debt sustainability and capacity to repay. We share the concerns about the changing nature of the Fund's lending portfolio due to the growing share of arrangements approved with limited or no ex post conditionality. The situation needs to be kept under close review. *Could staff elaborate on the cases where the Fund cannot provide financing owing to conflicts with policy frameworks and due to other politically motivated reasons?*

10. Another concern is related to a broader use of the Fund's precautionary instruments, including the recent creation of the SLL. On the one hand, we agree with the ORM that these instruments entail a residual risk to the revolving nature of the Fund's resources in case of their successive use. On the other hand, we believe that the Fund should continue to seek additional ways to support emerging markets and developing economies that have limited access to foreign exchange funds needed to help finance the higher fiscal deficits. At the same time, we note that the FCL now can face communication issues and questions about evenhandedness, since all four FCL users are from Latin America. We believe that many other emerging markets economies have similar sound fundamentals and strong policies. These countries should be able to gain similar access to the Fund's resources in case of their requests. *Could staff comment on possible evenhandedness risks in this area?*

11. Risks to the adequacy of the Fund's resources have increased substantially due to COVID-19 and the necessary modifications of the Fund's lending toolkit. We note that under the most plausible scenarios the NAB activation looks inevitable, while the BBAs activation is highly likely. The demand for the Fund's resources could exceed its current lending capacity over the medium term. PRGT resources are insufficient to meet the demands even in the baseline scenario. The possible increases in access limits will further raise risks for resource adequacy, while credit risk buffers will fall further as a proportion of rising

outstanding credit. *We call for regular reviews of adequacy of the Fund's resources. We would also appreciate staff's elaborations on possible additional risk mitigation actions in this area, including a contingency plan for the Fund's resources that was mentioned in the report.*

Surveillance risks

12. We believe that the Fund's crisis-related work needs to move from initial emergency response to ongoing crisis management and recovery. We are concerned that the delays in the Fund's surveillance and major policy reviews may create substantial challenges for the Fund and its members at the time when they are actively seeking the Fund's policy advice and when debt sustainability and financial vulnerabilities are being exacerbated. At the same time, uncertainty about the path and impact of the pandemic poses risks for the Fund's ability to accurately gauge the state of the global economy and calibrate country-specific policy advice. *Could staff elaborate on the key mitigation efforts to address the gaps in the Fund's surveillance cycle?*

13. We welcome the recent steps to strengthen knowledge management at the Fund, including the creation of the COVID-19 Knowledge Hub and the COVID-19 High-Frequency Data Hub. We believe that these initiatives can be very useful in supporting the efforts to address the current unprecedented crisis. Since the creation of the Knowledge Management Unit at the Fund, our chair has been actively calling for expeditious improvements in various knowledge platforms to facilitate and speed up the dissemination of knowledge, policy advice, and best practices across the Fund and its members. In this context, we continue to believe that changes to the Board's limited access to the Fund's knowledge are necessary to mitigate strategic and surveillance risks.

Human capital risks

14. The crisis is putting significant pressures on the Fund's human capital. We note that the immediate response to the COVID-19 crisis was based on staff's extraordinary efforts, a surge in uncompensated overtime, and ad-hoc and informal staffing arrangements. We are very concerned about the risks of excessive and sustained pressures on staff, their safety and health in the times of intensive program engagement combined with additional challenges from WFH. We welcome the risk mitigation efforts to temporarily modify the HR policies in response to the WFH environment and global travel restrictions. *We would appreciate the ORM's additional comments on how the COVID-19 crisis has impacted the recruitment and retention processes and on how to mitigate related risks.*

Information security risks

15. Information security risks remain elevated. According to the report, the cyber threat landscape has worsened for the Fund and its third-party providers. The crisis has highlighted the urgency of strengthening information security and third-party risk management. In this

context, we are concerned about the implementation delays of the information security roadmap. We call for a more proactive approach in addressing the identified constraints, including the lack of resources.

Reputational risks

16. According to the ORM, reputational risks have been contained by the Fund's effective crisis response. However, we believe that interconnections of reputation with all of the Fund's business areas expose the Fund to non-trivial risks affecting its reputation. We agree that addressing issues across the Fund's risk profile, strengthening safeguards policies, ensuring evenhanded treatment, and supporting proactive communication could mitigate reputational risks stemming from program performance and the potential misuse of the Fund's financing.

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June 9, 2020

**Statement by Mr. Poso and Mr. Vaikla on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting 20/70
June 11, 2020**

We thank the Office of Risk Management (ORM) for their work and for the comprehensive set of reports. We appreciate the Quarterly Risk Updates, regular engagements with the Board and the program updates on a weekly basis. We also thank the First Deputy Managing Director for his Buff statement.

The Fund has provided effective response to the current unprecedented crisis and deployed its significant financial resources for the benefit of the membership. With the actions taken, the Fund has acted by its mandate and thereby mitigated strategic and reputational risks as well as the risks to its members. Meanwhile, the Fund's overall risk profile has shifted up, which requires close attention. We are especially concerned about the further rise of already high program portfolio risks and increased risks to the Fund's resources, which call for enhancing the monitoring of risks and applying sufficient risk mitigation measures. We share the view that risks related to the Fund's own operations and staff's safety have been managed well so far, while risks to human capital and information security remain elevated.

We support the recent actions taken to improve the Fund's risk management. However, due to the substantial rise in risk levels across the board, we see scope for strengthening it further. The changing nature of the Fund's lending portfolio and the surge in the Fund's use of resources call for strengthening ex ante risk assessment, monitoring the interconnectedness of risks, scenario analysis of resource needs, and ensuring that effective risk mitigation measures are being put in place. We also call for further incorporation of ex ante enterprise risk assessment in major policy proposals.

Given that the Board's risk tolerance has increased, we support reviewing institutional risk acceptance levels in November. The risk tolerance levels should be based on measurable quantitative levels, to the extent possible. We would like to offer the following comments on specific risk areas for emphasis.

The risk of **adequacy of the Fund's resources** and thus the Fund's ability to fulfil its mandate is the primary risk going forward. We agree that overall, the GRA resources appear

to be adequate in the near term, while substantial uncertainty regarding demand for the Fund's resources poses a clear risk over the longer horizons. The NAB and the BBAs are available tools to control the resource adequacy risk, but only on the GRA side. We emphasize that the Fund needs to have a quantitative assessment of financial risks by analyzing a potential need for Fund resources under different scenarios, including simultaneous use of our credit lines.

We are particularly concerned of the unprecedented increase in the use of PRGT resources, which are not sufficient to secure longer-term sustainability of the Fund's concessional financing. Our resources will never be enough to meet all concessional financing needs, and therefore, the risk of not serving the membership evenhandedly should also be mitigated. The Fund's catalytic role and access policy are key tools to control this evenhandedness risk.

We share ORM's assessment that **program risks** are extremely high and take note that risks have increased to "high" in all four subcategories. While the Fund should have a higher risk profile in current circumstances, implementation of proper risk mitigation measures has never been as important as now. Ensuring efficient and effective use of Fund resources is of utmost importance in the midst of a global crisis of unprecedented scale. On that regard, we emphasize that safeguard measures need to be applied consistently and in a unified manner across the membership, tailored to country-specific circumstances when necessary, to ensure the transparent and effective use of Fund resources. Safeguard measures are important also to mitigate risks resulting from program errors due to time pressures and misuse of public funds. We fully agree with the ORM, that any decisions on "additionality" in the context of access limits could have implications for risks to the revolving nature of lending resources. Furthermore, increasing cumulative access limits would fundamentally change the Fund's risk tolerance, compromise the borrower country's path to sustainable debt levels, as well as its ability to repay to the Fund.

On **capacity development**, we welcome that the Fund has adapted quickly to the new environment and that over 90 percent of members who have requested emergency financing have also benefitted from CD activities. However, we note that rigidities in the CD financing architecture risks the Fund's ability to deliver CD in some urgent areas, which requires introducing additional flexibility in providing CD. As a risk mitigation effort, we emphasize that CD activities should be demand-driven and prepared in close cooperation with country teams who have the best knowledge and oversight of members' needs and absorptive capacity. As the CD demand is likely to increase after the crisis, the IMF CD crisis response and changes in delivery also need to be discussed with the donors to ensure that funding continues.

On **surveillance risks**, we note that the unprecedented nature of the crisis and highly uncertain trajectory of the virus has significantly raised risks to forecasting accuracy and challenged monitoring of spillovers. Mitigation of surveillance risks is especially relevant when conditionality is absent in the emergency financing cases and greater emphasis is put on ex ante surveillance and forecasts. We therefore encourage greater use of scenarios in macroeconomic analysis and continued close cooperation with health experts. Given rising

risks to financial stability, we call for deepening the integration of macro-financial surveillance and debt sustainability issues.

On **medium-term budget**, we acknowledge that responding to the membership's significant needs in ongoing crisis may exhaust budget buffers, while budgetary implications going forward are very uncertain. However, we do not fully share concerns about budget risks as crises always require a reprioritization of tasks and in this case provide also cost savings in the form of suspended travel. Thus, we continue to support the flat real growth budget in the medium-term and continued budget discipline. We encourage the Fund to implement risk-based resource allocation and productivity-enhancing measures to mitigate budget risks. We would not want to pre-judge the outcome of the Board discussion later this year on a possible supplementary budget. Such a request would need to include a thorough assessment of resource reallocations already made within the existing budget envelope, an analysis of the allocation of the additional carryforward approved with the budget proposal, and clear justification for any additional resource requests, grounded in the Board's crisis work program.

On risks to **human capital**, we share the assessment that the COVID-19 crisis has put significant pressures on Fund staff, particularly due to increased workload, in combination with challenges associated with work-from-home (WFH) arrangements. We welcome the initiatives taken by HRD to swiftly address the immediate work pressures, including the Resource-Sharing Exchange website, the rehiring of recent Fund retirees, and the extension of contractual employees. These measures are appropriate also in light of the additional complexities to recruitment and onboarding due to travel restrictions and continued WFH arrangements.

On **information security**, we note with concern the worsened cyber threat landscape reflected in the substantial surge in malicious threats, which underlines the importance of strengthening the Fund's information security. While we acknowledge the staffing shortages and the shift of priorities due to the COVID-19 related disruptions, we urge to continue with the Crown Jewels project once the situation normalizes to implement an already delayed security risk mitigation roadmap. Given the heightened risks to the Fund's information security and that the Information Security Road Map is expected to be completed only in FY2024, we urge ITD and Management to find ways to accelerate its implementation.

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**Statement by Mr. Sun and Mr. Huang on 2020 Mid-Year Risk Update
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Executive Board Meeting 20/70
June 11, 2020**

We thank the Office of Risk Management (ORM) for the well-written report and the First Deputy Managing Director for his Buff statement. The COVID-19 pandemic is hitting the global economy and reshaping the Fund's risk profile. We commend the Fund's swift and decisive response to the crisis, which not only helps support its member countries, but also mitigate the Fund's strategic and reputation risks. However, these responses have increased the Fund's own enterprise risks as well. Given the unprecedented nature of the crisis, the Fund would risk doing too much with its own enterprise risks increased, rather than doing too little and leaving risks to its membership. We agree with the thrust of the paper and would like to limit our comments to the following.

Lending: Use of Fund Resources

We take note that the risks to program portfolio are extremely high. Considering that there might be a new wave of successor programs during the recovery phase, the risk is expected to increase further. In this regard, risk mitigation measures should be in place, with priority on the large programs that take most of the Fund's resources. The total number of emerging financing is increasing sharply, but the total amount of resources committed to them remains relatively small (around 6 percent of GRA and 30 percent of PRGT). Recent measures to enhance the governance safeguards for emergency financing are a step in the right direction. We acknowledge that the Fund has limited capacity to diversify the regional concentration risk. Nevertheless, enhancing coordination with the Regional Financial Arrangements (RFAs) and facilitating the agreement and activation of the RFAs might help mitigate the regional concentration risk.

Lending: Adequacy of Fund Resources

We take note with concern that the risks to the adequacy of Fund resources have raised. The likelihood of NAB activation has been increased in the short term and the Fund's overall lending capacity could be exhausted under some scenarios in the medium to long term. We

welcome the timely updates on Fund resources and encourage staff to continue closely monitor resource adequacy. We urge timely discussions and completion of the 16th general review of quotas, which is the most effective way to address the medium-to-long term risks related to resource adequacy. A general SDR allocation should also be seriously considered as the most effective way to address the short-term risks related to liquidity shortage.

Financial Assets and Income

We take note that the lending income would increase but credit risk buffers would be under pressure, given the increasing volume of the Fund's lending. We look forward to a more detailed briefing on the adequacy of the precautionary balance and staff's suggestions on how to mitigate the related risks.

Medium-Term Budget

The Fund's timely response to the crisis is depleting the already diminishing budgetary slack and buffers. The real flat budget in the past years reflects the Fund's strong budgetary discipline. An exceptional and temporary increase on budget resources seems warranted during the unprecedented crisis. *Could staff shed some light on the Fund's budget performance during the 2008 financial crisis?*

Surveillance

The large uncertainty in the global economic outlook poses great challenges to the accuracy of forecasts. In this regard, we suggest the Fund to continue closely monitoring the situation and update the forecasts more frequently. The temporary suspension of Article IV consultations helps to reprioritize the Fund's work but also further increases the surveillance risks. A plan to gradually return to regular surveillance is needed, perhaps starting from countries where the pandemic has been under control.

Human Capital

We commend the Fund's swift actions to alleviate immediate work pressures and help staff adjust to the extended work from home (WFH) period. Similar efforts are needed to help staff adjust to returning to the office once the pandemic abates. The pandemic poses great challenges on talent recruitment and retention. We note with concern that significant shortfalls remain for the underrepresented regions, including East Asia and MENA+. We encourage more efforts in closing this gap. Increasing incentives for staff working on fragile states and LICs are also urgently needed, given the lack of staff who have experience on PRGT and program countries.

Information Security and Technology

We take note of the expected delay in implementing the Information Security Roadmap for risk mitigation. *Do staff see any impact of the delay on the related budget?* The recent risk events related to third-party vendors underscore the importance of further enhancing third-

party risk management. We commend the excellent technology support to safeguard the smooth shift to WFH and the success of virtual Spring Meetings.

Finally, we look forward to the internal audit recommendations on how to further advance the enterprise risk management at the Fund.

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GRAY/20/2388

June 9, 2020

**Statement by Mr. Guerra, Ms. Arevalo Arroyo, and Mr. Montero on 2020 Mid-Year
Risk Update
(Preliminary)
Executive Board Meeting 20/70
June 11, 2020**

We thank the Office of Risk Management (ORM) for the comprehensive reports, their engagement with our office and hard work under strenuous circumstances.

The IMF's mandate is certainly unique and different from other financial institutions. Ensuring the stability of the International Monetary System and fulfilling its role at the center of the Global Financial Safety Net inevitably involves risks. Indeed, the current crisis response entails residual risks, but we firmly believe that assuming these risks outweighs the costs of inaction, which could be damaging not only for the membership but for the Fund as well. In this sense, we consider that the Fund—and the Executive Board—should not fixate on a specific threshold of portfolio and lending risk. In fact, we are pleased to note that, through the actions, both Fund and Executive Board have naturally accepted a higher risk tolerance in several areas, consistent with the Fund's mandate. In the context of a crisis like no other, we wonder what the actual risk-taking stance of the IMF should be. It is legitimate to question the rationale for the very existence of the IMF if it fails to deploy the appropriate firepower to help its membership in times of need. In a nutshell, the risk assessment, particularly related to lending, should not constrain the Fund's unique role.

The current state of the world, and the uncertainty regarding its future evolution, makes risk identification, assessment and mitigation much more complex. Nevertheless, this should not hinder the IMF to fulfill its purpose. We agree it is fundamental that the Executive Board continues to have updated and most accurate risk information to make informed decisions and find effective ways to mitigate the risks. The uncertainty posed by the COVID-19 pandemic will continue to dominate the short-and medium-term outlook for

emerging risks. We firmly believe the Fund’s response to face the COVID19 crisis has been adequate and fully consistent with its mission to deploy its resources to aid member countries in need.

We broadly agree with the updated Fund risk profile and note that, while risk assessments are not revised until the Annual Risk Report, the directional change for capacity development and surveillance is evolving to “high”. We offer a detailed explanation below. Also, we would like to caution against deferring for too long some of the topics under consideration in the Strategic Directions risk area. We acknowledge the need to focus the attention on the most pressing issues in the near term, but we should not lose sight of other crucial topics such as climate change and inequality. Moreover, as mentioned in the paper, we can expect further divergence in views within the membership regarding economic and financial issues in the global economy, including trade, capital flows, and the role that international financial institutions like the IMF should play, which could entail increasing strategic risks for the Fund.

Lending

We do not believe that an increasing volume and pace of lending should be considered as extremely high UFR risk. The IMF role implies incurring those risks in order to reach objectives whenever necessary. We are concerned that an excessive focus on the assessment of credit risks may be interpreted as a call for more restrictive use of Fund resources when our membership needs support. When major central banks (e.g. the FED or the ECB) deployed massive QE to support the economy —entering into even riskier corners of the economy—, there was no such emphasis on the high risks assumed; it was accepted that incurring those risks is precisely within their mandate. Additionally:

- **By taking action, we are managing risks to the global economy thus to our lending portfolio going forward.** As the report states, the scale and timing of the crisis response should help reduce risks for the membership and potential needs for future support, as well as mitigate strategic and reputational risks.
- **By enhancing risk mitigation measures and stepping up surveillance and CD activities, we can further reduce lending risks.** Aside from the necessary safeguards, debt sustainability considerations, and capacity-to-repay assessments, the COVID-19 crisis requires a more active engagement with country authorities through policy advice and TA.

- **Regional concentration of the lending portfolio is inevitable.** Fund support to some regions cannot be diversified as in other financial institutions. Moreover, regional concentration has been higher in other crisis episodes.
- **Successor arrangements, particularly related to the precautionary toolkit, should not be seen as increasing risk but rather as mitigators.** Also, the precautionary toolkit was designed to provide insurance and bolster confidence for countries with strong fundamentals, hence, it should not be seen in the same way as programs that have already been disbursed.
- **The use of temporary resources cannot be seen as a risk as they are part of the Fund's financial resource envelope.** The report seems to portray the activation of NAB resources as both a risk and a mitigation factor which we believe could be misleading.

Income risk

In the area of financial assets and income, we lean towards a more benign view than staff on the risk directional change. All the evidence points to a substantial increase in Fund lending, either through new programs, follow-up programs or augmentations. Even though program risks may be rising, lending income should considerably increase relative to expectations. Therefore, we would expect income risk to diminish, instead of remaining unaltered. Relatedly, credit risk buffers are expected to fall as a share of outstanding credit. This risk can be easily mitigated by allocating part of the expected additional income to build more buffers, particularly precautionary balances.

Resource envelope for PRGT

We concur with staff's view that PRGT adequacy and self-sustainability risks are elevated due to the COVID-19 shock. However, we would like to underscore the successful response from membership to urgently replenish the PRGT loan account, which will help address even the most adverse scenarios. A main concern, though, is the risk to "self-sustainability" owing to the lack of resources in the subsidy account. We encourage staff to explore all options to raise funding to mitigate this risk, including a new SDR allocation and the possibility of gold sales.

Surveillance and Medium-term budget

One of the most significant strategic risk is the crowding out of surveillance activities owing to the urgent work to address the COVID-19 emergency. We fully agree with ORM that risk mitigation will likely need to include additional resources in order to ensure continued effective Fund service to the membership.

- **The IMF reacted swiftly, effectively and flexibly to reallocate scarce resources to address the pandemic, but this can only be deemed as a short-term solution, not sustainable in the medium term.** The postponements of Art. IVs and delayed FSAP reviews will compound surveillance risks at a time when these activities are of strategic importance to identify risks to the recovery and to follow up on program policy implementation. Also, some specific bottlenecks could appear in the following months: the need to undertake many central bank safeguards assessments in a very short period to cope with successor programs demand. Putting in place the new MAC-DSA framework will also imply additional workload for country teams in the following year.
- **Given that rapid financing instruments lack ex-post conditionality, additional resources will be needed to follow up on IMF policy advice through increased surveillance in order to safeguard program resources.** We will have a significant number of new programs to follow up.
- **The rundown of budgetary buffers call for a timely increase in temporary resources.** As stated in the report, *there are already indications in several departments regarding increasingly binding resources constraints. Can staff elaborate on these indicators and which departments are more affected? Does staff have any indication of the effectiveness of the mitigation measures, such as re-hiring retirees?*

Capacity Development

Under the COVID-19 juncture, risks to the implementation of CD, the IMF's capacity to address higher demand, and future funding of CD are significant concerns. A recurring topic in Board discussions is how COVID-19 has made the delivery of CD activities more complex. Given the current travel restrictions, new modalities of delivery have been envisaged. However, under the new normality of potential remote engagement, there is still a risk that, even if it is provided, CD will not be as timely and effective, and will be harder to assess. Additionally, more resources will be needed in order to fulfil the commitment to support rapid financing programs with TA and policy advice. *Can staff elaborate why the directional change in risks to CD is assessed to be constant? What*

strategic risk mitigation measures does staff consider will be adequate to address CD funding risks in the medium-term?

Human Capital

Staff is the most important asset of the Fund. Previous risks reports pointed to work pressure on personnel as an increasing risk, even previously to the COVID-19 crisis. Even though mitigation measures have been put in place, the increased workload and the challenges arising from WFH have put significant pressures on our Human Capital (HC). Mindful that we cannot request staff to maintain a crisis mode for a long period of time, *we would like staff to comment on which indicators could be used to follow and assess risks to HC, particularly related to work pressures? Does staff see scope to include a periodic report to the Board on HC indicators to assess the evolution of this risk during the pandemic?*

Technology

We understand that risks appear to have remained stable even with the impact of the pandemic, but concern remains regarding implementation given underspending of the modernization projects. We take positive note of the effectiveness of mitigating measures on the risks related to shifting Fund business entirely to remote mode, but other risks persist.

- **Underspending in IT projects and the modernization agenda.** We remain concerned that underspending in IT capital projects prevails. This reflects the strained ITD absorption capacity to cope with the transition under the modernization process and the risk mitigation roadmap. Going forward, while we note that mitigations identified in the 2019 Risk Report have helped, given the interdependencies of the projects, delays could negatively impact the modernization process and put pressure on the budget as underspending today implies overspending later.
- **Third-party risk management.** Another cause of concern is management of third-party risks. While we welcome that the ongoing third-party risk management project is on track, we note that this framework has only been on a small scale and with limited vendor coverage. Moreover, we take note of the materialization of vendor risk in May 2020, and that asset recovery is now in progress. We fully agree that third-party risk management needs to be adequately resourced and supported. In this vein, we welcome the new CSF unit and look forward to the proposal for setting an operating model and process under the second phase of the TPRM project.

Advancing risk management at the Fund

We underscore the good work in advancing risk management, with enhanced engagement of ORM with the Board and increased information flows, as requested.

Going forward, we consider that the changes to the risk management framework should be taken step by step and after great reflection on the aims, goals and best organizational set-up. We underline the importance of having a well-thought road map for this process. Much has been gained in the past years in advancing the Fund's risk management framework, as we have managed to set the foundations and build a culture of risk identification, mitigation and reporting. We look forward to the discussion of the roadmap for enhancing risk management at the Fund and the internal audit report on the enterprise risk management framework.

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GRAY/20/2394

June 9, 2020

**Joint Statement by Ms. Levonian, Ms. Mahasandana, Mr. Ray, Ms. Riach, and Mr.
Rashkovan on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting 20/70
June 11, 2020**

We thank the Office of Risk Management (ORM) for the 2020 Mid-Year Risk Update and the First Deputy Managing Director for his Buff statement. The Fund's work entails inherent risks and a robust risk management framework that facilitates measured risk-taking is necessary to execute the Fund's mandate. We acknowledge that COVID-19 is dominating the Fund's risk profile and uncertainty remains elevated. The Fund's response to COVID-19, while necessary, carries enterprise risks that need to be managed.

Risk management at the Fund

We continue to strongly support the ORM's work and welcome the progress made in strengthening risk management at the Fund. This has included closer integration of risk considerations into the work program, increased ex ante risk assessments in key policy papers and proposals (such as the SLL), regular Board briefings (including on IT risk), and the provision of consolidated monthly financial information to the Board. In the Risk Update itself, we welcome the identification of key risks and mitigation priorities (Box 1) and the greater attention to interconnections between risk areas.

Nevertheless, more remains to be done. We look forward to discussing the findings from the internal audit of the Fund's Enterprise Risk Management Framework in June and welcome the First Deputy Managing Director's assurance that management is carefully considering enhancements to the risk management function. We hope that the audit will provide a basis for reform. We look forward to further discussing the Fund's risk governance framework, including ORM's reporting lines, mandate and resources. We continue to see priorities to further strengthen risk management at the Fund as including:

- **Enhancing the integration of risk and budget discussions** – We welcome efforts to better integrate risk analysis and its mitigation into the budget framework; while

improvements have been made, more remains to be done. In order for the Board to take informed decisions, it is important to receive a comprehensive overview on costs, risks and objectives, and consider them simultaneously. Likewise, the Risk reports should provide more candid discussion of risk prioritization, which is crucial for focusing attention and resources on the most urgent needs. We welcome the initial steps taken in the 2020 Risk Update to provide a clearer sense of prioritization.

- **Strengthening ex ante risk assessment** – Further progress is needed in strengthening ex ante discussion of enterprise risks in program, policy, and operational decisions affecting the Fund’s overall risk profile. Providing a risk impact assessment of proposed decisions within accompanying Board documentation should become common practice in the short- to medium-term. More consideration could also be given to reputational risk going forward.

Risk assessment and mitigation

We note staff’s assessment that enterprise risks have increased since the 2019 Risk Report for 8 of 14 risk areas, with the impact of the COVID-19 shock offsetting gains from risk mitigation. On staff’s assessment that the Board has implicitly agreed to a higher risk acceptance, we would welcome a conversation about risk acceptance, and would see a case to do this prior to the November Risk Report, if possible.

Progress made with risk mitigation in many areas is welcome, along with the shift to address risks associated with the initial phase of the crisis. In this heightened risk environment, however, it has become more urgent to see progress on risk mitigation for information technology and third-party vendor risks, as discussed below. We welcome the largely positive transition to the remote working procedures.

On specific risk areas:

- **Program and credit risks** – Program performance risks and associated pressures on credit and financial risks are extremely high, reflecting the higher volume and changing nature of Fund lending. This comes on top of already elevated risks associated with Argentina and other large programs. We agree that while evenhanded implementation of existing lending policies, including the use of safeguards measures and attention to governance considerations, can mitigate concerns over the use of Fund resources, it should be balanced against the risk of unduly delaying financing. We encourage continued close monitoring of risks in this area. IEO evaluations remain an important additional safeguard and should continue during this period.
- **Surveillance** – IMF surveillance is a global public good, highly valued by the membership. Bilateral surveillance operations have been temporarily suspended to focus on lending needs, a reprioritization that we support. But we would have liked to see more on the risks that accumulate from suspended bilateral surveillance in non-UFR contexts

or an extended period of remote surveillance, including for program design and effective IMF policy advice. We think mitigation of these risks could go further.

- Increasing the frequency of multilateral surveillance products, covering both financial sector and real economy developments, and with rich context-specific policy advice, would help fill some of this gap. Timely forecasts on macroeconomic developments are key for lending decisions. We also think presenting the Vulnerability Exercise to the Board, with appropriate information security safeguards, would represent a significant enhancement of the risk identification role of surveillance.
- We remain concerned about the relatively limited number of staff with program experience in PRGT and fragile states and/or short tenure on country assignments. This has implications for program design as well as policy advice on managing the crisis and recovery.
- **Adequacy of Fund resources** – Risks to the adequacy of Fund resources have risen amid growing resource commitments and modifications to the lending toolkit. Given residual risks in this area, we emphasize the importance of regular and candid communication on likely resource demands, including analysis based on forward-looking scenarios, so a case can be built to the membership for the mobilization of additional resources, if needed.
- **Information technology** – We appreciate the regular updates from ITD and acknowledge the additional demands that COVID-19 related disruptions have created on ITD staff. We note with concern that the information security roadmap has been delayed from Q4 2023 to Q2 2024, particularly in a worsening cyber-environment and with a high volume of work in a work from home environment. *“Not in progress” is reported on restoring cyber threat intelligence capacity and insider threat monitoring in the background paper – Could staff elaborate on the barriers to progress in this area?*
- **Medium-term budget** – While we acknowledge that adequate resources are necessary for the Fund to deliver on its mandate, we would like to re-iterate our call for staff to make a clear case for additional resources, as agreed during the FY2020 budget Board discussion. These discussions should not be pre-empted but be held in due time with all the necessary information available – including the financial outcomes by department for FY2020.
- **Human capital** – We welcome ORM’s assessment that swift actions have helped mitigate immediate human capital risks from the pandemic, with staff adapting to work from home well and mechanisms in place to address resource reallocation. We also welcome efforts to reduce pressure on staff by extending existing contracts and rehiring recent retirees. Nonetheless, we would see scope for further consideration of the impact on staff of an extended period of work from home, in terms of occupational health and

safety, work-life balance challenges, staff morale and team bonding. *What actions are being taken to monitor this (e.g. surveys), what are the conclusions from those exercises, and what actions are being taken in response?*

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GRAY/20/2396

June 9, 2020

**Statement by Mr. Beblawi and Ms. Choueiri on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting 20/70
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.

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GRAY/20/2400

June 9, 2020

**Statement by Mr. Rosen, Mr. Farber, Ms. Pollard, and Mr. Grohovsky on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting 20/70
June 11, 2020**

The Fund has responded forcefully to the COVID-19 crisis in a challenging operating environment. This response has been quick and commendable. Nevertheless, the rapid increase in disbursements—particularly through emergency financing facilities—occurring while the Board, management, and staff are working from home and restricted in travel has significantly increased risks. We welcome this timely discussion on risks to the Fund and the increased engagement that the Board has had with the Office of Risk Management (ORM) over the past several months. We agree with many of the assessed areas in the report and will focus our comments on the following issues.

We appreciate that this year's mid-year update focused heavily on the increase in lending and credit risks to the Fund. The crisis has highlighted a point we have been making consistently, namely that the Board needs better information on financial and credit risks facing the Fund and that the ORM needs to be empowered to weigh in on the enterprise risks stemming from the Fund's lending activities. The prioritization of lending and financial risks in this year's mid-year risk update is a good step in that direction. *Could staff comment on whether the program risk index could be utilized with other forward-looking indicators to help assess potential risks?* We also welcome the steps that have been taken in recent months to provide more regular financial information to the Board. We further welcome that the discussion on precautionary balances is currently planned to occur before the August recess. Given the changing financial profile of the Fund, it is imperative that this discussion take place as planned.

We would also note that other parts of the Fund's response to the crisis have provided new opportunities as well as risks. For example, the creation of the SLL was an important addition to the Fund's lending toolkit. We agree with staff that this instrument should make the Fund more effective but that there are also risks to the temporary use of Fund resources from its revolving nature. We would add that there may be a risk to the Fund's reputation if no countries take up use of the facility and think this is an area that should receive close attention. Another area of the response where the Fund has been a leader is in the Debt

Service Suspension Initiative. Nevertheless, slow uptake by potential beneficiary countries poses a key reputational risk to the Fund, and we encourage debtor and creditor countries to work constructively to ensure that the full benefits of the initiative are realized.

There were a few areas where we disagreed with the assessment. First, on the medium-term budget, we understand that the crisis has led to increased resource needs in some areas. Nevertheless, we believe there are a number of areas in the budget that can serve as offsets, and we continue to see work brought forward that we do not view as a high priority or critical to the crisis response. A more balanced assessment on the medium-term budget in the Risk Update, noting the reputational risks to the Fund should it request more resources, would have been warranted.

Additionally, but relatedly, we agree with the increased risks related to surveillance. Surveillance has been a key pillar of the Fund's work since its founding and has only increased in importance with the pandemic's economic fallout and the rapid increase in emergency financing without ex-post conditionality. While always difficult to get right, the challenges of working from home have made this even more acute. However, we question the assessment that "the risk that the need to deal with the crisis crowds out attention to other vital issues, like climate change, inequality, and the nature of work." In our view, this is not a risk but is instead appropriate prioritization towards the pressing issues presented by the crisis. More of this prioritization towards crisis-related issues, not less, would ensure that the Fund is responding appropriately to the most immediate challenges facing the membership while maintaining the flat real budget.

Finally, we take note of the indication that there will be further improvements to the risk management framework. We look forward to the report on the OIA's audit of enterprise risk management and urge management to respond and implement changes quickly. We also look forward to further refinements, potentially including the optimal reporting structure, the flow of information to the Board, and changes to the role of ORM in the review process.

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GRAY/20/2401

June 9, 2020

**Statement by Mr. Kaya, Mr. Benk, Mr. Just, and Mr. Marek on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting 20/70
June 11, 2020**

We thank staff for the detailed set of reports and First Deputy Managing Director Okamoto for the helpful Buff statement. The current crisis developments have exposed the Fund to new risks and significantly increased existing ones, in particular, program portfolio and resource risks. While we support ex ante information on enterprise risks associated with Board decisions, these reports are instrumental to enhancing the Board's understanding of the Fund's risk landscape and providing details on potential additional mitigation measures going forward. **We broadly agree with the characterization of enterprise risks and the related risk mitigation measures, and support the actions taken to further strengthen enterprise risk management in the recent period.**

Program portfolio risk has to be mitigated, in particular, for the Fund's emergency financing. While the concentration of programs in Latin America is a consequence of the Fund's mandate, the rapid shift in emergency financing calls for strengthened surveillance, given no ex-post conditionality attached to these disbursements. Therefore, strong risk-mitigation ex ante safeguards, including debt sustainability analyses, assessments of the capacity to repay, as well as assessments of external financing needs, have to be applied diligently. In the same vein, sufficient governance safeguards, including ex post audits, are critical to ensure the transparent, accountable, and efficient use of the Fund's resources, in particular, should the emergency financing instruments be used repeatedly.

The Fund's surveillance capacity needs to be enhanced amid the current crisis developments. The suspension of Article IV Consultation cycles and Financial Sector Assessment Programs in favor of emergency program requests has raised a number of surveillance risks. We see merit in advising the membership on bolstering their macroprudential frameworks, fiscal policies, as well as key, sector-specific measures to contain emerging financial market risks, including through regulatory and supervisory guidance. To this end, the Fund should use all its communication channels efficiently. Under the present crisis conditions, capacity development should be integrated with surveillance and lending through online training, virtual roundtables, and webinars to support the Fund's

policy advice and enhance traction. *Could staff comment on the proposals currently under consideration to mitigate surveillance risks and ensure continuity in the Fund's bilateral engagement with members?* While virtual surveillance should not become the new norm, we need to formulate a structured approach. To this end, developing a Guidance Note would be advisable to ensure equal standards for Fund engagement across the membership.

The reliability of macroeconomic projections should be bolstered to mitigate the increasing risks to the Fund's resources. We are concerned that the probability that the Forward Commitment Capacity would decrease below SDR 100 billion is 74 percent in the adverse scenario, potentially requiring the activation of the New Arrangements to Borrow. The share of emergency financing on the General Resource Account and Poverty Reduction and Growth Trust resources is substantial and will likely be expanding, due to successor arrangements and upcoming new program requests. Increased Fund engagement requires sound macro-financial analysis and forecasting. While the current uncertainty regarding the magnitude and length of the pandemic pose challenges to the model toolkit, staff might consider using more systematically scenario analyses to underpin the policy advice. We note that the review of various forecasting models is in progress, as well as the work on review of data provision to the Fund. Ensuring an accurate data picture of individual countries would improve the quality of input into models and sharpen the projections.

IT and cyber risks are among the key operational risks. While the Fund's crisis response thus far has enhanced its reputation, it is pivotal to prevent a major IT incident resulting from cyberattacks, as indicated in the *Risk Event Analysis: Reputational Landscape*. The Fund's operational resilience needs to be strengthened, also in view of the potential virtual Annual Meetings, to ensure successful delivery to the membership. Given the delayed spending on major technology projects, it is critical to move ahead with their implementation, as the risks have increased since the 2019 Risk Report. Sound, third-party risk management is important to address both the operational weaknesses and reputational risks for the Fund, especially due to the diverse network of vendors supporting ITD as indicated in Box 2. At the present juncture, it would be advisable for the Office of Risk Management to develop roadmaps on the operational and enterprise risks, should the COVID-19 pandemic be more prolonged.

Human capital risks need to be contained amid the current increased workload and health risks. The current crisis developments pose enhanced requirements on human capital, in particular, owing to the scaling-up of program engagements and work-from-home challenges. We support mitigating measures to relieve the work pressure on staff, while ensuring sufficient expertise for the required tasks and activities of the Fund.

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GRAY/20/2403

June 9, 2020

**Statement by Mr. Trabinski and Mr. Djokovic on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting 20/70
June 11, 2020**

We thank staff for a comprehensive yet concise set of documents. This update on enterprise risks is essential to keep the Board informed, especially in the context of the COVID-19 crisis, which has already heightened the Fund's risk profile and warrants regular reporting. **We underline risks from lending, risks to financial assets and income, as well as human resources, information security and budget risks.** We are of the view that the mitigation efforts should focus on those key immediate risks in the short-term.

The high risks related to Fund lending call for continued and broad-based risk mitigation. The overall risks of the Fund programs are very high, which translates into higher credit and financial risks. The spike in emergency financing has resulted in changes to the lending portfolio, with risks related to a higher share of disbursements involving limited or no ex-post conditionality. To mitigate those risks, we reiterate our call for a consistent application of DSAs in all lending decisions, as an important ex-ante safeguard. Further, access limits remain a crucial mitigating element. Also, additional scrutiny in high access cases is important to allow a robust ex ante discussion of risks. Further, we see clear merit in enhanced use of prior actions. Last but not least, special attention should be paid to fiscal transparency and accountability, including for COVID-related spending, to foster appropriate use of Fund resources. In this regard, we fully support independent audits of spending and attention to governance considerations.

Increased risks to financial assets and income and the further deterioration of credit buffers relative to credit outstanding are also a concern. The bunching of repurchases in the coming years will exceed the current level of precautionary balances. Further, the burden sharing mechanism is limited relative to the scheduled charges coming due. Also, the uncertain economic and financial environment heightens risks to the Fund's credit exposure and returns on investment activities. It is important to monitor developments closely. In particular, the long-overdue discussion on the adequacy of precautionary balances, now

planned for July, should not be postponed further. Finally, we emphasize the continued risk to the Fund's income associated with the volatility of pension-related IAS-19 gains and losses.

The large number of financing requests puts significant pressures on human resources as well as on the budget. **We are concerned that staff and management deem a supplement to this year's budget likely, including to mitigate work pressure.** Any proposed supplementary budget would have to be well justified. Also, any increase in the budget should be temporary. To mitigate staff work pressure, **we highlight the crucial importance of continued work prioritization and swift reallocation of resources.**

The GRA resources appear to be adequate at least in the near term and once the potential lending capacity is fully secured. That said, we agree that the NAB will likely need to be activated to bolster the Fund's quota resources.

The current shift to a digital business model requires closer attention to information security (IS) and related risks. Work-from-home (WFH) arrangements exacerbate IS risks that were already significant prior to the crisis. Moreover, the Fund has taken on increased operational risks resulting from conducting a large number of financing requests in an expedited manner while cybersecurity risks are heightened. We regret the delays in implementing the information security roadmap and call on the staff to step up efforts to ensure implementation. Also, risk mitigation is needed in high risk areas of third-party management, as the recent incident involving payment instructions underlines. *Could staff please give further details on this incident? Also, could staff offer their view on the ITD's human capacity to respond to existing challenges?*

We welcome continued advancements to the risk management framework. At this juncture we consider that the formal review of institutional risk acceptance should be postponed in favor of a more flexible approach.

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GRAY/20/2404

June 9, 2020

**Statement by Mr. Mahlinza, Mr. Odonye, Mr. Sitima-wina, Mr. Abdullahi, and Ms. Nainda on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting 20/70
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.

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GRAY/20/2406

June 9, 2020

**Statement by Mr. Tanaka, Mr. Chikada, Mr. Harada, and Mr. Shimada on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting 20/70
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.

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GRAY/20/2408

June 9, 2020

**Statement by Mr. Raghani and Mr. Sidi Bouna on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting 20/70
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.

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GRAY/20/2409

Revised

June 9, 2020

**Statement by Mr. Mouminah, Mr. Alkhareif, and Mr. Keshava on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting 20/70
June 11, 2020**

We thank the Office of Risk Management (ORM) for the insightful mid-year Risk Update, which provides pertinent details about enterprise risks and related risk mitigation. We appreciate staff's bilateral outreach, which helped us in clarifying a number of issues. We also thank the First Deputy Managing Director for his Buff statement.

We agree that the COVID-19 crisis dominates the enterprise risk landscape of the Fund at this time and welcome the Fund's swift and decisive response, which has enhanced its reputation. We also support the management's well-timed plan to consider enhancements to the risk function at the Fund and look forward to internal audit recommendations and Board discussions. We would like to focus our remarks on a few issues raised in the report.

Risk Profile: Figure 1 provides a helpful snapshot of the Fund's risk profile. It is evident that risks are higher relative to the 2019 Risk Report as well as the March 2020 update. Indeed, helping members respond to a global shock of unprecedented scale can be seen as justifying acceptance of de facto higher risks than is warranted "in normal times". However, balancing these considerations raises fundamental issues regarding the Fund's risk tolerance. To this end, **we consider that it would be important to review institutional risk acceptance as planned in November in the 2020 Risk Report.**

Emerging Risks and Related Mitigation:

- **Risks related to Fund program portfolio** are extremely high and residual risks have risen despite risk mitigation. Looking ahead, the absence of conditionality in emergency financing warrants close monitoring of the appropriate use of Fund resources. On the use of prior actions in emergency financing cases, we emphasize the need to mitigate any perception of lack of evenhandedness. As regards high

- precautionary arrangements, we need to be particularly vigilant given their high share in total committed Fund resources as well as the regional concentration of these arrangements. In particular, the Fund needs to be operationally ready to address any challenges associated with their simultaneous drawl. We also reiterate the need to take a broader approach to lending risk, in real-time, as program decisions are taken. This will help the Board in fully understanding the cumulative impacts and risks of its decisions while not prejudicing its view on individual country cases.
- **Risks related to the adequacy of GRA resources seem to be limited, but PRGT adequacy and self-sustainability risks are high.** The FCC of SDR 164 billion as of June 5 from quotas together with substantial borrowed resources provide comfort that the Fund would be able to meet demand from the membership. Here, we look forward to regular updating of scenarios for demand for Fund resources based on plausible assumptions. As regards mitigating risks related to the PRGT, we look forward to a full and comprehensive discussion on concessional financing arrangements and should be guided by three important principles: (i) maintaining the Fund's catalytic role; (ii) preserving the self-sustainability of the PRGT and (iii) ensuring the equitable distribution of scarce PRGT resources.
 - **On surveillance,** we take note of the rising risks to the accuracy of forecasts given the uncertainty in understanding the path and impact of the pandemic. This is especially important for emergency financing cases, which do not have ex post conditionality. Here, we agree on the need for mitigating these risks in order to get the assessment of economic fundamentals right. The temporary extension of Article IVs consultation cycles was the right move to focus attention on programs and the resumption of work in this area should give priority to those countries where debt sustainability and financial vulnerabilities are of particular concern in the wake of the crisis.
 - **On medium-term budget,** we would support continued efforts to prioritize work and achieve efficiencies in order to help reduce stress on staff. In this context, we do not think that mitigation necessarily includes additional resources in order to ensure continued effective Fund service to the membership. At the same time, we are willing to consider with an open mind the effects of the crisis work on the budget but do not support the presumption of an exceptional increase in structural resources over the medium term.
 - **On human capital,** we agree with the assessment that the crisis has put significant pressures on staff, particularly from the scaling up of program engagement and WFH challenges. In this context, we welcome mitigation measures and take positive note of the results of staff sentiment survey. **Since the preparation of emergency financing cases has somewhat slowed, there may be a case to restore the normal departmental review period to alleviate some pressures on staff.** While immediate

mitigation to increase staff resources was swift, the residual risks include those related to WFH and regional diversity. Indeed, increased workload and challenges to work-life balance under WFH have been identified as an important residual risk to staff's wellbeing. Here, we would like to highlight the importance of appropriate measures to address these issues as preserving staff morale and motivation should be at the center of our attention. **We would like to express our extreme disappointment that the 2020 diversity benchmarks for the MENA+ and East Asia were not met.** This development was not surprising, as over the last five years, external recruitment of nationals of underrepresented regions (URR) has declined significantly. Indeed, the overall decline in external recruitment has been responsible for the lack of meaningful progress especially for MENA+ and East Asia. In this context, it is important to implement swift mitigation measures, which should include development of a clear strategy and implementation plan to recruit nationals from under-represented regions in a timebound manner.

Advancing Risk Management: We strongly support the initiatives to advance enterprise risk management at the Fund, as outlined in Table 4. We especially appreciate frequent Board engagement and continued efforts to strengthen ex ante risk assessment for significant program or operational decisions. These efforts should continue in the period ahead. Furthermore, the OIA's audit to assess the effectiveness of the risk management framework and processes and its recommendations would provide an opportunity to further strengthen enterprise risk management. In this context, we look forward to the upcoming Board discussions.

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GRAY/20/2411

June 9, 2020

**Statement by Mr. Mojarrad and Mr. Nadali on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting 20/70
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.

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GRAY/20/2418

June 9, 2020

**Statement by Mr. Bhalla and Ms. Indraratna on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting 20/70
June 11, 2020**

1. We thank staff for the comprehensive risk update and the background paper and the First Deputy Manager for the insightful buff statement.
2. The COVID-19 pandemic has elevated the risk landscape of the Fund, dominating both the Fund's internal and external operating environment. On the external front, the pandemic has created an unprecedented demand for emergency financing, which has resulted in the Fund adjusting its policies and instruments internally to respond to the crisis in a timely manner with massive financial support. The Fund's unprecedented response has earned the recognition of the membership helping to mitigate strategic and reputational risks, but the higher lending portfolio with limited ex post conditionality in emergency financing has brought with it a higher level of enterprise wide risks that needs to be managed. These risks are in addition to the pre-COVID risks such as those associated with large programs that the Fund has had to grapple with. Although risk mitigation measures have progressed relative to the 2019 Risk Report, we note that risks have increased in some areas, largely due to the COVID-19 pandemic. We broadly agree with the risk appraisal and provide remarks for emphasis only.
3. Risks to the **use of fund resources** have risen with the COVID-19 crisis as increasing volumes of finance are being lent to countries to combat the outbreak. Program risks, which were high prior to the COVID crisis due to large programs such as Argentina, have now intensified with new financing approvals to deal with the pandemic while residual risks also have increased due to the uncertainty associated with the COVID-19 crisis. Against this background, we welcome the focus of risk mitigation on emergency financing with the coverage of program risks mandated in financing request documents and the use of emergency funds shown through independent audits of crisis spending and transparent procurement processes. Such requirements are macro critical as they facilitate governance and minimize corruption.
4. We note that risks related to the **adequacy of Fund resources** – which is crucial to the Funds' ability to fulfill its mandate - have increased substantially. While GRA resources

appear to be adequate in the near term, we agree with the staff that a contingency plan needs to be considered in the medium term, especially in the event the crisis worsens. The NAB and BBAs can help address the medium to long term risks in this area. We voice our concerns on PRGT adequacy and self-sustainability risks which have become elevated now and support the augmentation of PRGT resources to mitigate adequacy risks. We also support efforts to replenish the CCRT to help with debt service relief for vulnerable members.

5. We note that **surveillance** risks have increased, especially in the context of emergency funding where there is no ex post conditionality and assessment of fundamentals must be correct ex ante. Against this background, we take positive note of several initiatives embarked upon to improve surveillance during the pandemic period. We welcome the combined macroeconomic policy analysis and epidemiological modelling undertaken to gauge the impact of the virus and the inclusion of additional scenario analysis to reflect the uncertainty. We note positively the introduction of the Policy Tracker showcasing the policy actions of 193 economies in dealing with the crisis while facilitating the sharing of policy advice and safeguarding macro-financial stability. As the temporary suspension of Article IV consultation cycles has further compounded surveillance problems with its impact on program risk, we look forward to proposals to mitigate risks arising from this situation. While the uncertainty associated with the Covid-19 crisis has increased the challenge of forecasting, which is necessary for accurate policy advice, we welcome the mitigation efforts undertaken to address forecast optimism and inefficiency identified in the 2019 risk report, including the innovations featured in the April 2020 WEO.

6. We note that risks related to **human capital** have increased due to the COVID-19 outbreak from the 2019 assessment. The COVID crisis has put significant pressure on staff due to the higher workload and WFH challenges. We note positively the measures put in place to mitigate risks in relation to human capital and the pandemic. Temporary adjustments to leave and benefit policies, flexible work arrangements, the suspension of the 15-day minimum annual leave usage requirement, enhanced communication and wellbeing services to prop up morale and motivation, have helped the Fund maintain a productive workforce during the stressful pandemic period. Moreover, to reduce work pressures arising from the increased demand for Fund services, we welcome steps taken by the management to reallocate staff to business units facing elevated work pressures, while rehiring of retirees and the grant of extension of service for contractual employees have also helped maintain a motivated workforce. We are also encouraged by the steps taken to engage in virtual onboarding for new hires during the pandemic period and note that efficiency gains have been made in this area.

7. Notwithstanding the continued challenges encountered in **information security**, we raise our concerns regarding the elevation of risks in this area. While observing the increased cyber security risk associated with the shift to WFH, we note that the risk mitigation roadmap has run into delays. Although in person Crown Jewels (CJs) training for all departments is ongoing at present, only about 54 percent of users have completed the course. *As this is an important aspect of information security, can staff comment on why a large percentage of users have not undergone this training?* We reiterate the need to set apart sufficient financial and human resources to successfully deal with cybersecurity challenges.

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GRAY/20/2419

June 9, 2020

**Statement by Mr. Buisse and Mr. Rozan on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting 20/70
June 11, 2020**

We thank the ORM for the quality of its documents and Management for its Buff statement. Unsurprisingly, the Covid-19 crisis has increased the enterprise risk landscape for the Fund. However, at a time where the Fund is more needed than ever, the institution has been able to step up its activity while maintaining adequate safeguards. While the current environment and future path of the Covid-19 pandemic remain highly uncertain, risks are going to remain elevated for a while and could increase further in the months to come. In this regard, it is essential that the Fund continue to play its countercyclical role. To do so, maintaining adequate Fund resources while keeping sufficient safeguards in place and limiting operational risk will be essential. With these general comments in mind, we would like to make the following remarks for emphasis:

- **While risks linked to the use of Fund resources have indeed increased, we see this evolution has fully warranted by the ongoing crisis.** Increased risks in the use of Fund resource is a de facto result of the approval of the new financing requests and policies over these last 3 months. Overall, the Fund responded to this crisis as requested by its mandate and with appropriate safeguards. While the number of emergency programs is indeed a risk in itself, these arrangements are fully warranted by the situation and their total volume remains relatively small. While we recognize the higher likelihood of successor arrangements, we would like to highlight that the true underlying risk would be for the Fund not to be present for countries that need its help, and the involvement of the IMF is a risk mitigant in itself.
- **Risks to the adequacy of Fund resources have indeed significantly increased due to the Covid-19 crisis.** Against this backdrop, it is key to continue to closely monitor potential future needs. For GRA, this means preparing contingency plans in case a downside scenario materializes. For PRGT, given the immediate need for additional resources, it is key to intensify current fundraising efforts while exploring all options to improve the PRGT self-sustainability.
- **We agree that the rapid response of the Fund to the crisis has helped to mitigate strategic and reputational risk.** However, we also think that the absence of a general SDR allocation at a time where the membership is under such tremendous pressure is one of the

biggest limitations of the Fund crisis response to date, which clearly entails further strategic and reputational risk for the institution.

- **We concur that the crisis is putting the medium-term budget under significant pressure.** We take note of the post-COVID-19 baseline scenario and the urgent increase in resources need it entails. We will carefully explore the options regarding the FY2021-23 medium term budget and stress the need to formulate proportional additional resources request that considers the full potential for budget reallocation.
- **We agree that the crisis is putting significant pressure on human capital and we commend management for the swift mitigation measures taken.** We concur with ORM that increased workload and challenges to work-life balance under WFH are putting a strain on staff's wellbeing, with caregivers of young children particularly affected.
- **We remain particularly concerned by the level of risk to information security and we want to ensure that the ORM and management continue to prioritize risk mitigation in this area.** We are disappointed by the announced delay of the information security roadmap. *Could staff elaborate on what could be done to avoid such delay and which additional measures could be taken to lower information security risk more promptly?* Risks regarding the over dependence on a limited subset of IT vendors should also continue to be a strong focus of the ORM.
- **While we think it is important to discuss how to improve enterprise risk management, we are concerned that focusing too much resources on this agenda while the Fund is under pressure.** We think risk management has dramatically improved over the last years and we remain convinced that the existing risk management framework, notably through the review process, is broadly adequate. While resources are constrained, and some areas such as information security will call for additional resources, we have strong doubts regarding the opportunity to undertake a profound reorganization of enterprise risk management at the current juncture. We hope that the coming discussion on ERM will help to improve risk management at the Fund while remaining careful in terms of additional resources. Regarding the specific proposal to improve the ex-ante risk assessment for large programs, while there may be some scope to improve information given to the board on enterprise risk, we stress the need to avoid hampering the fluidity of program preparation and approval and we would not support a proposal aiming at creating a parallel review process to the existing one.

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GRAY/20/2420

June 9, 2020

**Statement by Mr. Bevilaqua, Mr. Saraiva, and Mr. Fuentes on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting 20/70
June 11, 2020**

We thank the Office of Risk Management (ORM) for the Mid-Year Risk Update, the productive bilateral engagement with our office and the informative presentation. We also thank the First Deputy Managing Director for his statement on the Mid-Year Risk Update. In the context of the Fund's unique mandate, we commend the work of ORM in strengthening the risk management function and the progress in furthering greater integration to other areas within the Fund and promoting earlier involvement in the risk assessment process. **We broadly concur with the characterization in the Mid-Year Risk Update of the Fund's enterprise risk profile and the measures implemented to strengthen risk management.** That said, we also acknowledge that at this juncture, the extreme levels of uncertainty caused by the COVID-19 pandemic require proactive risk monitoring and communication to adequately deal with these exceptional circumstances. We defer a deeper discussion of the risk function itself for a later occasion when the audit report is brought to the Board.

We commend the focus on resource adequacy in the report as risks associated with the GRA and the self-sustainability of the PRGT have intensified substantially. The acute deterioration of global macroeconomic conditions continues to drive a rapid increase in demand for Fund financial assistance. In this context, PRGT currently available resources are considered insufficient even to meet the baseline scenario. While fundraising efforts are underway, it is paramount to secure that adequate resources are mobilized in a timely manner to ensure an evenhanded support for countries. Moreover, while quota and borrowed resources may be adequate to meet the expected demand for GRA associated with the WEO baseline scenario, the likelihood of having to activate the NAB, or even the BBAs, has increased substantially. Maintaining the current resources envelope of the IMF through a doubling of NAB and a new round of BBAs is crucial and is still an unfinished task. However, in the absence of quota revision, the Fund exposes itself to the risk of depending

on temporary sources like the NAB and BBAs. Moving forward, we should consider anticipating the calendar established for the 16th General Review of Quotas (GRQ) to reinforce the Fund's role at the center of the global financial safety net.

While the conditions imposed by the pandemic have shown the feasibility of further exploring efficiency gains, we should remain alert to the risk of having the higher demand for Fund services constrained by lack of budgetary space. The unprecedented circumstances have made work less dependent on physical presence than previously thought. The savings generated in travel and events could be a valuable lesson of this crisis regarding Fund operations, enhancing the use of technology for surveillance, program work and capacity development. The current ongoing experience suggests that, in some cases, missions to members countries could be shorter, with less staff, more focused or conducted remotely without any major impact. Therefore, it is possible that a “blended approach” to the Fund's model of conducting business with the authorities could be implemented with the experience gained during this pandemic, warranted that due regard is paid to the needs and constraints of country members with low IT capacity and fragile states. That said, the hard ceiling for the budget needs to be closely monitored and should not unduly hamper the ability of the Fund to deliver critical service to the membership, in particular to countries in most need.

At the same time, while the Fund has successfully transitioned to working from home, the workload and pressure on staff have mounted considerably. We must be aware that working from home for an extended period and under heightened pressure can present unique challenges to work-life balance that may slow down productivity, hinder collaboration and affect staff's wellbeing. At this juncture, the ongoing implementation of streamlined HR procedures to help manage human capital risk is essential during this transitional period. In addition, considering the uncertainty associated with the post-crisis recovery and the expected demand for further emergency financing and upper-credit tranche (UCT)-quality programs, we strongly support the measured use of re-hiring recent retirees and contractual employees to boost staff experience and help avoid compromising the quality of the advice and policy guidance provided by the Fund. While we acknowledge that human resources pose emergency risks, given the long-term nature of human resources policy, we could not overemphasize the importance of continuous action to secure a smooth replacement of the experienced staff that is projected to retire in the next couple of years.

As extreme uncertainty lingers, the Fund must be prepared to continue playing the role of a primary risk-bearer for longer than expected. The Fund has been an essential “first responder” to the COVID-19 crisis with unprecedented speed and magnitude of financial assistance under extraordinary circumstances. Indeed, the multilayered risk management framework and precautionary balances in place remain critical to effectively enable the Fund to fulfill its unique mandate. Taking more risk when the world economy is failing is exactly

what one expects from the institution that lies at the center of the global financial stability net. That said, the de facto increase in enterprise risk as part of the response to the crisis should be coupled with strong safeguards. In this regard, the upcoming November 2020 review of the institutional risk acceptance framework will prove to be a great opportunity to strategically incorporate the preliminary lessons learned from the Fund response to this crisis and strengthen the risk management framework, while avoiding inducing an overly risk-averse culture.

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GRAY/20/2421

June 9, 2020

**Statement by Mr. von Kleist and Mr. Herold on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting 20/70
June 11, 2020**

We thank the Office of Risk Management (ORM) for the insightful and comprehensive reports. While higher risks have accumulated during the ongoing crisis, this does not imply an acceptance of higher risks going forward. It should be differentiated between the crisis-related de facto higher and the aspired lower risk acceptance levels. Higher current risk levels increase the urgency to lower them to more acceptable levels in the medium term. **We thus do not concur with a revision of risk acceptance levels.**

We appreciate the increased board engagement in risk matters and look forward to further strengthening the enterprise risk management and mitigation processes. The findings of the current internal audit of enterprise risk management are expected to give useful input for that discussion.

We highlight and share the report's finding that "risks have increased across business areas, notably risks associated with the Fund's increased financial support to members consistent with the Fund's mandate" (Executive Summary). We further welcome the frankness by the ORM in describing the current state of risks. The judgement of risks to the Fund's portfolio as "extremely high" is alarming. In that context, we also underscore the finding that "risks relate mainly to the higher volume and changing nature of the Fund's lending portfolio, with a higher share of disbursements involving limited or no ex post conditionality. **These developments come on top of already elevated pre-crisis program risks, including risks associated with Argentina and other large programs**".

While we broadly agree with the assessment of risks, we would not fully subscribe to the view that the Fund's response to the rise in portfolio and lending risks from already high levels has been effective. We also do not agree that modifications to the lending toolkit in response to the COVID-19 crisis are characterized as steps to achieve risk mitigation for the Fund. For instance, the streamlining and acceleration of the review- and decision-making process for emergency financing does not constitute a risk mitigation measure, but rather increases governance risks. Specifically regarding the new

Short-Term Liquidity Line (SLL), the report makes the point that this could entail a residual risk to the revolving nature of Fund resources if there is successive use of the instrument.

Enterprise risks and related risk mitigation:

Generally, we appreciate that the risk mitigation activities undertaken during the crisis were tailored to the specific circumstances. Looking forward, we see merit to draft more general and risk mitigation strategies for the phase after the immediate crisis ("recovery phase"), to enable the Fund to exit the crisis-mode once the immediate challenges have been addressed and to return to non-crisis lending policies.

Lending: Use of Fund Resources (UFR):

We are concerned about the further increase of the already high UFR risks across the program portfolio, affecting also other areas of risk. This is especially worrying in light of the shift towards emergency financing lacking ex-post conditionality while parallel pausing most surveillance activities.

We fully acknowledge the Fund's difficult choices and the trade-offs involved, but the challenge is indeed to reconcile members' need for larger and swifter access with Fund access limits policy and safeguards. Inevitably, this requires recognition of "cases where the Fund cannot lend owing to conflicts with its policy framework".

In this context, we also welcome the link established to the risks around ensuring adherence of the Fund's policies and decisions, in particular the provision that Fund resources are to be made available under adequate safeguards. We see areas for concern here, in particular with regard to the issues of debt sustainability. Staff has even used the term "borderline DSAs" in its recent presentation on risks. We thus underscore the statement that robust application of Fund policies and proper scrutiny remain critical. In this context, we also underline the importance of a proper review process, notwithstanding the current challenges.

The overall risk situation facing the Fund has shifted fundamentally since the onset of the COVID-19 pandemic. To a large extent, this has to do with the new trends in IMF lending, which have given rise to a massive and abrupt intensification of risks.

The number of financial arrangements and the aggregate volumes of outstanding GRA and PRGT resources have increased in an unprecedented way and they will likely continue to do so. Alongside high volumes this includes bad program performances (if any), a higher probability for successor programs and risks stemming from further large **precautionary arrangements** which have to be carefully evaluated.

In the vast majority of cases, emergency financing has occurred without prior actions or ex post-conditionality and by way of (direct or indirect) budget support, providing weaker assurances of the capacity to repay than is usually the case.

The capacity to repay will be further affected adversely by a larger than usual bunching of repayment obligations for many members down the road, increasing credit risks. This is the result of the bulk of the resources being provided as one-off disbursements and of the temporary increase in access limits for emergency funds.

Compared to the GFC, risks to debt sustainability of members making use of Fund resources have increased markedly and the nature, multiple dimensions and geographical spread of the shock makes for higher economic risks and uncertainties than during the GFC.

Moreover, in the process the IMF is deliberately accepting a higher risk tolerance/acceptance in the application of its policy framework: in the majority of cases, applicable access limits are fully used, and requirements concerning UFR safeguards are interpreted in a very flexible manner or even being stretched (e.g. as regards debt sustainability or the scope for changing the phasing and access levels under pre-existing Fund arrangements). **In this regard, we would also like to emphasize that care should be taken to protect the catalytical role of Fund lending through a prudent calibration of access levels.** This is particularly important for countries with access to private capital markets, which - if borrowing excessive amounts from a preferred creditor like the Fund - **may raise credit risks for private lenders, thereby dampening their willingness to invest.** This should also be borne in mind in those cases where regular Fund-supported programs are presently under consideration to supplement emergency funds already disbursed.

Reduced circulation periods and requirements for documentation, **decision and review processes have been streamlined** both among staff and Board members, impeding due diligence.

Lending: Adequacy of Fund Resources:

We agree that there is uncertainty regarding the evaluation of the medium-to-long term adequacy of Fund resources, but we suggest to exercise caution in the **communication strategy** regarding the theoretically possible **exhaustion of Fund's lending capacity in certain scenarios.** Against the backdrop of the Fund's catalytic role in mobilizing financing, it is of core importance to bolster public trust in the capacity of the Fund and to avoid any allusions to potential Fund limitations. **Using the catalytic role of the Fund and more strongly involving other private and public financing would also strengthen market trust in the borrowing member.**

With regard to the steadily rising outstanding credit of the Fund, we find it essential to strengthen the **precautionary balances** as the central Fund's internal buffer against credit risks. We are looking forward to early board engagement on this matter.

We would also welcome additional concrete risk mitigation measures that would address the residual risks to Fund's finances resulting from the de facto increased credit risks from emergency financing. *Staff comments are welcome.*

Medium-Term Budget (MTB):

As already discussed in the Board meeting concerning the MTB, we appreciate the ongoing re-allocation of resources, and we take note of the activated risk mitigation measures. Whenever required, we stand ready to discuss a **temporary structural budget increase**, limited to crisis-response budgetary needs.

Human Capital:

We appreciate the actions undertaken to cope with the increased workload in the WFH situation. As the Fund's Human Capital constitutes one of its major strengths, it is continuously essential to keep

staff's motivation and morale high and to maintain highly qualified as well as diverse staff by continuing recruitment activities.

Information Security:

Information Security Risks, that exceeded the accepted low risk level already in the 2019 Risk Assessment, have been continuously high and even increasing. Against the backdrop of increased cyber-attacks, we strongly support the ongoing and planned activities to mitigate risks from third-parties and information security risks and re-evaluate the overall IT-risk environment at a time when virtually all fund business is dependent on our IT network and its continuous and safe and efficient delivery of service. If necessary, cyber security may well have to be stepped up faster and more stringently.

Reputation:

We may not lose sight of reputational risks stemming from ramped-up emergency financing, given the associated increased lending risks and weak administrative capacities in many recipient countries. While the quick and decisive reaction to the crisis was certainly beneficial for the Funds' reputation, in the short-term, any inappropriate or inefficient use of Fund resources will pose reputational risks in the medium to long term.

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GRAY/20/2427
Revised

June 10, 2020

**Statement by Mr. Lischinsky and Mr. Morales on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting 20/70
June 11, 2020**

We thank the Office of Risk Management (OFM) for the clear reports and the First Deputy Managing Director for his Buff statement. The role of the Fund in helping manage global risks has been at the forefront of the global response to the pandemic. As a result, affected members were able to mobilize resources rapidly to mitigate the impact of the pandemic on their economies. It is only natural that this unprecedented effort carries enterprise risks for the Fund, while key pre-existing risks still remain.

Emerging risks related to COVID-19 are correlated with the speed of the response to the global challenge. Consequently, other areas of the external and internal operating environment have been less prominent while global prospects remain uncertain. The share of emergency financing disbursements has increased. However, this is a reflection of rapid changes in the global environment more than an additional risk in itself. The main concerns in this regard are associated with making oversight consistent with this portfolio shift, at the time when global economic and financial uncertainty remains high. On the other hand, while we agree that the institution has largely met crisis-related business needs, remaining risks related to significant pressures on staff are a concern, especially since many ad-hoc work arrangements are still in place.

We welcome Box 1 summarizing key risks and mitigation priorities. Regarding program and credit risk, there is clearly a need to adapt the way the Fund operates to the current environment. In this regard, ensuring an adequate resource envelope is still a challenge for PRGT activities, which are expected to be mitigated through

ongoing efforts to augment PRGT resources and replenish the underfunded CCRT. Regarding GRA resource adequacy risks, additional demand highlights the possible need to accelerate the 16th Quota Review.

We reiterate that mitigating human/budget resources risks would require a continuous effort to ensure optimal allocation of resources without compromising the well-being of Fund staff. In particular, the increased workload merits closer attention, especially in an environment where many procedures have accelerated. Ensuring adherence to the Fund's mandate, and to its policy and legal framework, requires the right balance of experienced staff and technical expertise for a higher number of countries. We appreciate that swift actions have helped mitigate immediate human capital risks, but to achieve medium-term goals, including diversity and inclusion, at a time when the Fund is adapting to new challenges, could put an undue burden on staff if this is not addressed in a holistic manner.

We find it natural that the risks to the medium-term budget have increased. In the recent budget discussion, there were some examples of small countries that have not been interacting with the Fund as much as they had desired. In addition, although the informal staffing arrangements have served their intended purpose, a full adaptation to the new rising demands carries the risk of the Fund not delivering on its commitments effectively under the current envelope. Moreover, it is clear that many countries will be demanding capacity development from the Fund even before the pandemic recedes, and that the remote provision of capacity development works better for some instances (e.g., long-term advisors) than for others, which may require consideration of the allocation of the Fund's own resources to these purposes, in addition to donor resources. Overall, meeting the flat-real budget has shown adherence to budget discipline across the Fund, but the policy of asking for continuous re-prioritization may be reaching its limits.

Staff's Responses to Executive Directors' Technical Questions

2020 MID-YEAR RISK UPDATE—ENTERPRISE RISKS AND MITIGATION AMID COVID-19, EBM/20/70, June 11, 2020

Staff's responses to technical and factual questions are below. Some broader questions on the risk framework will be addressed in staff's oral intervention at the Board meeting.¹

Risk Framework: Risk acceptance

1. *Could staff also elaborate on the proposal to adopt a flexible approach [to the Fund's risk acceptance] depending on the duration of the crisis?*

Staff will respond to this question during the Board meeting.

Fund lending, financial assets and income

2. *Could staff indicate if there has been any expression of interest for an SLL since its creation in April 2020?*
 - Since the SLL was established on April 15, we are not aware of concrete expressions of interest. But discussions between staff and member authorities have included questions about the SLL.
3. *Could staff elaborate on the cases where the Fund cannot provide financing owing to conflicts with policy frameworks and due to other politically motivated reasons?*
 - Fund lending can only proceed if the safeguards in our lending framework are met. Examples of how the safeguards may not be met include debt sustainability concerns, arrears to the Fund, or gaps in countries' policies. In such cases, among others, the Fund may be unable to lend to members in dire circumstances.
4. *On precautionary arrangements; emerging market countries should be able to gain similar access to the Fund's resources in case of their requests. Could staff comment on possible evenhandedness risks in this area?*
 - Adjustments made to the Fund's lending toolkit have sought to meet members' needs in the wake of the global pandemic. The decision to approach the Fund for financial

¹ EDs have requested that staff indicate those areas for which responses will be provided during staff's oral intervention in the Board. This avoids the need for EDs to repeat their questions during the discussion. In addition, staff may also indicate specifically in this document which questions they intend to address orally.

assistance lies in the hands of the member country. The choice of the type of facility for Fund arrangement is driven by several factors, including members' and staff assessments of financing needs, members' economic fundamentals, and the requirements under the Fund's lending framework. The consistent and transparent application of the Fund's lending framework in considering financing requests continues to be an important safeguard in ensuring evenhandedness. The review process plays an important role. In addition, ensuring that the Fund's resources are not exhausted so that borrowers are not treated on a "first come first served" basis will remain important, as it can also help address evenhandedness concerns.

5. ***Could staff comment on whether the program risk index could be utilized with other forward-looking indicators to help assess potential risks?***

- The Program Risk Index (PRI) is a forward-looking summary measure of the risk of unexpected additional calls on Fund resources, specifically with regard to Fund-supported programs. The PRI is calculated based on four inputs: cumulative non-performance rates of quantitative performance criteria (QPCs) and of structural benchmarks and prior actions (SB/PA), expected review delays, and external financing needs.
 - The PRI is designed to capture the risk that the design and conditionality of active Fund programs do not deliver viable outcomes for the member. It is used along with other forward-looking indicators to help assess and monitor potential risks to the program portfolio.
6. ***We would also welcome additional concrete risk mitigation measures that would address the residual risks to Fund's finances resulting from the de facto increased credit risks from emergency financing. Staff comments are welcome.***
- Risk mitigation measures could include: follow-up programs with conditionality where appropriate and in line with the Fund's lending framework and catalytic role; a resumption of surveillance; appropriate use of prior actions for future emergency financing requests as well as other safeguards to address governance concerns; enhancing ex ante enterprise risk assessment building on existing practices; and reflecting the residual risks when determining credit risk buffers.

Resource adequacy

7. *Appreciate staff's elaborations on possible additional risk mitigation actions in the area of resource adequacy, including a contingency plan for the Fund's resources that was mentioned in the report.*

- Overall GRA resources appear to be adequate in the short term once the potential lending capacity is fully secured. As the likelihood of needing the NAB is high, preparation for NAB activation is important. In addition, a plan for activating the BBA would need to be considered.
- In a scenario in which the crisis was prolonged or a number of large members were likely to approach the Fund for financial support, the possibility that the demand for use of Fund resources would exceed the current lending capacity would call for a contingency plan with further actions.
- Meanwhile, mitigation actions such as close (daily) monitoring of program demand, timely reporting of resource developments (three briefings in April-May and one scheduled for July), reviews of lending instruments and policies, and ex ante risk assessments should be helpful.
- Possible contingency measures (including possible bilateral fundraising) to ensure the self-sustainability of the PRGT will be discussed in the full-fledged review of concessional financing (informal Board meeting tentatively planned for end-July and a formal Board discussion planned for the Fall ahead of the Annual Meetings).

8. *We would appreciate an update from staff on the progress in fund raising for the PRGT.*

- As of June 9, 2020, SDR 10.35 billion in additional loan resources had been formally pledged by seven countries (Australia, Canada, China, Japan, France, Spain, and the UK), against the target of SDR 12.5 billion. Nine other pledges are under discussion (Belgium, Brazil, Denmark, Germany, Italy, The Netherlands, Norway, Sweden, and Switzerland). As of June 9, 2020, twelve countries had pledged additional CCRT resources of SDR 354.6 million (China, Germany, Japan, Luxembourg, Malta, Mexico, Norway, The Netherlands, Singapore, Sweden, Switzerland, and the UK) against the target of SDR 1 billion.

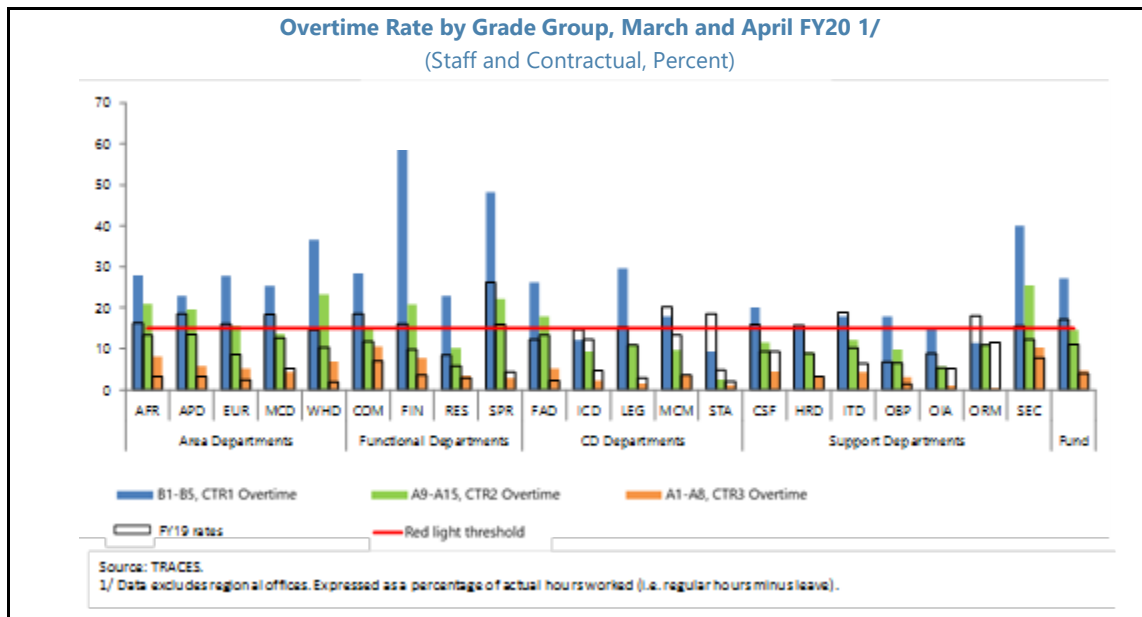
Medium-Term Budget

9. *We note that under the post-COVID-19 baseline scenario, new program demand in FY2021 alone would imply an annual budget impact in the range of US\$60-100 million over the next three years. Could staff elaborate on potential budgetary needs under the adverse scenario?*

- The adverse scenario is consistent with the one used to analyze program and resources risks. The Outlook-for-Potential-Programs (OPP) exercise adverse scenario features a global contraction of 11 percent in 2020, around three quarters of the membership with active Fund programs, and a large number of countries at high risk of requesting successor arrangements. Beyond the impact of active programs, estimates of budget impact also take into account the number of countries that may require intensive surveillance or might be in a crisis situation.
- In the adverse scenario, the annual budget impact could be US\$130-180 million, all else equal (compared with \$60-100 million in the baseline). On a per-program basis, the additional cost of moving from a surveillance to a program engagement is on average around \$1.5 million, which is consistent with the estimate provided in the supplement to the medium-term budget paper (EBAP/20/30, Supplement 1).

10. *The rundown of budgetary buffers calls for a timely increase in temporary resources. As stated in the report, there are already indications in several departments regarding increasingly binding resources constraints. Can staff elaborate on these indicators and which departments are more affected? Does staff have any indication of the effectiveness of the mitigation measures, such as re-hiring retirees?*

- The most current gauge of pressures can be seen in overtime figures. Overtime is particularly high in area departments, FAD, FIN, LEG, SEC, and SPR (see below). Overtime rates are very high for senior staff, exceeding the red light threshold level of 15 percent in most departments.



- To date, four out of the 53 available retirees identified by HRD have been rehired, and 20 contractuales have been extended, with extensions of up to 25 more contractuales possible. The numbers are expected to increase as temporary funding is made available to departments in need, and HRD develops a centralized recruitment strategy and framework for filling the new crisis-related staff positions.
- More comprehensive information on the impact of COVID-19 on budgetary resources in FY2020 will be covered in the forthcoming FY2020—Output Cost Estimates and Budget Outturn paper, which will be circulated to the Board for information in late July 2020

11. *Could staff shed some light on the Fund's budget performance during the 2008 financial crisis?*

- Unlike during the COVID-19 crisis, actual spending at the onset of the global financial crisis (GFC) was well below budgeted levels. At the onset of the GFC, the Fund initially increased overtime and reallocated resources as is occurring currently. In April 2009, in the context of the FY2010-12 budget, the Board approved the carry forward policy (which did not exist previously), and initially allowed for up to 6 percent of unspent resources to help fund temporary crisis needs. In FY2012, the Board approved the absorption of 5 percent in temporary resources into the structural budget, as well as an additional 3 percent recognizing the Fund's expanded mandate.
- Spending during the GFC increased by about \$53 million in FY2010 and \$55 million in FY2011, albeit from a low base following the FY 2008-09 restructuring. Overall staffing

increased by 100 and 45 FTEs in those two years, respectively. The largest increases were in EUR, but with material increases in other departments.

Human capital

12. *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?*

13. *We would appreciate ORM's additional comments on how the COVID-19 crisis has impacted the recruitment and retention processes and on how to mitigate related risks.*
 - The COVID-19 response halted candidate travel to HQ for interviews, recruitment missions—including expanded recruitment missions to underrepresented regions—and the normal process for onboarding new hires. Mitigation actions began with WFH when HRD: engaged with pending hires to move some start dates to June; initiated virtual onboarding; encouraged and coordinated expanded virtual interviewing; and temporarily revised several HC policies, such as to enable WFH for new hires and the rehire of recent Fund retirees. Additional resources from reprioritizations, the temporary carryforward increase, and other avenues are being allocated for the recruitment of new hires in critical areas.

14. *Which indicators could be used to follow and assess risks to Human Capital, particularly related to work pressures? Does staff see scope to include a periodic report to the Board on Human Capital indicators to assess the evolution of this risk during the pandemic?*

15. *What actions are being taken to monitor this (e.g. surveys), what are the conclusions from those exercises, and what actions are being taken in response?*
 - Work pressure indicators that are closely monitored include annual, sick, and family leave usage. They are analyzed by department, career stream, and additional demographics such as gender and age. The last quarter of FY2020 saw a decline in leave usage across the board and an increase in overtime.
 - The Crisis Management Team's (CMT) April and May staff sentiment surveys show that the Fund workforce has largely adapted to WFH but that Area Department staff are struggling more than those in Functional or Support departments. For example, the Area Department indicators were higher than others with respect to workload; short deadlines; and work-life balance.

- Several policy changes have been introduced in response to these challenges. They include more frequent communication with staff from management, temporarily relaxing leave policies, streamlining the performance review process, and simplifying institutional review committee requirements. HRD has provided staff access to wellness services and information and resources to Fund parents, such as well-being activities for children and, in partnership with COM, a virtual community for parents.
- HC data analysis capabilities should be improved when 1HR is fully implemented. ORM, HRD, and the 1HR project team are collaborating on the development of new HC metrics and on securing access to the system's data and analytical tools to improve HC risk management. HC metrics are discussed more fully as part of the Accountability Framework process, the annual Staff Recruitment and Retention Experience and Diversity and Inclusion reports, and the Risk Report. ORM aims to include HC metrics in its quarterly risk management updates.

16. *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.*

- The Career Framework implementation for macroeconomists is underway, with staggered effective dates starting October 2020 and including the July 2023 2-year LIC/Fragile State service requirement for promotion to A15. Outreach to staff on the playbooks and framework will begin soon and continue into the Fall, in line with 1HR implementation. The latter will also facilitate the use of the Talent Inventory in career decisions and talent processes such as mobility and promotions. Preliminary evidence suggests that the policy changes for staff experience in LICs and Fragile States has increased interest in such assignments.

Surveillance

17. *Could staff elaborate on the key mitigation efforts to address the gaps in the Fund's surveillance cycle?*

18. *Could staff comment on the proposals currently under consideration to mitigate surveillance risks and ensure continuity in the Fund's bilateral engagement with members?*

19. *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.*

- Surveillance is a core activity and although the consultation cycle has been extended staff are doing what they need to do with other forms of informal bilateral engagement. These include virtual meetings and remote missions, with initiatives designed to ensure continuity and support to the authorities with tailored advice. To mitigate risks stemming from the suspension of Article IV consultation cycles the first line is initiating enhanced Area Department briefings and considering various proposals designed to ensure continuity in the Fund's bilateral engagement with members. A draft paper to restart surveillance during COVID-19 is being prepared. Aside from connectivity issues affecting remote engagement, residual risks still remain, most notably from an evenhandedness perspective with respect to the Fund's role as a trusted advisor in smaller non-systemically important countries. A related mitigation draws on the CD-Surveillance link, as evidenced through the COVID-19 notes that provide guidance to support teams' policy dialogue, as well as continued efforts to explore ways in which rapidly evolving virtual delivery modalities offer useful forms of engagement with LICs/FCs.

20. We therefore would like staff to elaborate more on potential impact on the quality of surveillance going forward.

- Several innovations in the way staff are carrying out surveillance functions are designed to help mitigate risks to the quality of policy advice. On *forecasting*, the April WEO featured several innovations in the way forecasts are prepared (e.g., provision of top-down scenarios for desks) and presented (e.g., ranges and scenarios in addition to point estimates) mitigating risks to surveillance and reputation. On *internal organization to support new modes of engagement*, Staff has been agile in its response to the crisis by ensuring better knowledge exchange, formulating operational guidance and reflecting on policy advice to plan for the recovery. On *emerging issues and new priorities*, the CSR workstream identified the pre-existing long-term trends which the crisis exposed as fissures in the multilateral system. Together with recent work on stakeholder sentiment that will drive Fund policy advice, these trends will continue to inform surveillance priorities going forward, also mitigating risks to traction and reputation.

Capacity Development

21. We would suggest adopting a cautious approach for the medium-term horizon, given that staff's estimates reflect a still uncertain scenario with possible absence of additional fundraising drives. Contingency plans and further mitigation measures might be useful, should this scenario materialize. Staff's comments are welcome.

- Based on the assessment of CD delivery departments and staff managing external partnerships, CD risks were seen to be broadly contained for the remainder of the fiscal year. Uncertainty affecting CD financing scenarios will continue to be assessed as ongoing fundraising drives progress. Meanwhile, the first line has determined that existing liquidity is adequate for covering expected CD delivery in FY2021. Indeed, there may be residual risks over the medium term. As CD workplans are being adjusted,

dedicated funding related to the COVID-19 crisis is being sought. Contingency plans, already in place prior to the crisis, together with efforts to move long-term experts toward shorter contract terms and factoring contingencies for shortfalls in outer years of RCDC programs. Risks inherent in the Fund's CD funding structure had led to the establishment of a practice whereby CD activities are only permitted to start once the funding is secured

22. *Can staff elaborate why the directional change in risks to CD is assessed to be constant? What strategic risk mitigation measures does staff consider will be adequate to address CD funding risks in the medium-term?*

- The directional change in risks to CD is depicted as broadly unchanged because at the time of the mid-year update ORM is not usually in a position to carry out a full quantitative assessment of risks for CD, and this cycle is no exception. Directors might recall that until such time as reliable real time disaggregated data on CD delivery becomes broadly available, the relevant metrics to determine the extent of strategic alignment with respect to priority themes, key country groupings and emerging vulnerabilities is based mainly on annual outturn data that not usually compiled and released before late summer. However, as flagged in the report, notwithstanding qualitative improvements over the short term in CD agility and flexibility, some of which are offset by connectivity and other challenges of remote delivery, the level of risk may rise going forward due to strains that might affect staffing, funding and delivery over the medium term.
- In terms of mitigation, ongoing fundraising efforts are designed to ensure that priority CD projects are financed over the medium term, with a drive towards deepening and diversifying the partnership base, including by increasing the share of funding going to multipartner vehicles and by seeking umbrella and longer-term agreements, in coordination with area and functional departments. Other mitigation efforts are equally appropriate to deal with emerging risks. Most notably, RBM and CDMAP initiatives are on track and further progress in integrating CD with surveillance and lending based on sharper engagement strategies, toolkits to operationalize TA recommendations will be key to support members' recovery efforts.

Information Security and Technology

23. *Why the [delay in the key Crown Jewels project] are now presented as unexpected. Staff's comments are welcome.*

- Staff capacity constraints and the ITD reorganization were pre-existing risks, but their impact has been exacerbated by the need to respond to COVID-19. Furthermore, a key person risk has materialized in the information security team, and their capacity has been unexpectedly reduced further.

24. ***Do staff see any impact of the delay in implementing the Information Security Roadmap for risk mitigation on the related budget?***

- The delay in the roadmap is not expected to increase the budget. It will free up some resources in the IT capital budget for this FY, instead drawing more from the FY22 budget. Work is expected to begin on the Crown Jewels capital projects in the Fall.

25. ***“Not in progress” is reported on restoring cyber threat intelligence capacity and insider threat monitoring in the background paper – Could staff elaborate on the barriers to progress in this area?***

- ITD efforts to reduce information security risks are focused on the information security roadmap projects, which aim to reduce foundational risks. In ORM’s view, and as flagged in past Risk Reports, cyber threat intel and insider threat monitoring capabilities would improve the Fund’s information security maturity and take a forward-looking approach to mitigating cyber risks.

26. ***Could staff please give further details on the [third party payment instruction] incident? Also, could staff offer their view on the ITD’s human capacity to respond to existing challenges?***

- Since the Risk Update was issued, part of the financial loss has been recovered due to staff intervention, and the residual impact is down from moderate to minor. From a risk perspective, the incident points to a need to continue strengthening our controls to protect against an evolving cyber risk landscape. While the investigation is still in progress, staff assessments have found no evidence that our IT systems were implicated in this event and there are no indications of damage to the Fund’s reputation.
- ITD has responded effectively to support the virtual spring meetings and extended WFH. Many of the improvements in our application and user capabilities will likely outlast the crisis. Mitigating information security risks continues to be slower than desired, and the small size of the ISG team leaves them vulnerable to key person risk, which has materialized

27. ***As this is an important aspect of information security, can staff comment on why a large percentage of users have not undergone this training?***

- Face-to-face trainings can be more difficult to attend, and there were a limited number of options for each department. Departments are responsible for enforcing the face-to-face attendance. However, since the online training course has been added, staff who have not taken the course yet will have until July 15 to complete it before access is revoked.

28. *We are disappointed by the announced delay of the information security roadmap. Could staff elaborate on what could be done to avoid such delay and which additional measures could be taken to lower information security risk more promptly?*

- The drivers of the delay are mainly due to capacity issues, some new and some pre-existing. The ITD reorg is underway and will fill some open positions, possibly easing this constraint by mid-FY21. Many significant risks require the completion of capital projects underway. However, other risks that could be addressed relatively quickly include completing the extension of information security policies to OED personnel, hiring or outsourcing for the strategic cyber threat intel capability, improving vulnerability management performance, continuing to expand the coverage of TPRM, and cataloguing information assets and classifications systematically

CONSTITUENCY CODES

OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC

China

OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF

France

OEDGR

Germany

OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA

Japan

OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE

Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU

Russian Federation and Syrian Arab Republic

OEDSA

Saudi Arabia

OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK

United Kingdom

OEDUS

United States