EXECUTIVE BOARD MEETING

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June 2, 2020

To: Members of the Executive Board

From: The Secretary

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

Board Action:	Executive Directors' **consideration** (Formal)
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Questions:	Mr. Arora, ORM (ext. 36211) Ms. Ivaschenko, ORM (ext. 35427)

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2020 MID-YEAR RISK UPDATE—ENTERPRISE RISKS AND MITIGATION AMID COVID-19

EXECUTIVE SUMMARY

Overall: The COVID-19 crisis has heightened the Fund's enterprise risk profile, both directly and through its impact on members. The Fund's rapid and robust response is helping to manage global risks, cushion the impact on affected members, and also mitigate for the Fund strategic and reputational risks that are buffeting other institutions. The response also carries enterprise risks for the Fund that are mitigated to an extent but pose residual risks given the limits of risk mitigation and risk drivers beyond the Fund's control. Enterprise risks have increased across business areas, notably risks associated with the Fund's increased financial support to members consistent with the Fund's mandate. Risk mitigation has pivoted to focus on the crisis. Meanwhile, key pre-existing risks still remain, notably complicated large programs and cyber security. Risk management has followed up on steps outlined in the 2019 Risk Report and adapted to prioritize the crisis response.

Emerging risks: COVID-19 dominates the emerging risk landscape. Significant risks have materialized but the forward-looking picture identifies further crisis-related risks. *Program portfolio risks* have risen from already high levels and *risks to Fund resources* are also rising. *Internal operations* have responded effectively, validating prior work to mitigate *operational resilience* risks by identifying crisis priorities ex ante and ensuring adequate technology. But residual risks remain across a range of operations. Meanwhile, *information security risks* remain elevated and the external threat landscape has worsened.

Risk mitigation: Risk mitigation has pivoted effectively to deal with the initial phase of the crisis. While the reorientation of risk mitigation toward the crisis is appropriate, pre-existing risk mitigation has become even more urgent with regard to *information technology* and *third-party vendors*. A further delay in the information security roadmap merits attention. Risk mitigation to deal with the identified risks and with the eventual return to "normal" work will be an important next step.

Risk profile: The COVID-19 crisis has raised risks across most of the risk register. Key risks are being mitigated to an extent, but some risk drivers are beyond the Fund's control (notably the pandemic itself) and mitigation takes time. Also, through its decisions, the Fund has demonstrated a de facto temporary acceptance of higher risk in several areas (including lending) as part of the crisis response. As planned, the upcoming

2020 Risk Report will provide an opportunity to review risk acceptance systematically, after informal engagement with the Board.

Advancing risk management: The risk function advanced further while focusing on the COVID-19 crisis, by adopting a risk management perspective in both external and internal operations. Steps included Board risk briefings and consolidated monthly financial information to the Board (since March), bi-weekly forward looking enterprise risk information to the Fund Risk Committee and Management, increased ex ante risk assessments in key policy proposals, and work with OIA ahead of the Audit of the Fund's Enterprise Risk Management Framework (expected in June).

Approved By
Vivek Arora

Prepared by the Office of Risk Management (ORM). The team comprised Victoria Bakhtina, Qianying Chen, Tingyun Chen, Marie Therese Dal Corso, Fazurin Jamaludin, John McCoy, and Gordon McDonald (all ORM) and Nagwa Riad (formerly ORM, now COM), with assistance from Kate Jonah and Sukham Lertprasert. The team was led by Iryna Ivaschenko under the overall supervision of Vivek Arora.

The Report benefited from collaboration with the following departments and offices: CSF; FIN; HRD; ICD; ITD; KMU; LEG, MCM; OBP; RES; and SPR.

CONTENTS

ANNEXES

CONTEXT

1. **The mid-year Risk Update discusses enterprise risk developments in the context of the COVID-19 crisis, risk mitigation progress and priorities, changes in the risk profile, and steps to advance risk management**. It discusses the direction of change in the Fund's overall risk profile in the recent period, as well as changes in each of the Fund's business areas, with a focus on program and financial risks. The discussion of the risk profile is an innovation compared with previous Updates and helps to provide an interim view in between the full risk assessments in the annual Risk Reports.

2. **The paper is organized as follows**. Section II discusses the emerging risk landscape in light of COVID-19. Section III outlines risk mitigation progress and priorities, focusing on COVID-19-related mitigation but also highlighting important pre-existing mitigation needs. The *Background Paper* catalogues both COVID-19-related risk mitigation and risk mitigation relative to the 2019 Risk Report.[1] Section IV presents changes in the Fund's risk profile both overall and in each business area taking into account the COVID-19 shock as well as risk mitigation. Section V discuss progress and next steps in strengthening the risk function, for which a critical next step will be the forthcoming recommendations of the audit of enterprise risk management in June 2020. The Annexes provide a summary of recent risk events and a description of the scenario analysis underlying risk identification. Annexes to the *Background Paper* provide a reminder of risk definitions and a summary of previously endorsed risk mitigation directions.

EMERGING RISKS—IMPLICATIONS OF COVID-19

3. **Emerging risks have been overtaken by COVID-19, which dominates the Fund's external and internal operating environment**. Externally, the unprecedented nature and severity of the pandemic resulted in an equally unprecedented demand for Fund support. The Fund has responded with sizable financial support and significant changes in policies and procedures, including with respect to emergency financing and related access limits, reforms of instruments, and efforts to strengthen PRGT and CCRT resources. Global prospects remain highly uncertain, however, as the April 2020 WEO noted, including the strength and timing of recovery and the "scarring" from the crisis. The nature of economic activity may also be different after the crisis than before in ways that will only become clear over time.

4. **The Fund's response has positioned it as a "first responder" and has been recognized by the membership, helping to mitigate strategic and reputational risks. At the same time, it carries enterprise risks that need to be managed**. 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. Resource

[1] The updated mitigation tables are presented in the *Background Paper*. They are in a simpler format than the usual detailed scorecards based on self-assessments by Departments that require heavy inputs from risk counterparts.

adequacy risks remain relevant, given continued uncertainty about the impact on members' financing gaps. The unprecedented increase in workload on an expedited basis and under a fixed resource envelope creates risks for oversight, controls, and quality of the Fund's work. Increased volatility in the global economic and financial environment will also heighten risks to the Fund's credit exposure and returns on investment activities. Residual risks may arise from the Fund's limited ability to help some members in dire need, geopolitical tensions, members' support for bolstering Fund resources, and technological constraints to member engagement.

5. Internally, risks related to the Fund's own operations and staff safety have been managed effectively so far, but residual risks remain. The Fund's crisis priorities underpinned its operational resilience efforts in the face of the pandemic, under the leadership of the Crisis Management Team (CMT). An expanded capacity of IT systems and support services has enabled the institution to meet crisis-related business needs. Risks associated with the initial work-from-home (WFH) transition were largely overcome, with Board and staff business continuing to be conducted efficiently and a successful virtual Spring Meetings. Risks remain from significant pressures on staff, safety and health concerns, intensive program engagement amid challenges from WFH, and field security. The external cyber threat landscape has worsened for the Fund and its third-party providers, as reflected in recent risk events (Annex I). Residual risks also include factors beyond the Fund's control, particularly the impact of the pandemic on staff health, dependence on local facilities and infrastructure, the risk of some jurisdictions reopening while cases are still growing, and challenges to engagement with the membership.

6. Looking ahead, as the Fund seeks to fulfill its responsibilities to the membership, key immediate enterprise residual risks include lending, Fund resources, and related internal operations (staff, budget, and information security, Box 1). The Fund's reputation meanwhile is affected by all of the Fund's work. An enterprise risk matrix is used for tracking key risks, drivers, mitigations, and residual risks and along with scenario analysis it informs risk identification, interconnections, and prioritization (Annex II).

7. Looking further ahead and at the world at large, the recovery phase will pose its own enterprise risks, arising from both the impact on the membership and the Fund's own internal operations. This is a live topic for CROs in the external risk management community as well as internally in the Fund. The changed nature of economic activity, its impact on members, implications for how the Fund operates and lessons learned, and ensuring a safe re-opening all remain sources of enterprise risk that will require active management.

Box 1. Key Risks and Mitigation Priorities

Program risk/credit risk: program performance risks and associated pressures on credit and financial risk, as the Fund fulfills its mandate to support the membership in a manner consistent with the lending framework.
Mitigation actions:

- Robust ex ante discussion of enterprise risks for significant financial and operational decisions building on the extensive existing controls, and recognition and recording of key risk tradeoffs;
- Greater use of scenarios and contingency planning in program requests, consistent with the *Review of Conditionality* recommendations, that test key assumptions and safeguards;
- Plan for how to work with non-Paris club creditors; and for cases where the Fund cannot lend owing to conflicts with our policy framework;
- Reflect risk considerations in determining credit buffers, including precautionary balances.

Resources: resource adequacy risks associated with meeting demand for follow-up programs, a "2nd wave" of emergency financing, or needs of larger members.
Mitigation actions:

- Ensure adequate resource envelope, for GRA and PRGT;
- Reconcile members' need for larger access, including questions about "additionality," with Fund access limits policy and safeguards.

Human/budget resources: risks for delivering an increasing and complex mandate in a sustainable manner.
Mitigation actions:

- Additional resources for the front-line departments and review (with caps on overtime and allowance for learning period);
- Implementation of policy to allow re-hiring of recent retirees and contractuals to bolster experience;

Information security: information security risks amid worsening external cyber-landscape and high volume and speed of online work in WFH environment.
Mitigation actions:

- Ensure adequate resources for information security;
- Implement the information security roadmap.

RISK MITIGATION—UPDATE

8. **Recent risk mitigation has rightly prioritized the need to deal with the crisis, which is front and center of the Fund's current risk landscape.** To support the delivery of Fund services, business continuity procedures were activated, technological capacity for remote work was scaled up, and measures were taken to manage cyber-risks. Travel suspension, relocations of field staff, a scheme for voluntary inter-Departmental resource-sharing, allowed limited extensions of contractual appointments and reappointment of recent retirees, and streamlined HR procedures helped manage human capital risks (see *Background Paper* for details). Budgetary mechanisms included temporary resource increases, overtime, and reprioritizations, and Board and review procedures were streamlined.

9. Risk mitigation has been effective with respect to internal operations in response to the crisis, however, the effectiveness of mitigation more broadly will only become clear over time. Meanwhile, residual risks have likely risen, partly reflecting factors beyond the Fund's control and the limits of risk mitigation in the short term.

10. Mitigation directions endorsed in the 2019 Risk Report have progressed, but in many areas custodians have needed to reorient toward the crisis response. The schedule for risk mitigation will be reassessed in the Accountability Framework exercise. Budgetary resources continued to be allocated on a risk-based basis, progress is being made to reflect ex ante enterprise risks in key policy papers and initiatives, and more frequent and consolidated reporting on the program portfolio is now delivered to the Board. At the same time, the crisis has highlighted the urgency of some long-standing risk mitigation needs in high risk areas like information security and third-party risk management. Work on managing third-party risks has advanced, and large transformational projects have continued, but implementation of the Information Security Roadmap has been delayed as a result of COVID-19 and other factors (below).

FUND RISK PROFILE—UPDATE

11. Enterprise risks are higher relative to the 2019 Risk Report as well as the March 2020 quarterly update (Figure 1). While risk mitigation has progressed, the COVID-19 shock has had an impact across the risk register. This is most notable on the Fund's lending portfolio and resources, as well as internal operations needed to support them. The higher risks also reflect a rise in de facto risk acceptance in selected areas as a result of the Fund's decisions.

12. The risk profile of program, resources, and financial risks have risen amidst the increase in Fund lending as follows:

- Risks to the *program portfolio* are very high, with implications for credit buffers, given the unprecedented nature of the crisis and high volume and pace of COVID-19-crisis related Fund lending. Risk mitigation is responding, but residual risks have risen.

- Related, risks to the *adequacy of Fund resources* and to the Fund's f*inancial assets and income* have increased, and pressures on credit risk buffers have risen amid rising resource commitments.

- *Lending risks* are interconnected with *operational risks* relevant for conducting a large number of financing requests in an expedited manner while in WFH mode. Key interconnections include the need for *adequate* staff numbers and experience, effective technology and sound information security related to sensitive information and transactions, well managed third-party vendor risks given the Fund's reliance on vendors for relevant functions, and operational resilience.

Figure 1. Update on the Fund's Risk Profile

Risk Area	**2019 Risk Assessment** (**H**: High, **M**: Moderate, **L**: Low)	**Directional Change** (as of March 2020 Quarterly Update, relative to the 2019 Risk Report)	**Current Directional Change** (as of Mid-Year Update, relative to the 2019 Risk Report)
Lending: Use of Fund resources	H	→	↗
Lending: Adequacy of Fund resources	M	→	↗
Financial assets and income	M	→	↗
Strategic directions	L	–	→
Policies and decisions	L	–	↗
Medium-term budget	M	–	↗
Surveillance	M	–	↗
Capacity development	M	–	→
Human capital	M	–	↗
Information security	H	→	↗
Technology	M	↗	→
Physical assets	L	↗	→
Operational Resilience	M	–	→
Reputation	M	→	→

Note: Arrows provide a sense of the direction of change in the level of risk: upward sloping arrows indicate rising risks, flat arrows indicate risks that are roughly unchanged, and downward sloping arrows indicate falling risks. While this offers a preliminary illustration on how the Fund's risk profile is evolving as a result of the crisis, a more conclusive assessment across all risk areas will only be carried out in the Risk Report.

13. In strategic, core (aside from lending), and cross-functional areas the risk profile has also risen as follows:

- *Strategic directions risks* are being mitigated by the Fund's rapid and sizable support for the membership, which is well recognized by members. But differing views among major shareholders on some issues carry strategic risks for the Fund.

- Risks around ensuring adherence of the Fund's *policies and decisions* with its policy and legal framework are low but may have increased amidst the rapid pace and high volume of work, complex review issues, and expedited procedures.

- Risks to the *medium-term budget* have increased amid COVID-19 as the Fund is stepping up to meet members' needs under a flat real operating budget.

- The COVID-19-related crisis has increased *surveillance risks*, notably in terms of uncertainty and accuracy of forecasts, risks and spillovers, and macro-financial linkages. The temporary extension of Article IV consultation cycles that was necessary for prioritizing program work in turn raises risks.

- *Capacity development* risks are broadly contained in FY21, but expertise staffing, CD delivery, and donor funding beyond FY21 may come under strain given other competing demands for resources (including from the Fund) and stretched national budgets.

- The crisis is putting significant pressures on the Fund's *human capital*; immediate mitigations were swift and effective but residual risks remain.

- *Information security risks* remain elevated; the external cyber threat landscape has worsened with the pandemic, and the information security risk mitigation roadmap is delayed.

- *Technology risks* have remained steady despite the COVID-19 disruptions, reflecting rapid risk mitigation, but delays in the modernization projects will affect implementation.

- *Operational resilience risks* have also held steady. Inherent risks self-evidently increased with the crisis but mitigations have also been strong and pre-crisis risk mitigation proved valuable. The operational risk mitigation roadmap, however, is delayed given the need to focus on the crisis.

- *Physical Assets (including staff safety and wellbeing)* risks have moved sideways. The HQ facilities have been little used; meanwhile, staff safety and wellbeing risks have gone up in both Washington and the field.

- *Reputation:* The Fund has emerged as a leader of the economic response to the crisis in its role as a lender of last resort, with an enhanced reputation. However, reputation risk is vulnerable to the extreme prevailing uncertainty and interdependencies of the Fund reputation with all of its activities.

14. The rest of the section analyzes developments in the individual risk areas, reflecting COVID-19 shocks, mitigations, and residual risks. The section prioritizes risks associated with the Fund's lending and resources, and their implications for financial risks. The section then discusses risks in the key operational areas needed to support the Fund's crisis response, including budgetary and human resources as well as information security risks – following the priorities set out in Box 1. It further discusses risks in each of the Fund's other business areas, including linkages among risks. The set of indicators is streamlined relative to the March 2020 quarterly update for relevance. Risk areas with sufficient quantitative information (such as lending) provide a more detailed analysis of individual risk "lenses", while those with mainly qualitative information (such as strategic directions) do not.

A. Key Focus: Lending, Resources, and Financial Assets/Income

Lending: Use of Fund Resources

Risks to the UFR portfolio are extremely high, given the unprecedented nature of the crisis and an increasing volume and pace of Fund lending. Risk mitigation is responding, but residual risks have risen. Ex ante enterprise risk assessments have been strengthened for key policy proposals. Program information on a weekly basis is readily available to the Board, and a consolidated set of tables has started to be provided on a monthly basis since March.

Overall 2019 Risk Report Assessment: **H**
Directional Change: ↗

Risk lenses	2019 Risk Report Assessment	Directional Change
Program design	H	↗
Program risk	H	↗
Access	H	↗
Other stressors	H	↗

15. Risk tradeoffs emerge from the Fund's rapid response to members' requests for financial support amid COVID-19. Tables 1 and 2 provide the current list of programs based on the FIN weekly financial statistics.[2] The scale and timing of the response should help reduce risks for the membership and potential needs for future support, as well as mitigate strategic and reputational risks. At the same time, the Fund de facto is temporarily accepting higher UFR and other enterprise risks through its approvals of new financing requests and policies.

16. Program risks have increased further.[3] Risks to the program portfolio were already high before the wave of new COVID-19-related financing requests, reflecting the high weight of the Argentina program as well as gaps in program performance across the portfolio. Residual risks have risen notwithstanding risk mitigation, partly reflecting the extreme uncertainty and unprecedented nature of COVID-19, close judgments regarding debt sustainability, and other stressors such as high debt, can further complicate assessments of debt sustainability and capacity to repay.[4] Any resultant conflicts with lending safeguards will further amplify UFR risks (see also *Policies and Decisions*). ORM's assessment is that the proportion of the aggregate GRA and PRGT program portfolio at high risk of needing a successor program or an augmentation relative to pre-

New Lending Approved

Period	Number of new arrangements and emergency financing disbursements	of which, emergency financing 1/
2009-2019 annual peak	35	9
2009-2019 annual average	20	3
April 2020	41	41

Source: MONA Database, IMF Connect, IR, ORM calculations
1/ Includes RFI, RCF, Exogenous Shocks Facility-Rapid Access Component, and Emergency Natural Disaster Assistance

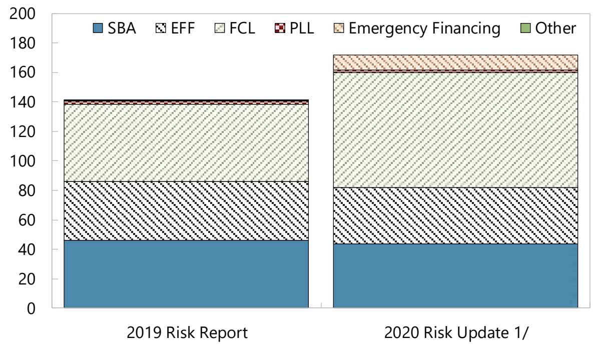
[2] See FIN weekly report on key financial statistics. They provide input for the broader set of monthly financial information that is circulated to Executive Directors for end-month data at the start of the following month. The end-April data were shared in early May and the end-May data will be forthcoming shortly.

[3] *Enhancing the Emergency Financing Toolkit—Responding to the COVID-19 Pandemic* (SM/20/82, 4/2/20).

[4] The challenges posed by high debt have prompted decisive action on debt relief, including the Fund's debt relief under the CCRT and G20 debt relief initiative. Meanwhile, the weak predictive capacity of the MAC DSA is a potential source of reputational risk, as the heatmap often emits modest risk signals for very high risk cases and vice versa. Mitigation would require the Fund to adopt a better framework, as the ongoing MAC DSA review intends.

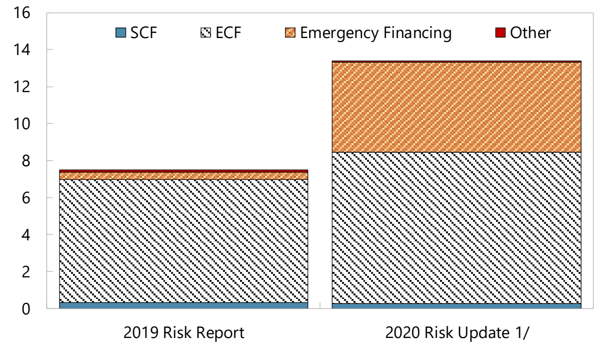
COVID-19 levels has likely increased (figure).[5] Risks around the Argentina arrangement remain elevated, with Fund staff analysis showing that substantial debt relief from private creditors is

GRA: Total Committed Resources
(in SDR billion)



Sources: FDQT; and ORM staff calculations.
1/ Estimate.

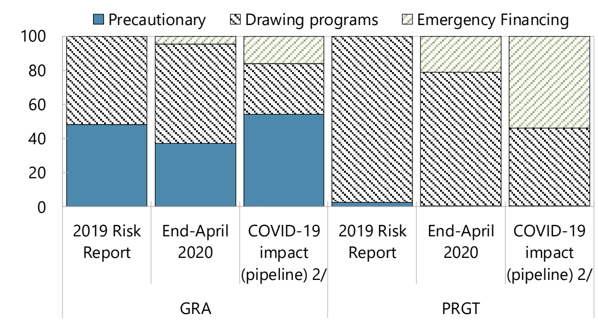
PRGT Total Committed Resources
(in SDR billion)



Sources: FDQT; and ORM staff calculations.
1/ Estimate.

necessary to restore debt sustainability with high probability.[6] The nature of Fund lending is shifting, with emergency financing accounting for a small but growing share of total commitments (around 6 percent), and for a relatively large share of PRGT commitments (over 30 percent, figure)[7]. The absence of conditionality potentially raises credit risk (see *Financial Assets and Income)*, as well as reputational risks related to the appropriate use of Fund resources. The concentration of the Fund's lending portfolio among specific regions and types of borrowers is shifting. However, under its mandate to support members with BoP needs who have the capacity to repay, the Fund has limited ability to diversify regional and other concentration risk.

Total Committed Lending Resources 1/
(in percent of total committed resources)



Sources: FDQT; and ORM staff calculations.
1/ Including approved COVID-19-related emergency financing.
2/ Includes known forthcoming requests, including FCLs for GRA.

17. A higher likelihood of successor arrangements and higher access raises risks to the revolving nature of Fund resources (resources being committed to a member for an extended period). It is possible that members need to draw on existing precautionary arrangements, whose share in total committed resources has increased with COVID-19 (figure), or to rely on them for

[5] The Program Risk Index (PRI) measures the likelihood that an active, drawing Fund program with ex post conditionality will require a follow-up program or augmentation (the full methodology is set out in the 2016 Risk Report). The thresholds for Low, Moderate, and High risk are based on the historical relationship between program performance and the need for a successor program. In these post-COVID-19 estimates, the increase in program risk ratings is driven importantly by pre-COVID-19 debt risk indicators, which are a proxy for pre-existing vulnerabilities that can be exacerbated in the crisis.

[6] *Statement by IMF Managing Director on Argentina*, March 20, 2020 and Board briefing, May 28, 2020.

[7] As of end May 2020.

longer.[9] The new Short-Term Liquidity Line (SLL) should make the Fund more effective but it could entail a residual risk to the revolving nature of Fund resources if there is successive use of the instrument.[10] Any decisions on "additionality" in the context of access limits could also have implications for risks to the revolving nature of lending resources.

Table 1. Current Financial Arrangements (GRA)

as of May 22, 2020
(In millions of SDRs, unless indicated otherwise) 1/

Member	Amount Commited	Amount Undrawn	Amount Drawn	Credit Outstanding		Period of Arrangement	
				Amount 2/	As a % of Quota	Effective Date	Expiration Date
Standby Arrangement (3)	***41,173***	***8,973***	***32,200***	***32,322***			
Argentina	40,714	8,800	31,914	31,914	1,001	20-Jun-18	19-Jun-21
Armenia 3/	309	103	206	328	255	17-May-19	16-May-22
Honduras 3/	150	70	80	80	32	15-Jul-19	14-Jul-21
Extended Fund Facility (12)	***12,372***	***7,555***	***4,816***	***10,871***			
Angola	2,673	1,600	1,073	1,073	145	07-Dec-18	06-Dec-21
Barbados	208	103	105	105	111	01-Oct-18	30-Sep-22
Bosnia-Herzegovina	443	316	127	392	148	07-Sep-16	06-Sep-20
Cote d'Ivoire	563	129	434	867	133	12-Dec-16	11-Dec-20
Equatorial Guinea	205	176	29	29	19	18-Dec-19	17-Dec-22
Ethiopia	752	662	90	391	130	20-Dec-19	19-Dec-22
Gabon	464	89	375	483	224	19-Jun-17	18-Jun-20
Georgia	484	157	327	327	155	12-Apr-17	11-Apr-21
Jordan	926	823	103	361	105	25-Mar-20	24-Mar-24
Mongolia	315	157	157	157	217	24-May-17	23-May-20
Pakistan	4,268	3,224	1,044	5,733	282	03-Jul-19	02-Oct-22
Sri Lanka	1,071	119	952	952	165	03-Jun-16	02-Jun-20
Flexible Credit Line (2)	***52,413***	***52,413***	--	--			
Colombia 3/	7,850	7,850	--	--	--	01-May-20	30-Apr-22
Mexico 3/	44,564	44,564	--	--	--	22-Nov-19	21-Nov-21
Total Current GRA Arrangements (17)	**105,957**	**68,941**	**37,016**	**43,193**			
Memorandum Items:							
Credit outstanding from members without current arrangement and outright disbursements.				34,962			
Total Credit Outstanding.				78,155			

1/ -- Indicates zero value, zero indicates amounts less than SDR 0.5 million. Totals may not add due to rounding.
2/ Includes Credit Outstanding under expired arrangements and outright disbursements.
3/ The undrawn commitment of the arrangement is treated as precautionary by the authorities.

[9] Morocco drew on its PLL on April 7, 2020.

[10] *IMF COVID-19 Response—A New Short-Term Liquidity Line to Enhance the Adequacy of the Global Financial Safety Net (SM/20/88, 4/11/20)*. The paper sets out the ex ante enterprise risks associated with the proposal in a clear way—describing the risks it seeks to address, the risks it creates in turn, how they are mitigated, and the residual risks that remain.

Table 2. Current Financial Arrangements (PRGT)

as of May 22, 2020
(In millions of SDRs, unless indicated otherwise) 1/

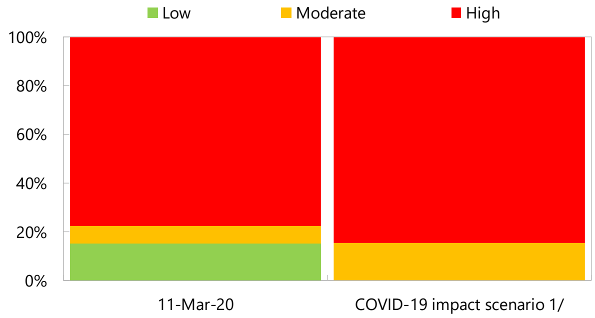
Member	Amount Committed	Amount Undrawn	Amount Drawn	Loans Outstanding Amount 2/	Loans Outstanding As a % of Quota	Period of Arrangement Effective Date	Period of Arrangement Expiration Date
Extended Credit Facility (17)	***3,889***	***2,149***	***1,740***	***4,424***			
Burkina Faso	108	36	72	240	200	14-Mar-18	13-Mar-21
Cameroon	483	55	428	593	215	26-Jun-17	30-Sep-20
Central African Rep.	84	72	12	196	176	20-Dec-19	19-Dec-22
Chad	224	28	196	370	264	30-Jun-17	30-Sep-20
Congo, Rep. of	324	292	32	33	21	11-Jul-19	10-Jul-22
Cote d'Ivoire	281	65	217	831	128	12-Dec-16	11-Dec-20
Ethiopia	1,203	1,069	134	138	46	20-Dec-19	19-Dec-22
Gambia	35	30	5	44	71	23-Mar-20	22-Jun-23
Guinea	120	34	86	236	110	11-Dec-17	10-Dec-20
Liberia	155	138	17	145	56	11-Dec-19	10-Dec-23
Malawi	106	52	54	235	169	30-Apr-18	29-Apr-21
Mali	140	100	40	391	209	28-Aug-19	27-Aug-22
Mauritania	116	33	83	208	162	06-Dec-17	05-Dec-20
Niger	118	14	104	274	208	23-Jan-17	31-Jul-20
Sao Tome-Principe	13	11	2	15	104	02-Oct-19	01-Feb-23
Sierra Leone	124	78	47	262	126	30-Nov-18	29-Jun-22
Somalia	253	42	211	211	129	25-Mar-20	24-Mar-23
Standby Credit Facility (1)	***75***	***50***	***25***	***25***			
Honduras 3/	75	50	25	25	10	15-Jul-19	14-Jul-21
Total Current PRGT Arrangements (18)	**3,964**	**2,199**	**1,765**	**4,449**			
Memorandum Items:							
Credit outstanding from members without current arrangement and outright loans.				6,310			
Total Credit Outstanding.				10,759			

1/ -- Indicates zero value, zero indicates amounts less than SDR 0.5 million. Totals may not add due to rounding.
2/ Includes Loans Outstanding under expired arrangements and outright loans.
3/ The undrawn commitment of the arrangement is treated as precautionary by the authorities.

18. **Risks related to programs and lending more broadly have interconnections with other areas.** Human capital risks related to ensuring the adequate staffing of program teams are being mitigated by a reallocation of staff toward crisis response. A residual risk that previous Risk Reports have noted is the relatively limited number of staff with program experience in PRGT and fragile states, where the effects of the global pandemic can be expected to be particularly challenging.[11] Lending risks are also interconnected with surveillance (in the absence of ex post conditionality, ex ante assessments of frameworks and policies are all the more important), with CD (through capacity limitations–including statistical capacity–in some countries, partly offset by tailored capacity building), with continued remote work, and others.

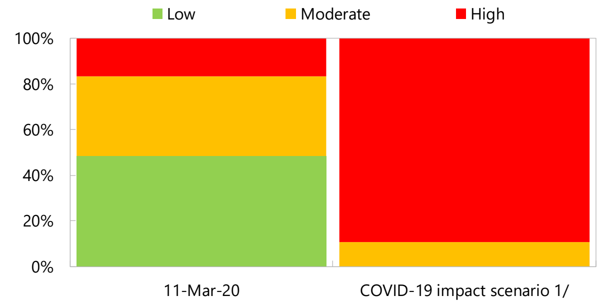
[11] A new career framework for fungible macroeconomists better aligned with the Fund's strategic priorities and needs was approved by management in April 2020, and can help mitigate these risks.

Program Risk Index Rating (GRA)
(in percent of total program access)



Source: ORM staff calculations.
1/ The COVID-19 impact scenario is based on vulnerability implied by pre-COVID-19 debt risk rating and/or assessment.

Program Risk Index Rating (PRGT)
(in percent of total program access)



Source: ORM staff calculations.
1/ The COVID-19 impact scenario is based on vulnerability implied by pre-COVID-19 debt risk rating and/or assessment.

19. Risk mitigation has included modifying the Fund's lending toolkit to better meet members' needs and paying attention to the specific enterprise risks identified (see also *Adequacy of Fund Resources*). **But significant residual risks remain**. Risks associated with emergency financing are being partially mitigated by the traditional ex ante safeguards (including DSAs and capacity to repay). Prior actions, independent audits, attention to governance considerations, as well as strengthening CD should help mitigate concerns over the appropriate use of Fund resources.[12] Reputational risk mitigation includes close engagement with CSOs, including on the ground. Mitigation efforts concerning debt focus on debt standstill negotiations for relevant members and other discussions with bilateral creditors, the revamped CCRT, and consistent application of the DSAs. Internal operations are being streamlined to meet COVID-19-related demand. Residual risk factors include the unprecedented crisis, factors beyond the Fund's control once resources are committed, the limits of mitigation under the circumstances, and authorities' political and social capacity to implement adjustment.

Lending: Adequacy of Fund Resources

Risks to the adequacy of Fund resources have increased substantially due to COVID-19 and other financing needs and necessary modifications of the Fund's lending toolkit. The New Arrangements to Borrow (NAB) will likely need to be activated to supplement quota resources. Overall GRA resources appear to be adequate in the near term once the potential lending capacity is fully secured, but a contingency plan, especially for the medium term, should be considered if the crisis worsens, given the exceptionally high uncertainty. PRGT

Overall 2019 Risk Report Assessment: M
Directional Change: ↗

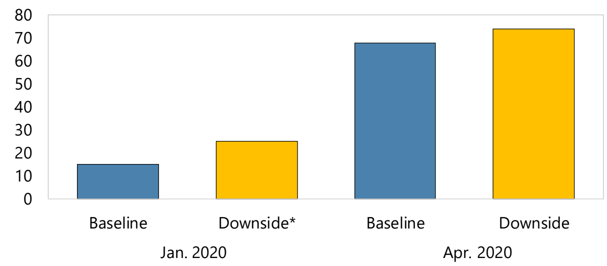
Risk lenses	2019 Risk Assessment	Directional Change
Short-term Liquidity Risks	M	↗
Medium-to-long Term Adequacy of Fund Resources	M	→
Loss Absorption Capacity	M	–
Adequacy and self-Sustainability of PRGT Resources	L	↗

[12] The 2018 Framework for Enhanced Engagement on Governance is key for mitigating governance risks, and is followed through guidance to mission teams, program design, and the review process.

resources are insufficient even to meet the baseline scenario, and fundraising efforts are underway.

20. Short-term liquidity risks (GRA) have increased as the Fund has sought to respond to members' sharply higher financing needs. The likelihood that the FCC would fall below the SDR 100 billion de facto threshold for activating the NAB 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, and the demand could increase further if successor programs or program augmentations are considered (see *Use of Fund Resources*).[13] Activation of borrowed resources, starting with the NAB, when needed will be key risk mitigation. The Fund's full lending capacity that includes borrowed resources in addition to quotas appears still to be adequate to deal with near-term UFR demand in plausible scenarios (figure, Table 3).

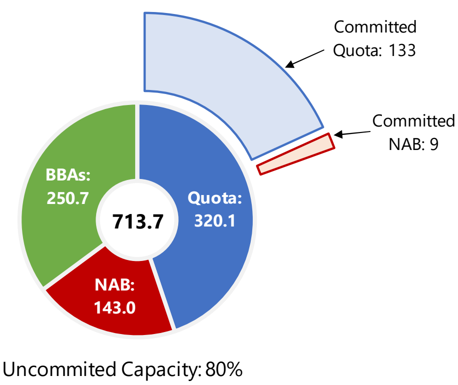
Short-term Liquidity Risks: Probability of FCC falling Below SDR 100 Billion 1/
(In percent)



1/ See footnotes in the main text for details about scenario construction. Demand distributions are approximated using Kernel density estimation, based on 100,000 Monte Carlo simulations of the inter-departmental OPP framework for current surveillance countries. Simulations account for correlated program requests from countries with common gatekeepers.
Sources: ORM staff calculations.

21. Risks to the medium-to-long term adequacy of Fund resources are being addressed, but extreme uncertainty over the duration of the COVID-19 shock and its long-term effects on members will persist. Mitigation has included the Board approval (in January 2020) of the NAB doubling and (in March 2020) of access to BBAs beyond 2020 that would maintain the Fund's current lending capacity (SDR 714 billion or roughly $1 trillion). Work is underway to seek consent from NAB creditors and approvals from BBA creditors. Medium-term risks depend crucially on the longer-term impact of the shock on the global economy, and the Fund's lending capacity could be exhausted under some scenarios.[14] More regular reviews of adequacy are expected to continue and will constitute important risk mitigation.

Lending Capacity, May 4th, 2020
(In SDR billions)



Source: Finance Department.

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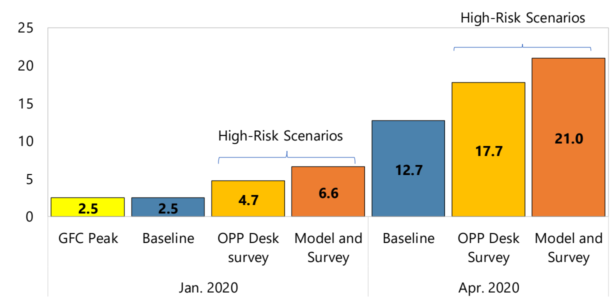
[13] The scenarios are developed in the ORM-SPR-FIN Outlook-for-Potential-Programs (OPP) exercise drawing on the April 2020 WEO baseline and the vulnerability exercise. The downside scenario assumes a global contraction of 11 percent in 2020. The OPP model estimates transitional probabilities from surveillance to program status. Expected demand for Fund resources by a country is a product of the transition probability and access level (assumed to be 5.5 and 8 percent of GDP for the baseline and downside scenarios, respectively, assuming a continued catalytic role of the Fund). A distribution of the aggregate demand over the next 12 months is generated using Monte Carlo simulations. The estimation excludes demand arising from successor programs or program augmentation, and no access limits are applied, assuming that members meet conditions for program approval, and no assumptions on the supply effect from the FTP members' request of Fund resources are applied.

[14] "IMF Resources—2020—Update on Fund Resources", Board presentation, May 11, 2020.

22. PRGT adequacy and self-sustainability risks which were already elevated, surged higher. This was driven by the unprecedented COVID-19 related demand and the temporarily enhanced emergency financing access limits.[15] In the short term, uncommitted PRGT loan resources (SDR 8.5 billion as of end-April) are likely to be depleted in the baseline scenario (SDR 12.7 billion).[16] In the medium-term, a further increase in demand is likely, calling for an urgent augmentation of PRGT resources to mitigate adequacy risks.[17] Mitigations included the prompt review of PRGT resource adequacy and the start of fundraising.[18] Efforts to replenish the underfunded CCRT will help with debt service relief for the most vulnerable members.

Adequacy and Self-sustainability of PRGT Resources: Short-term Liquidity Risk for Loan Resources 1/

(Estimated PRGT Demands, in billions of SDR)



Source: ORM staff calculations.
1/ See footnotes in the main text for details about scenario construction.

23. Residual risks remain. The FCC of SDR 193 billion (as of end-April) still provides a good cushion for meeting prospective UFR requests, but pressures on overall resource adequacy could emerge if the crisis is prolonged or advanced economies and large emerging economies request programs (Table 3). A contingency plan for Fund resources, including discussions on the Fund's role in the global financial stability net would be needed for such a scenario. Resource mobilization, including for the PRGT, is dependent on members' actions. Mitigations include approval of NAB activation, planned reviews of the new lending instruments and policies, close monitoring of program demand, and timely reporting of resource developments. Further mitigation would involve implementing the approved decisions, reviewing the overall adequacy of resources, and making progress with governance reform under the 16th general Review of Quotas by December 15, 2023. Increases in access limits that may be contemplated to supplement the crisis response would raise risks for resource adequacy that in turn would need to be mitigated or accepted.

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[15] "Impact of COVID-19 on PRGT Demand and Resources", in Board presentation: Staff Briefing on IMF Resources: Near-Term Outlook for the GRA and the PRGT Fund Resources, April 10, 2020.

[16] These scenarios are informed by the OPP exercise which covers the expected demand in the next 12 months. Cumulative access is assumed to be equivalent to 100 percent of quota for the RCF and 3.3 percent of GDP for RCF/SCF (the long-term PRGT access average). The probability of a country making an RCF request is assumed to be one, while the probability of requesting other programs differs across scenarios. The baseline and downside scenarios assume total access limits of 300 percent and 400 percent of quota, respectively.

[17] See "Update on PRGT financing and resources", Board presentation, May 20, 2020.

[18] As of May 18, 2020, SDR 10.35 billion in additional loan resources had been formally pledged by Australia, Canada, China, France, Japan, Spain, and the UK, against the target of SDR 12.5 billion. Pledges from Belgium, Brazil, Denmark, Germany, Italy, The Netherlands, Norway, Sweden, and Switzerland are under discussion. As of May 7, 2020, additional CCRT resources of SDR 332.8 million had been pledged by the UK, Japan, Germany, The Netherlands, Switzerland, Norway, China, and Luxembourg. Fundraising continues with the aim of delivering up to two full years in COVID-19 related debt service relief.

Table 3. Demand Scenarios

	2020 Quarterly Risk Update 1/	2020 Mid-year Risk Update 2/
GRA		
Prob. of FCC below 100 billion *in percent*		
Baseline	15	68
Downside	25	74
Prob. of exhausting uncommitted lending capacity *in percent*		
Baseline	-	5
Downside	-	16
Demand Distribution for GRA *, in SDR billions (20 50 80 percentile)**		
Baseline	7 23 77	65 133 228
Downside	11 34 112	80 228 528
PRGT		
Demand for PRGT *in SDR billions, unless otherwise stated*		
Baseline	2.5	12.7
In percent of net Uncommitted Loan Resources	30	235
Downside		
High Risk - OPP Desk survey	4.7	17.7
In percent of net Uncommitted Loan Resources	57	328
High Risk - Model and Survey	6.6	21.0
In percent of net Uncommitted Loan Resources	79	388

Memorandum items: *in billions of SDR, as of end-April*	
Forward Commitment Capacity:	193
PRGT Uncommitted Loan Resources:	8.5
PRGT Uncommitted Loan Resources net of encashment buffer 3/:	5.4

1/ See the Office of Risk Management Quarterly Risk Update, March 2020.
2/ See footnotes in the main text for details about scenario construction.
3/ Encashment buffer is calculated as of end-February 2020
* indicates that the probabilty for the demand to be higher than the reported numbers under the 20, 50, 80 percentiles are 80, 50 and 20 percent respectively.

Financial Assets and Income

Financial assets and income risks have increased, driven by COVID-19 related shocks. Pressures on credit risk buffers have risen amid rising resource commitments.

The Fund's Income Position (in SDR billion)

	April 2019	April 2020 (proj.)
Lending income	2.1	1.9
Investment income	0.2	0.3
Other	0.1	0.0
Expenses	-0.9	-0.9
IAS 19-related gains/losses	0.0	-2.4
Net income	1.5	-1.1

Source: Review of the Fund's Income Position, Supplement 1, EBS/20/58, Supp. 1, 4/21/2020

Overall 2019 Risk Report Assessment: M

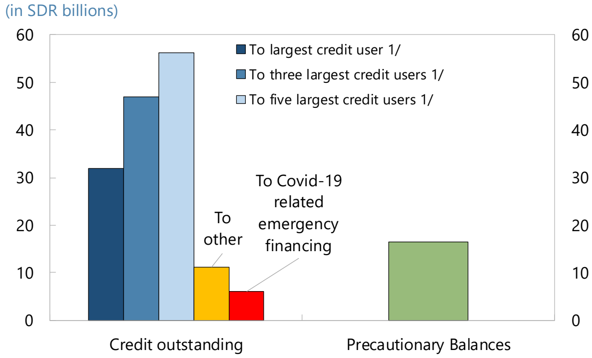
Directional Change: ↗

Risk lenses	2019 Risk Assessment	Directional Change
Investment Account	–	–
Trust Accounts	–	–
Lending income	M	→
Surcharges	M	–
Credit risk buffer	L	↗
Staff Retirement Plan	–	–

24. Higher program risks and delayed reviews may have repercussions on lending income while credit risk buffers are falling as a proportion of rising outstanding credit. Lending income, which accounts for about 80 percent of operating income (table), should increase with the higher volume of programs. But rising program risks in turn pose risks to lending income if they lead to delayed reviews and disbursements relative to expectations. As outstanding credit rises, *credit risk buffers* are falling as a proportion (Figure 2). While credit concentration could go down, with the approval of emergency financing requests and enquiries in the pipeline, precautionary balances as a percent of credit outstanding would drop to around 16 percent from around 22 percent in April.[19] This trend would continue with greater demand for programs or if disbursements were made on undrawn precautionary arrangements. Were the FCLs for Chile, Colombia, Mexico, and Peru (summing to nearly SDR 78 billion) all to be drawn, credit outstanding would roughly double. As it stands, the main source of pressure on credit risk buffers comes from a few large borrowers with outstanding credit (figure). The burden-sharing capacity provides limited buffers vis-à-vis GRA charges coming due in the next few years and the bunching of repurchases in the coming years will exceed the current level of precautionary balances.

25. The risks associated with emergency financing are mainly credit risks, and not program performance risks as the disbursements are upfront. As of end-April 2020, credit outstanding associated with the Rapid Financing Instrument accounted for around 9 percent of total credit outstanding, comparable in size to some of the Fund's largest single credit exposures. The risk associated with the portfolio can be tracked based on debt vulnerabilities as well as based on broader economic vulnerabilities and capacity to repay the Fund (Figure 2).[21] Risk mitigation includes application of the existing ex ante lending safeguards and sound surveillance to assess fundamentals, but inevitably there are residual risks.

Credit Outstanding and Precautionary Balances, May 2020
(in SDR billions)



1/ Credit outstanding from regular programs only, excludes emergency financing.
Source: ORM staff calculations.

26. Regarding the Investment Account (IA) and Trust Account (TA), current market conditions and the economic outlook pose risks to investment objectives and return targets.[22] Effective risk mitigation that has ensured the resilience of the IA to date includes well-defined diversification strategies implemented within a strategic asset allocation, close monitoring of risk-

[19] Assuming that the precautionary balances do not increase with higher credit outstanding, which could imply more scheduled lending income.

[21] Concerning emergency financing: above 90 percent of the approved access under RFIs pertains to countries that fall under the MAC "higher scrutiny" category or the LIC DSA "moderate" or "high" risk ratings. Among RCF users, over two-thirds have "moderate" or "high" DSA ratings.

[22] See *Review of Fund's Income Position for 2020-2021-Supplement (EBS/20/58 Supplement 1, 4/21/2020).*

return profiles, and robust governance mechanisms to ensure compliance with the investment guidelines. Residual risks stem from the high market uncertainty about the duration and impact of the COVID-19 crisis.[23]

B. Other Areas of the Fund's Risk Register

Strategic Directions

2019 Risk Assessment: **L**
Directional Change: ➔

The Fund's rapid and sizable support for the membership has helped the membership, it has been well recognized, and has mitigated strategic and reputational risks. With innovations in policies and procedures and rapid action, the Fund was among the key "first responders" in the crisis. The successful virtual Spring Meetings despite the complicated global environment and operating circumstances affirmed the universal high recognition of the Fund. Strategic risks remain on the horizon, including those arising from differing views among the membership on global issues.

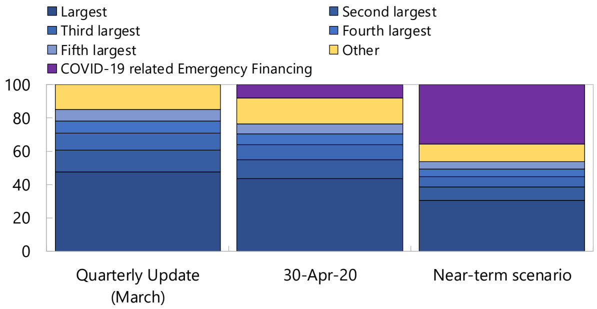
27. The Fund's sizeable and rapid response to the crisis helped mitigate risks associated with the Fund's strategic alignment with the membership and its relevance. The membership expressed its support for the Fund at the Spring Meetings and supported the 2020 Global Policy Agenda. The reforms to policies and procedures have improved agility but residual risks remain. Safeguards will remain critical to mitigate the risks that the reforms may have raised for lending and the Fund's adherence with its policy framework and decisions. Differences among major shareholders over the appropriate policy responses to controversial policy issues, such as debt restructuring, exchange rates, capital flow management, as well as to an SDR allocation, pose strategic risks for the Fund. The Fund's inability to provide financing to certain members also presents strategic and reputational risks to the extent that the underlying considerations that preclude the financing are not well understood by the stakeholders.

[23] The forthcoming *Annual Report of the Investment Account and Trust Accounts for FY2020* will review the performance of the IA and TA subaccounts. Meanwhile, the Staff Retirement Plan is not part of the institutional risk acceptance and has its own governance structure, risk management, and reports to the Board. However, as clarified in the recent review of the Fund's income position, the volatility of the pension-related (IAS 19) gains/losses continues to represent a risk to the Fund's income.

Figure 2. Financial Assets and Income

Credit Outstanding by Users of Credit

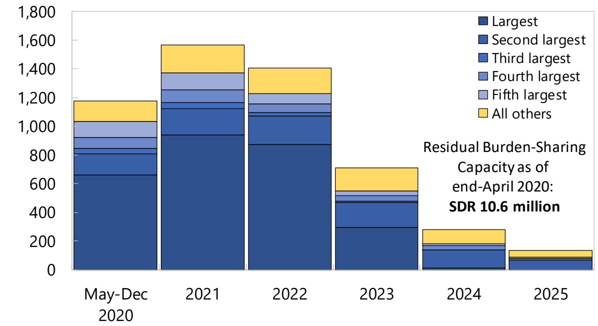
(in percent of total credit outstanding)



Note: The near-term scenario includes credit outstanding and the estimated amount of emergency financing from countries with formal requests or enquires as of May 12, 2020.

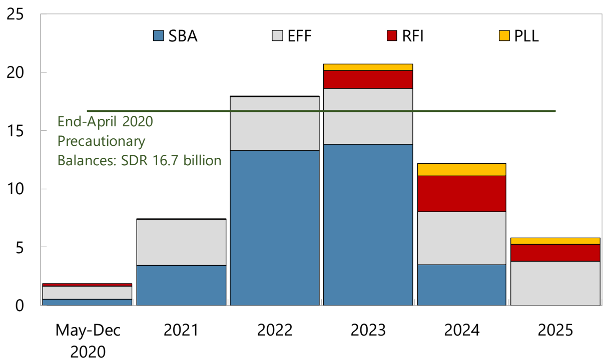
Total Projected GRA Charges Due by User of Credit, as of End–May 2020

(in SDR million)



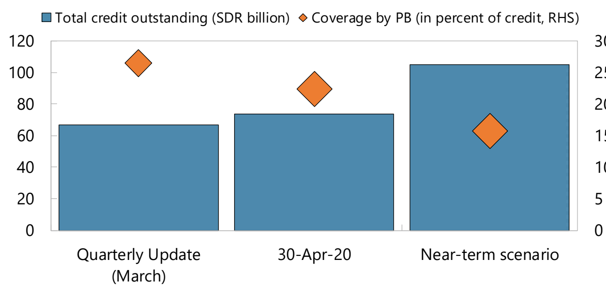
Projected GRA Repurchases by Facility, End-April 2020

(in SDR billions)



Credit Outstanding and Credit Coverage by Precautionary Balances

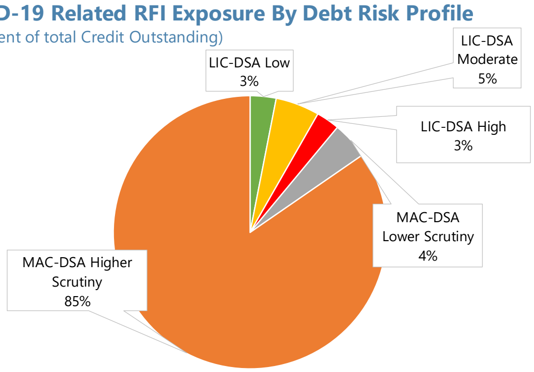
(in SDR billion and in percent of outstanding credit)



Note: The near-term scenario includes credit outstanding and the estimated amount of emergency financing from countries with formal requests or enquires as of May 12, 2020.

COVID-19 Related RFI Exposure By Debt Risk Profile

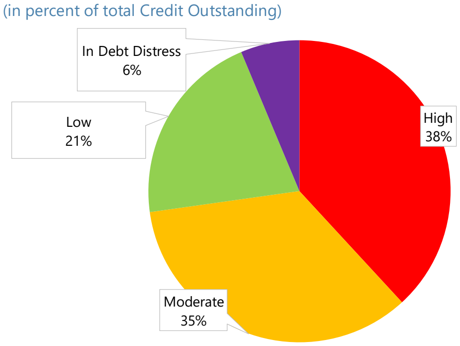
(in percent of total Credit Outstanding)



Note: includes emergency financing approved on or before May 15, 2020, latest available MAC-DSA rating pre-COVID-10, and LIC-DSA as of November 2019.

COVID-19 Related RCF Exposure By Debt Risk Profile

(in percent of total Credit Outstanding)



Note: includes emergency financing approved on or before May 15 2020, based on LIC-DSA as of November 2019.

Sources: FDQT; and ORM staff calculations.

Policies and Decisions

2019 Risk Assessment: **L**
Directional Change: ↗

Risks around Policies and Decisions are low but they may have increased amidst the rapid pace and high volume of work, complex review issues, and expedited procedures. All Fund lending decisions must be based on an assessment that adequate safeguards are in place for the temporary use of the Fund's resources. Policy tradeoffs as well as the assessment of risks and strength of safeguards for individual lending decisions have become more challenging given the nature of the crisis. The review process remains a key control for ensuring the Fund's framework is followed.

28. Policy trade-offs are sharpened as the Fund engages with the membership under the exceptionally challenging circumstances created by COVID-19. For example, members' debt issues can call for complex judgments to be made in order to assess that safeguards have been met for Fund lending to proceed. Robust application of Fund policies and proper scrutiny remain critical. Enhanced ex ante discussion of enterprise risks for large financial and operational decisions is important, taking into account the extensive existing controls, as outlined in the 2019 Risk Report. Greater emphasis is being placed on ex ante enterprise risks, which have been reflected in recent policy proposals, notably the SLL in April 2020.

29. The increased workload associated with COVID-19 under a flat real budget can put a strain on the review process. Mitigation has included recognition in the budget discussions of the need to buttress review resources as well as a temporary (six-month) streamlining and acceleration of the review- and decision-making process for emergency financing.[24] At the same time, accelerated procedures carry a higher risk of error at the margin. Early identification and reporting will be important to allow self-correction. Pre-pandemic mitigation needs remain relevant to identify pressure points in the review process (see *Medium-Term Budget*) and ensure transparency. Other residual risks include an increasing review workload beyond emergency financing, as well as occasions when challenges arise between meeting demands for Fund lending versus interpreting stringently the Fund's policy framework and safeguards (for example, the standard for what constitutes credible assurances related to debt operations). Continued close attention is needed in the review process to ensuring the Fund's policy and legal framework is followed. Separately, increased workload and resource reprioritization may delay periodic policy reviews.

Medium-Term Budget

Overall 2019 Risk Report Assessment: **M**
Directional Change: ↗

One of the main risks to the medium-term budget has materialized in the form of a large unexpected demand

[24] For Board documents, this includes greater use of lapse-of-time procedures and shorter periods for circulation, interdepartmental review, and Management clearance. See *Streamlining Procedures for Board Considerations of the Fund's Emergency Financing During Exceptional Circumstances Involving a Pandemic, (SM/20/79, 4/1/2020)* and *FY2021-FY2023 Medium-Term Budget—Supplementary Information (EBAP/20/30, Supplement 1).*

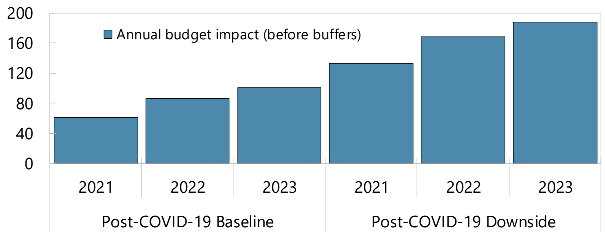
for new programs. The Fund is stepping up to meet members' needs under a flat real operating budget. The crisis response is depleting already diminished budget slack and existing buffers. Mitigations will likely need to include additional resources in order to ensure continued effective Fund service to the membership.

Risk lenses	2019 Risk Assessment	Directional Change
Risk-based resource allocation	L	↘
Budget slack (envelope & flexibility	M	↗
Risk-based buffers	M	↗

30. The medium-term budget is responding to the crisis and its implications for the Fund through a two-stage approach.[25] With more than 100 countries having requested or inquired about emergency support, responding to membership needs is expected to completely exhaust budget buffers, which were thin even before the COVID-19 outbreak, further exacerbated by lower-than-expected CD chargebacks and fees, and relies heavily on underspend from reduced travel. A scenario analysis (figure) consistent with the baseline and downside scenarios in the *Adequacy of Fund Resources* section considers the budgetary impact of greater program demand in the next 12 months. 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, which could result in a rundown of declining buffers and a substantial and urgent increase in resource needs.[26] These findings are consistent with preliminary indications from several Departments of increasingly binding resource constraints.

Additional Budget Needs under Alternative Scenarios, FY2021–23

(in millions of U.S. dollars)



Note: The scenarios draw on the results from the OPP model that projects new program demand for the next 12 months as of end-April 2020. In the baseline scenario, all GRA countries with a high rating in OPP make a request for a Fund arrangement and all PRGT countries request Emergency Financing, with those that have already requested Emergency Financing (as of April 30, 2020) asking for a Fund-supported program. In the downside scenario, all medium- and high-rated GRA countries request a program. Program demand assumptions in terms of number of countries are as follows: 59 (FY21-23 Medium-Term Budget pre-COVID-19 baseline); 112 (post-COVID-19 baseline; and 159 (post-COVID-19 downside) request a UCT arrangement. These scenarios are consistent with those used in the *Adequacy of Fund Resources* section.

31. Risk-based resource allocation has been intensified during the crisis and other risk mitigation mechanisms kicked in to meet additional needs to respond to the crisis. Staff resources are being reallocated to the center and "front line" needs, including through informal and temporary staffing arrangements. Other HR initiatives have been put in place (see *Human Capital*). Most Article IVs are subject to a temporary extension of the consultation cycles, FSAPs have been delayed, and the Board Work Program is being reprioritized with some non-crisis and lower-priority work interrupted to deal with the crisis. Risk mitigation mechanisms kicked in to meet increased resource demand in the short term, including internal savings, reprioritization, and overtime. The Board approved an increase in the maximum allowable carry forward of general administrative resources from 3 percent to 5 percent to allow a temporary increase in resources, although preliminary FY2020 outturn figures suggest that the carry forward may be less than the maximum allowed. Further efforts to streamline and modernize to complement the ongoing pre-pandemic

[25] EBAP/20/30, Supplement 1 (4/21/2020).

[26] The FY21-23 Medium-Term Budget document identified a budget contingency of US$15 million, which includes the contingency for staff, OEDs, and the IEO. For an analysis of the declining budgetary buffers, see the medium-term budget risk discussion in the *2019 Risk Report* (SM/19/245, 10/25/2019).

mitigation initiative will continue to prove important amid heightened pressures on budget resources.

32. The prospect of the Fund needing to remain intensively engaged in the crisis response for some time suggests persistent residual risks. The informal staffing arrangements that have allowed resource allocation 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. Mitigating these risks may come to require temporary additional resources. During the recovery, the Fund will also be needed to help members deal with complex post-crisis challenges. The FY2021-23 medium-term budget discussions anticipate the possible need for an exceptional and temporary increase in structural resources over the next 2-3 years as part of the second stage in responding to the crisis.

Surveillance

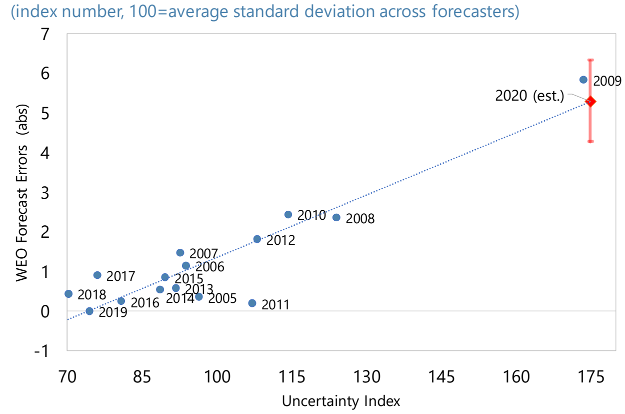
Overall COVID-19-related pressures have increased surveillance risks, uncertainty in forecasting the path and impact of the pandemic is straining the accuracy of forecasts with potential repercussions on the Fund's policy advice at a time when debt sustainability and financial vulnerabilities are being exacerbated. Mitigation is underway but residual risks remain.

2019 Risk Assessment: M
Directional Change: ↗

33. The crisis has heightened surveillance risks, most notably in terms of uncertainty and accuracy of forecasts, risks and spillovers, and macro-financial linkages. The unprecedented nature of COVID-19 and uncertainty about its trajectory and impact pose extraordinary challenges to forecasting. Forecasting challenges pose risks for the Fund's ability to accurately gauge the state of the world and calibrate policy advice, including with respect to debt sustainability and financial stability. The temporary extension of Article IVs consultation cycles, while necessary for focusing resources on programs, compounds these surveillance risks. Surveillance risks in turn affect program risks. The severity of the crisis and its global repercussions on exports, capital flows, foreign exchange and debt are likely to result in important risks and spillovers and shifts in global imbalances, potentially testing recent enhancements to the VE and EBA methodologies. The increasing risk of synchronized defaults could strain macro-financial surveillance and exacerbate existing bottlenecks in related staff expertise. With ex post conditionality absent as a tool in the emergency financing cases, there is a greater burden on surveillance to get it right ex ante in terms of assessing fundamentals.

Uncertainty and WEO Forecast Errors, 2005–20

(index number, 100=average standard deviation across forecasters)



Sources: Consensus Economics; and ORM staff calculations.

34. Mitigation has proceeded along the lines of the 2019 Risk Report, with some short-term reprioritization for key needs. Key measures include compilation and presentation changes to forecasts, knowledge sharing on crisis policy responses, and internal reflections on continuity of bilateral engagement during the temporary extension of Article IV cycles (see Background Paper). The flagship publications did not include medium term forecasts of fiscal variables to mitigate reputational risks owing to current uncertainty. Looking ahead, the *Comprehensive Surveillance Review* identified pre-existing long-term trends that the crisis has exposed as fissures in the multilateral system. It also emphasized the need to focus on risks to the baseline, including those with non-economic origins, and on spillovers and sustainability, all of which were validated by the crisis. Together with recent work on stakeholder sentiment that will drive Fund policy advice, these findings will inform surveillance priorities going forward, mitigating risks to traction and reputation.

35. Notwithstanding mitigation, residual risks remain. Risks include the uncertainty around the pandemic and its "scarring" effects, gaps and vulnerabilities that the crisis experience will no doubt reveal, the need for surveillance to play a greater role in safeguarding Fund resources at the same time that Article IVs are on hold, operational challenges to surveillance and CD engagement with authorities, and 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.

Capacity Development

Capacity Development risks are broadly contained, but expert staffing, delivery and funding may come under strain once the membership shifts its attention from containment to recovery.

2019 Risk Assessment: **M**
Directional Change: ➔

36. Consistent with the Fund's rapid UFR response, CD delivery has swiftly adapted to the crisis in terms of alignment and agility, and fundraising is underway. Initiatives are underway to support a close thematic realignment with immediate country needs, using new modalities to bypass travel restrictions such as online training, learning channel programs, virtual roundtables, webinars, and desk-based reviews. By the time of the Spring Meetings, over 90 countries, requesting or inquiring about the emergency financing, had benefited from CD activities closely integrated with the Fund's policy advice; without scaling back initiatives (such as CDMAP, iDW, and KM) that will support decision making and inform policy dialogue with the authorities. Preliminary estimates indicate that existing donor funding will be sufficient to cover expected CD delivery over the next 12 months for most of the externally financed vehicles, with some uncertainty, absent additional fundraising drives, over medium term resource adequacy. However, rigidities in the CD financing architecture may restrict the Fund's ability to deliver CD in some areas of urgent needs leading to efforts to engage with donors and introduce additional flexibility in some vehicles including by amending LOUs and to launch new fundraising drives under the aegis of the COVID-19 initiative. Limitations to the CD delivery also impact budget buffers (see *Medium-Term Budget*).

37. Mitigation is ongoing, integrating CD with surveillance and lending. It also seeks to align expertise with emerging risks and to targeting more flexible funding. Residual risks remain, however, and include donors' response amid strained domestic conditions, the effectiveness of new delivery modalities in countries with limited IT connectivity or infrastructure, or where experts have no established relationships with counterparts, surging in demand for CD support following the lending efforts, and the risks that constraints to CD delivery in program countries can pose for program success, including for example statistical capacity limitations contributing to data errors or misreporting. To mitigate related risks, STA is providing guidance to countries on business continuity where the pandemic disrupts data collection.

Human Capital

COVID-19 put significant pressures on the Fund's human capital, primarily work pressures. Immediate mitigations were swift and effective and have included work prioritization and process simplifications as well temporary, limited measures to increase and reallocate staff resources. Residual risks remain, however, mainly arising from uncertainty about the pandemic, with implications for both HQ and field-based personnel.

2019 Risk Assessment: **M**
Directional Change: ⇗

38. Risks related to COVID-19 include significant pressures on staff, particularly from the scaling up of program engagements and WFH challenges. Mitigation is responding promptly. The situation exacerbates risks that were already highlighted in previous reports, most notably in terms of agility and allocation, and work pressure risk lenses. The capacity of the institution to absorb change is also strained, elevating risks to, and from, several concurrent HC-related initiatives and ongoing HRD and ITD reorganizations.

39. Swift actions helped mitigate immediate HC risks, and pre-crisis risk mitigations progressed, with some adjustment in modernization program timelines. The CMT conducted a staff sentiment survey in early April which suggested that respondents had adjusted to WFH relatively well (only 6 percent said they had adjusted poorly or very poorly). To alleviate immediate work pressures and mitigate allocation risks, HRD streamlined the Annual Talent Management Exercise (ATME) and established the mechanisms helping with resource availability and reallocation described above. A temporary adjustment in leave and benefit policies, enhanced communication, and extended health and wellbeing services mitigate risks to morale and motivation (see *Physical Assets*). In parallel, pre-crisis risk mitigations progressed, with modifications for pandemic-related demands.[27] The Enhanced Performance Management (EPM) advanced further, but its full benefits may not be realized this cycle due to the streamlined ATME.

[27] The new MyHR staff portal was launched in March to improve service delivery and was effective on queries related to the CCBR and COVID-19. 1HR Release 1 was postponed to August 2020 as completion of project activities including extensive testing was adjusted to accommodate COVID-19 realities, delaying transition to its subsequent phases.

40. Residual risks relate mainly to the uncertainty of the pandemic and its impact on staff, as well as recruitment and diversity and inclusion. Residual risks to work pressures and staff allocation will require further resources as the impact of the crisis unfolds (see also *Medium-Term Budget*).[28] Increased workload and challenges to work-life balance under WFH are putting strain on staff's wellbeing, with caregivers of young children particularly affected. Regarding diversity, as of end-February 2020, 31 percent of all B1–B5 staff were women, meeting the FY20 benchmark. The benchmark for A9-B4 staff from under-represented regions was met for sub-Saharan Africa (8.1 percent) but not for East Asia (12.9 percent) or MENA+ (5.5 percent), with shortfalls of 49 and 59 people, respectively. Some risk mitigations outlined in the 2019 D&I Report progressed, including the creation of a departmental action plan template and the 2025 Diversity Benchmarks Working Group workplan, while other initiatives are postponed. The launch of the 2025 Benchmarks is still expected in the first half of FY21. Residual risks to recruitment and retention remain in the medium term due to travel restrictions and related concerns.

Information Security

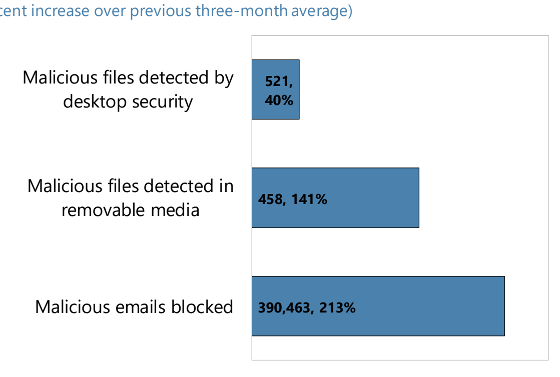
Information security risks remain elevated. The cyber threat landscape has worsened, and the shift to WFH expands the Fund's attack surface and increases risks. Meanwhile, risk mitigation has flagged somewhat: the risk mitigation roadmap has run into delays with the Crown Jewels project, and extending the information security policies to OED personnel was initially set aside while dealing with the crisis response.

2019 Risk Report Assessment: **H**
Directional Change: ↗

Risk lenses	2019 Risk Assessment	Directional Change
Identify	H	↗
Protect	H	→
Detect	H	→
Respond	M	→
Recover	M	→

41. The threat landscape amidst the COVID-19-related shift to WFH has worsened globally. Several high-profile institutions have been hacked. The Fund has seen a surge in malicious threats and was again a target during the Spring Meetings. ITD has been moving to mitigate risks by increasing messaging to users on the need to remain vigilant and providing Fund-wide guidance on secure work practices. However, the important Crown Jewels project has been delayed again–owing mainly to staffing factors as well as some COVID-19-related disruptions–which will entail a few months' delay in implementing the information security risk

Detect: Malicious Threats Detected, Mar. 2020
(percent increase over previous three-month average)



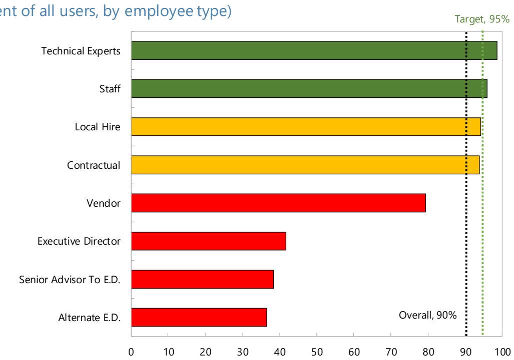
Source: ISG.

[28] *FY 2021-FY 2023 Medium-Term Budget, (EBAP/20/30) FY 2021-FY 2023 Medium-Term Budget—Supplementary Information and Revised Proposed Decisions (EBAP/20/30, Supplement 1)*

mitigation roadmap. The slower risk mitigation alongside rising external threats indicates rising risk in this area.

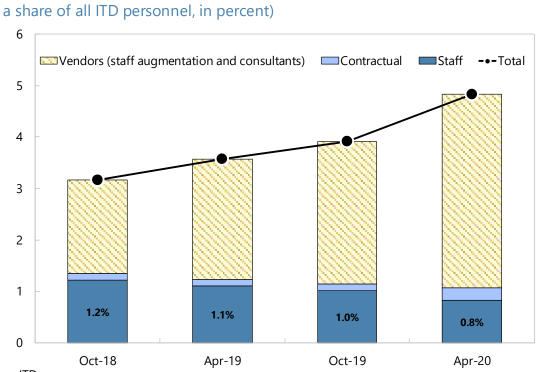
42. Risks related to the Fund's identification ability have increased.[29] Contributing factors include delays in the CJs' project, lack of a cyber threat intel function, and third-party risks. Vendors and OED personnel lag behind staff in training rates (figure). Nearly half of users have not yet completed the face-to-face mandatory CJs training, reflecting gaps in compliance and enforcement. Risks to the Fund's ability to *protect* and *detect* remain high as user awareness and training compliance gaps persist and vulnerability management for internal vulnerabilities continues to lag, reflecting a gap in vendor service. Information security staff resource constraints pose risks to regular cyber hygiene activities. The Managed Service Provider (MSP) Transition Program will reduce significant third-party concentration and segregation of duties risks. Improvements in security around third-party access and controls are underway but need to be completed. Recent risk events related to third-parties suffering a hack, data breach, and a ransomware attack highlight the importance of Third-Party Risk Management and restoring cyber threat intel capabilities. *Recovery* risks are unchanged, with 80 percent of assets remaining to be catalogued.

Annual Cyber Security Training Completion, as of Apr. 2020
(in percent of all users, by employee type)



Source: ISG.

Information Security Personnel 1/
(as a share of all ITD personnel, in percent)



Source: ITD.
1/ Includes personnel in Information Security Group (ISG) and the Cyber Operations Team.

43. The Information Security Roadmap for risk mitigation is now estimated to be completed in Q2 FY2024 instead of end-FY2023. The slowdown reflects delays in the centerpiece Crown Jewels project, as most other mitigation activities in the roadmap have progressed as expected. Specifically, the CJs protection and metric automation projects are delayed by competing WFH pressures, staff capacity constraints in ITD, and the ITD reorganization underway. The other roadmap projects are broadly on track, including the important projects on Identity and Access Management, Privileged Access Management, and security incident monitoring (see figure).[30]

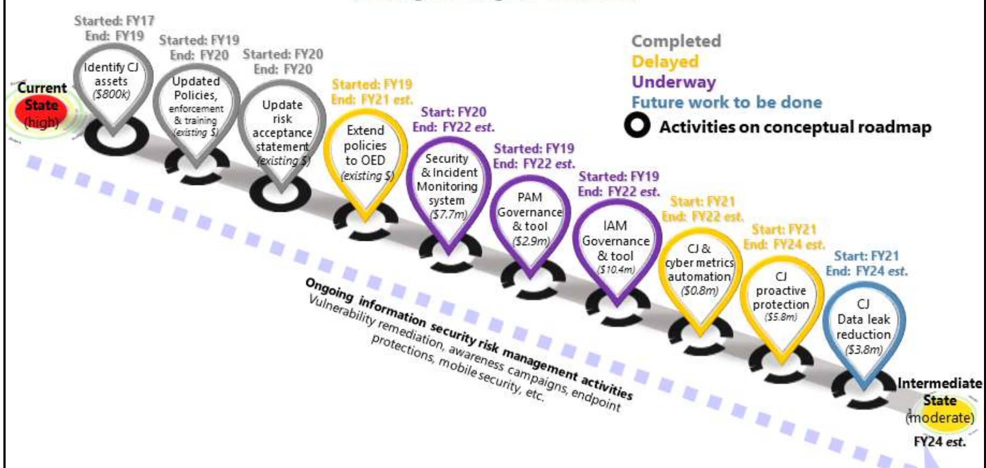
[29] Information security risks are measured according to the lenses shown in the graphic: the Fund's ability to identify information security risks, protect information, detect breaches, respond to security events, and recover information. The delays in the CJs' project concern the CJ proactive protection program, which in turn affects the annual recertification of the CJs list.

[30] The IAM, PAM, and SIEM system replacements are important elements of the roadmap and improve controls around all information assets. A separate FY2021 capital project addresses observations coming out of an event involving inappropriate access by improving controls that govern access by support vendors during application development and maintenance processes.

Extending information security policies to OED personnel was delayed until immediate COVID-19-related work pressures subside, but is now resuming.

Information Security Roadmap Status, 2020 1/

(Getting from high to moderate)



1/ The costs shown are indicative multi-year estimates, and will be refined through the normal budget process. Costs inside the bubbles include capital and administrative cost estimates.
Sources: ITD; PMO; and ORM.

Technology

Technology risks have remained steady despite the COVID-19 disruptions, reflecting rapid risk mitigation by expanding capacity, IT systems, support services, and applications. Technology has supported the effective conduct of Fund business and successful virtual Spring Meetings. Implementation risks have increased as the modernization projects have underspent, also raising operational risks given interdependencies.

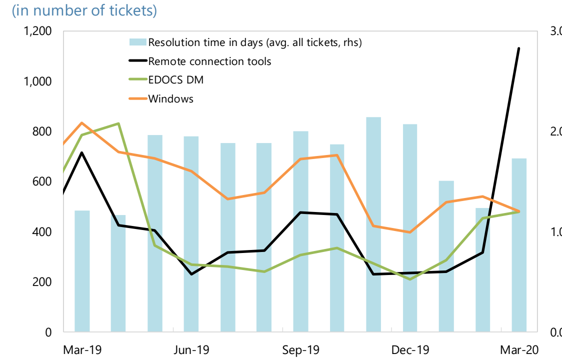
2019 Risk Assessment: M
Directional Change: →

Risk lenses	2019 Risk Assessment	Directional Change
Implementation	M	↗
Maintainability	M	→
Availability	M	↘
Reliability	M	→
Usability	M	→

44. The pandemic and resulting shift to WFH and virtual Spring Meetings posed significant technological and user-related risks, which were mitigated promptly through collaboration between ITD and its partners. Capacity of remote connection services was considerably expanded, and system and application uptime remained acceptable. The crisis-induced improvements in capacity portability and user adaptability decrease *availability* risks. Initial *maintainability* risks were mitigated, as HelpDesk resources were augmented. The technology, connectivity, and support services for the SMs

IT HelpDesk Tickets and Resolution Time, 2019–20

(in number of tickets)



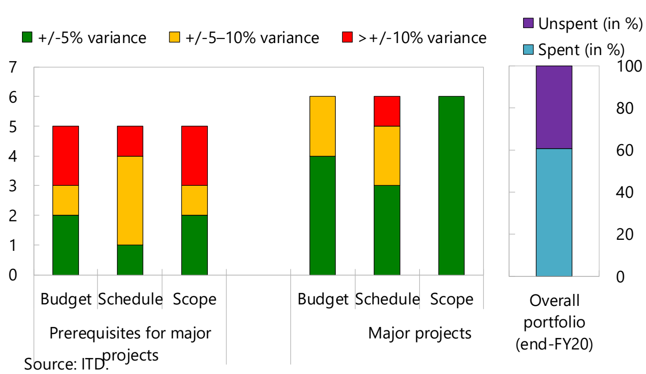
Sources: ITD; and ORM calculations.

proved *reliable* and *usable*, successfully mitigating several potential risks, including reputational. The lack of available video conferencing technology with simultaneous translation created information security risks due to insecure workarounds (*see Information Security)*.

45. Implementation risks increased since the 2019 Risk Report, not so much owing to COVID-19 but because spending on major projects lagged behind schedule. The risk of crowding out other important projects will therefore extend for longer. Project and invoicing delays and staff capacity limitations led to a 40 percent underrun in the FY2020 portfolio. WFH did not increase these risks significantly, with implementation capacity being a bigger constraint.

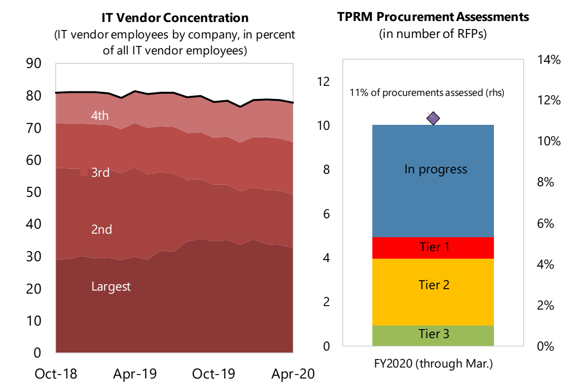
46. With the exception of a Crown Jewels delay, mitigations identified in the 2019 Risk Report progressed broadly as expected, but the modernization agenda still faces risks. (see *Information Security*, and *Background Paper—Technology* for details on the period since the March update). The recently approved update of the Capital Investment Framework cements risk mitigation as a strategic capital investment priority and ORM's role in *ex-ante* risk assessments of key projects. Risk considerations were reflected explicitly in the Project Management Office report to the Board, modernization projects, and the IT service delivery transition program. The third-party risk management (TPRM) project is on track but TPRM will need to be strengthened and expanded further to match the scale of vendor engagement (Box 2). The key residual risks facing the

Implementation: Project and Investment Risks, Apr. 2020
(variances in project budget, schedule, and scope, in number by project and overall portfolio over/underrun)



Source: ITD.

Availability: Risk of Disruption from Third-Parties, 2020



Sources: ITD; CSF Procurement; and ORM calculation.

modernization agenda include change management and failure to deliver expected benefits, third-party risks, and project delays and overruns. Risks of disruptions (*availability*) from third parties remain significant, and Phase II of TPRM is needed for improving third-party risk management. The IT service delivery transition program and the ITD reorganization could pose risks to service levels (*maintainability, availability, reliability*). However, the reorganization is needed to support the transition to the MSP delivery model, which is aimed at reducing third party and information security risks.. WFH poses risks to the mobile device refresh, but ITD has begun deploying new devices on a rolling basis to limit pressure on the mobile support team.

Box 2. Third-Party Risk Management (TPRM)

Managing the Fund's third-party risks continued to be a critical mitigation need in the midst of COVID-19 and the economic downturn. Risks to the Fund through its third-party ecosystem are heightened as third parties face solvency, cyber, and legal risks. Managing the Fund's third-party risks continued to be a critical mitigation need. The Fund's vendor contracts total around $1.7 billion across nearly 1,000 vendors, 60 percent of which support ITD and CSF. Some vendor engagement covers critical functions, including financial transactions. Vendor risks can arise in many different ways, such as contractual or legal disputes, unexpected financial costs, vendors' business continuity or bankruptcy, and reputational risks. A vendor risk materialized in May 2020 that is under remediation (Annex I). Yet the Fund's third-party risk management framework has been on only a small scale and covering a limited number of vendors. The TPRM project seeks to strengthen risk management both at the procurement stage ("Phase 1") and during the delivery of the contract ("Phase 2").

A new unit in CSF has been resourced and has begun pre-award assessments of high and medium risk RFPs. The residual risks—those that cannot be effectively mitigated during contract negotiations—are used to create a residual risk plan. Phase II of the TPRM project under a CSF-led working group has set out to determine an operating model and process to monitor, manage, and report on the residual risks during contract lifecycles. The working group has received guidance from the Fund Risk Committee and will make a concrete proposal in Q1 FY2021. As in Phase I, efforts are prioritized for high risk contracts. The work seeks to address the recommendations in the 2017 OIA audit of third-party vendor management.[1] A standard procurement IT tool will help manage the workflow and reduce the FTE requirement, and a policy will be created to ensure that roles and responsibilities are clearly defined. The framework is developing into an effective mitigation, but third-party risk management needs to be adequately resourced and supported by training, change management, and continued improvements in the institution's risk culture.

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1/ OIA, Audit of the Third-Party Vendor Management (9/26/2017). The recommendations cover governance and defined roles, risk assessment methodology, monitoring and oversight, and process and system weaknesses.

Physical Assets (including Security and Staff Wellbeing)

The COVID-19 pandemic had mixed effects on physical assets risks. As HQ building access has been limited to critical staff only, facilities operations became easier to manage although vendor management risks remain. Risks to security and staff wellbeing increased amid the health risks, increased work pressure, and complicated work environment. COVID-19 related disruptions worsened field security.

2019 Risk Assessment: **L**

Directional Change: →

Risk lenses	2019 Risk Assessment	Directional Change
Physical assets operations	M	→
General facilities	L	↘
HQ1 renewal project status	L	-
HQ1 renewal project impacts	L	-
Security and staff wellbeing	M	↗

47. The pandemic had little impact on HQ physical assets operations, and general facilities performed well in supporting critical business with no major risk events. WFH curtailed access to HQ buildings, reducing the complexity of facilities management. As vendors perform most of the functions, third-party risk management and interactions with vendor companies became critical. Key risks include vendor companies' bankruptcy, and vendor employees' unemployment and health status. Mitigations included WFH for vendor employees and arrangements with vendor companies to safeguard salaries and benefits. Challenges remain in both HQ and the field operations to ensure a safe environment for when staff return to duty stations.

48. The CMT is actively responding to risks posed by the pandemic on the security and wellbeing of staff (table). Risk mitigation has been a central part of the crisis response, guided by the CMT. Risks to staff health are mitigated by WFH at HQ and by voluntary evacuations and WFH in field offices. A total of 161 staff (Res Reps and LTXs) and dependents were relocated. The Emergency Locator app launched November 2019 has proven to be helpful in mitigating security risks. Residual risks relate to reliance on local healthcare systems and infrastructure, continuity of basic supplies, crime and public safety, and travel restrictions impeding medical evacuations. The Fund needs to stay prepared for both a prolonged period of the pandemic and, on the other side, for a safe and orderly return to work when restrictions are lifted. The CMT is alive to these risks and is working on a reopening plan with inputs from ORM.

Recent Development in Field Security, as of April 2020

Region	Security Risks Due to COVID-19
AFR	The COVID-19 pandemic has had a varied impact on security conditions throughout Africa. The respective security situations in most countries have been relatively stable. However, civil unrest, anti-foreign sentiment, property-related crime has increased. The COVID pandemic is also likely to exacerbate longstanding security issues posed by terrorism and ethnic conflict.
APD	The overall impact of the COVID-19 epidemic on security conditions across the region has generally been low. However, as the number of cases rises, prompting governments to impose increasingly restrictive measures, mounting socio-economic pressures felt by local populations have begun to spill over in some cities.
EUR	The security situation in EUR countries is unlikely to significantly deteriorate in the short term; however, given the negative effect the pandemic has had on many local economies, particularly in the context of unemployment and liquidity, the potential for the risks from unrest and crime to spike in the medium term cannot be discounted.
MCD	The COVID-19 pandemic will exacerbate security concerns that have preceded the crisis. In addition, in many countries throughout the region, the slump in crude oil prices will compound the effect. Terrorism-related risks will likely increase for countries that have struggled to contain such risks pre-crisis.
WHD	Violent street robberies are decreasing, while home robberies and domestic violence are on the rise. Resource scarcity is likely to cause a shift in criminal activity to activities such as cargo theft and cybercrime. Large protests as seen in 2019 have persisted, however new protests directly related to the health crisis and it's economic impact will likely expand.

Source: CSF.

Operational Resilience

2019 Risk Assessment: **M**

Directional Change: ➔

Inherent risks to operational resilience increased with the crisis, but mitigations have also been strong and overall risk has held steady. The Fund's operational resilience has been tested like never before and it has withstood the initial shock. Previous risk mitigation proved important preparation. Resilience in the face of the pandemic is closely related to the effectiveness of the CMT for coordinating the crisis response with consistent support from the leadership. The operational resilience risk mitigation roadmap is rescheduled until later in the year in order to be able to draw lessons from the crisis.

49. The benefits of previous investments in mitigating operational resilience risk are evident in the current crisis. Earlier efforts to strengthen the CMT, including expanding membership and formalizing redundancy, set a strong foundation for the Fund's COVID-19 crisis response. The scenario underlying the 2018 OMD-HoDs Crisis Exercise was prescient, in terms of the participation of senior leadership and the focus on widespread illness among Fund staff. The recent work of the RPT helped mitigate business continuity strategy and planning risks by determining clear ex ante priorities that were able to guide the CMT when the risk materialized.[31] The early activation of the CMT on January 27, 2020, and a regular meeting schedule provided valuable time to prepare before crisis conditions developed. The Fund leadership provided support to crisis management and the CMT frequently updated Management, staff, and the Board.[32] The effectiveness of the Fund's crisis response also reflects initiatives by departments like FIN, where key operational functions were preparing for a crisis event.

50. The operational resilience roadmap is on hold until later in the year in order to be able to draw lessons from the crisis response as well as because of staffing constraints. Lessons learned will help to define the target state more clearly. The same small group of staff support both the RPT and CMT and are fully focused on the crisis. The CMT's reporting on internal operations along with ORM's regular tracking of enterprise risks should provide useful input to the RPT formulating key risk mitigations with specific activities leading up to a target state.

Reputation

The Fund has emerged at the center of the COVID-19 response and with an enhanced reputation. Looking ahead, however, the extreme uncertainty of the crisis and the range of enterprise risks involved in the Fund's crisis response (including programs) pose reputational risk.

2019 Risk Assessment: **M**

Directional Change: →

Risk lenses	2019 Risk Assessment	Directional Change
Credibility	L	↘
Effectiveness	L	↗
Stakeholders' perceptions	H	↘
Interconnections	M	↗

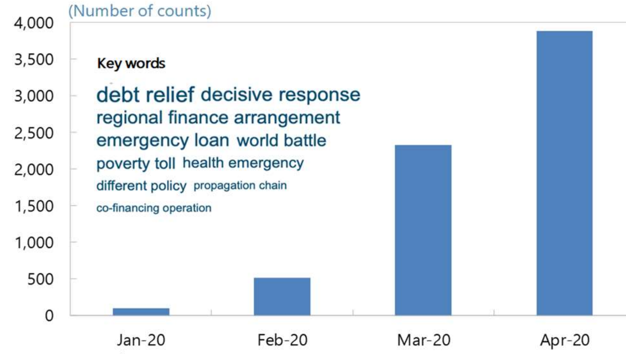
[31] The RPT developed a new Operational Resilience (OR) Policy and updated set of OR Priorities that the Fund Risk Committee endorsed on October 4, 2019. The priorities set out what activities the Fund should focus on step-by-step during a business continuity event, starting with ensuring the continuity of critical functions, staff safety, and clear communication.

[32] *Meeting IS/20/17: Informal Session (to Brief): Staff Technical Briefing on COVID 19-Emergency Preparedness (3/10/2020)*. A first regular update went to the Board on 4/1/20.

51. The Fund's effective crisis response until now has enhanced its reputation, but residual risks arise from interconnections of reputation with all of the Fund's business as well as the external environment. Reputational risks arising from not responding to the demand for emergency financing and not adequately assuming the Fund's role of lender of last resort have been effectively mitigated by the decisive crisis response actions. At the same time, the Fund's *credibility* depends on its ability to accurately analyze macroeconomic and financial implications of this pandemic and provide accurate and useful policy advice, which is at risk given the uncertainty around the path of the pandemic and recovery. Mission cancellations, evacuations, and the extension of the Article IV cycles and the postponement of other missions are risks to the *effectiveness* of the Funds' engagement. Mitigations include maintaining effective dialogue outside traditional channels and leveraging technology. COVID-19 has put the Fund in the media spotlight. Mentions of the IMF and COVID are surging, with positive reactions to the Fund's unique role in debt relief, policy advice and forecasting. The virtual Spring Meetings were successful and well-received by the stakeholders, implying a materialized upside.

Mentions of IMF and COVID in Factiva News 1/

(Number of counts)

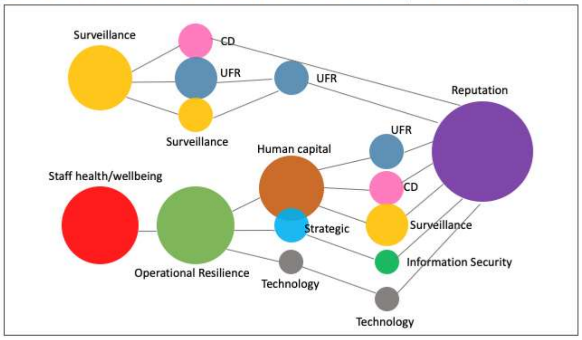


Source: Factiva.

1/ The search is restricted to the first 50 words of English publications, web news, blogs and pictures.

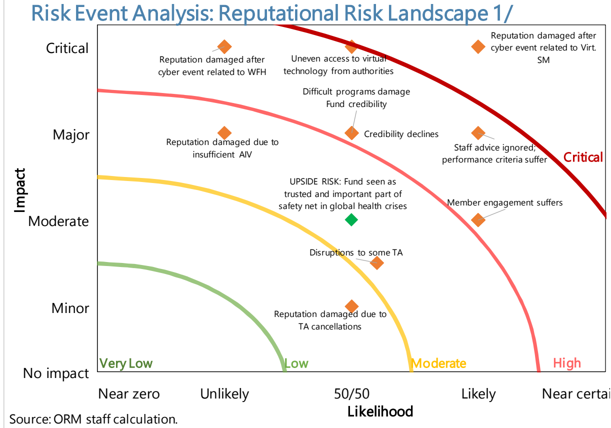
52. Residual risks in reputation are interconnected with other areas. Risk event analysis suggests the Fund's reputational risks can be significantly influenced by risks in program design and performance, including reputational spillovers from the needed debt restructuring before lending, delays or inability to lend due to the delays in obtaining financing assurances from creditors, and the challenges in getting an agreement on a new program in Argentina. Reputational risks also arise from the accuracy of Fund surveillance with respect to the macroeconomic and financial stability implications of the crisis. In operational areas, the risks are driven by cyber events, operational disruptions due to the extended WFH, and field evacuations. Going forward, appropriate lending safeguards and proactive communications could mitigate reputational risks stemming from program performance, the potential misuse of the Fund financing, and forecast accuracy.

Risk Event Analysis: Reputational Risk Interconnections 1/
(Bubble size = number of risk events identified in the respective risk area)



Source: ORM staff calculation.
1/ Risk events are identified by ORM in March, 2020.

Risk Event Analysis: Reputational Risk Landscape 1/



Source: ORM staff calculation.
1/ Risk events are identified by ORM.

ADVANCING ENTERPRISE RISK MANAGEMENT

54. The recommendations of the internal audit of enterprise risk management (June 2020) will help define the next stage of enterprise risk management at the Fund. The steps taken since 2014 to establish and build up the existing risk function have followed a development path that has been set out in successive Risk Reports and been responsive to Board feedback. Staff have clarified a draft roadmap on this basis for strengthening enterprise risk management that would be finalized after reflecting the audit recommendations. Management is carefully considering enhancements to the risk management function, including with respect to ORM's mandate and resources, and these deliberations will be informed by the internal audit recommendations and discussions with the Board going forward.

55. Meanwhile, in recent months, risk management has continued to advance along the lines set out in previous reports, while reorienting toward the COVID-19 shock (Table 4). The Board's Work Program continued to cover workstreams that represent key risk mitigation efforts (Box 3). Key steps since the 2019 Risk Report and March 2020 Quarterly Risk Update have included regular engagement with the Executive Board and an increased flow of risk information; a bi-weekly report on key COVID-19-related enterprise risks to Management and the Fund Risk Committee; engagement with the OIA Audit team to facilitate the audit; work with the Crisis Management Team, Senior Risk Group, and others; incorporation of ex ante enterprise risk assessments in major policy proposals (Box 3); and engagement with the risk community across the Fund to identify specific risks as well as the external risk community.

Box 3. The Fall 2019 Work Program and the Fund's Risk Profile

In implementing its Work Program over the first half of this year and adapting it to the crisis, the Board set the stage for sustained progress in risk mitigation, in line with directions it had previously endorsed. The risk dialogue with ORM continued apace. Executive Directors discussed the *2019 Risk Report* in November 2019, received an update on the *Information Security Roadmap* in January 2020, and engaged in a conversation around the first *Quarterly Risk Briefing* in March 2020. Meanwhile, *Coronavirus Briefings* started early February, and an update to the *Fund's Strategy to Combat COVID-19* was discussed in March. Throughout this period, the Board's work program covered a number of workstreams that are key to risk mitigation efforts. Their impact on the Fund's risk profile will become clearer over time, and they may reveal changes in de facto risk acceptance.

Important work streams related to surveillance, the Fund's lending toolkit and CD implementation continued to mitigate risks to core functions while adapting to the challenges stemming from COVID-19. Key steps were made to maintain the Fund's current resource envelope. Mid-point notes on the *Comprehensive Surveillance Review* and *FSAP Review*, and workstreams on *Assessing Country Vulnerability, Women in the Labor Force*, *Financial Services and Inequality* were important steps for mitigating previously identified surveillance risks. At the onset of the crisis, the *Extension of Consultation Cycles Due to COVID-19 Pandemic* included safeguards to mitigate risks to bilateral engagement, while CD briefings on developments and *implementation of priorities* helped keep track of related risks. With debt emerging as a critical risk, analytical work on *Debt Vulnerabilities in LICs* and *Implications of* Collateralized *Sovereign Lending* is expected to help mitigate surveillance and lending risks, while Reviews of *Public Debt Limits Policy* and the *Debt Sustainability Framework for Market Access Countries* continue to strengthen the underlying policy framework. The Board also approved proposals to double the aggregate size of the New Arrangements to Borrow and a new round of Bilateral Borrowing Agreements.

The Work Program of the Board responded swiftly to prioritize the Fund's crisis response, sharpen its toolkit to support the membership and ensure the adequacy of the resources it has at its disposal. Key COVID-19 risk mitigation measures include the *Debt Initiative: International Call for Action in Support of IDA Countries* and the approval of the *CCRT Debt Service Relief.* The Board discussed concessional financing eligibility (a pre-COVID item), adopted an enhanced *Emergency Financing Toolkit*, modified PRGT *c*umulative borrowing limits and instituted the *Short-Term Liquidity Line* to strengthen the GFSN. It also engaged in briefings on the outlook for Fund GRA and PRGT resources and discussed income and liquidity positions. Together these represent major initiatives to mitigate lending risks. Some initiatives also raise risks so papers presented to the Board for discussion described how proposals seek to address these (i.e. paper on SSL), and by doing so, help to clarify the overall impact of new policies and the context for further risk mitigation.

The Board's work agenda also covered operational topics with risk implications. Most notable of these was the *Comprehensive Compensation and Benefits Review*. The *FY20-23 Medium Term Budget* incorporated emerging and enterprise risk considerations and was revised to spell out the risks of COVID-19 on the Budget. It incorporated emerging and enterprise risk considerations (incl. capital project risks and mitigation), as well as a FY21 risk preparedness matrix covering drivers, impact and management. The Board also received a briefing on the *Change Management* for updates on the modernization projects.

Table 4. Advancing Enterprise Risk Management at the Fund

Advancing Risk Management at the Fund: Progress since 2019 Risk Report 1/

Actions	Status/Completion date
Deeper Executive Board engagement	
Informal Briefing on Information Security roadmap	January 29, 2020
Quarterly Risk Update, Board Briefing, March, 2020	March 11, 2020
Informal Briefing on Key Enterprise Risks from COVID-19	May 15, 2020
Mid-Year Risk Update, Board Meeting	June, 2020
Frequent consolidated financial reporting	Monthly, since March 2020
Continue embedding risk in key processes and policy decisions/Strengthen Risk Mitigation	
Board approved risk mitigation directions	2019 Risk Report
Fund Risk Committee (FRC) approved detailed risk mitigation directions	
Translated by departments into concrete actions	November 2019
Recorded and budgeted for in FY21 Accountability Frameworks (AFs)	December 2019
ORM reviewed AFs and advised Management	December 2019
Report to the FRC on risk mitigations in FY21 AFs	FRC meeting, January 15, 2020
Covid-related Enterprise Risks, matrix: update for management and FRC	Bi-weekly, since March 13, 2020
Ex ante risk assessment for significant program or operational decisions: incl. COVID-related policy proposals, lending tools, procedures	Started with policy papers
Strengthen the Fund's risk management framework	
External review of the enterprise risk management program	April 2020
Draft Roadmap for enhancing Enterprise Risk Management at the Fund	April 2020
Internal audit	In progress, (expected June 2020)

1/ See 2019 Risk Report, graphics on page 6, for descriptions of risk management evolution milestones.

ISSUES FOR DISCUSSION

Do Executive Directors agree with the characterization of enterprise risks and related risk mitigation?

Do Executive Directors recognize a de facto increase in enterprise risks as part of the crisis response, and in this context do Directors prefer to review institutional risk acceptance in November 2020 as planned or to adopt a flexible approach depending on the duration of the crisis?

Do Executive Directors support the moves taken to further strengthen enterprise risk management in the recent period?

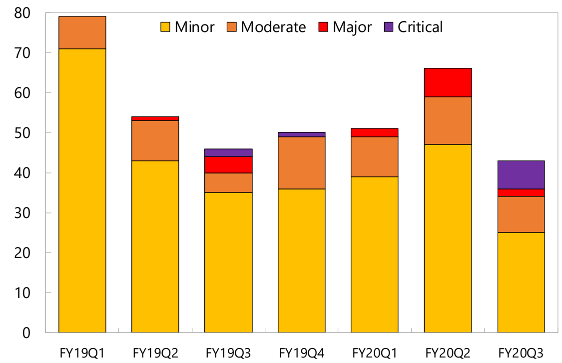
Annex I. Risk Events Update

The Fund's Risk Event Reporting is a critical tool for detecting and mitigating enterprise risks. Events are reported in real time and summarized quarterly for the Fund Risk Committee to identify enterprise wide risk mitigation needs. Recent risk events have been related to COVID-19 and field security.

1. **Risk events in recent months**. Significant risk events were recorded related to COVID-19 and field security since the March Quarterly Update. While the risk event reports for FY2020 Q4 are being processed, recent reported events relate to the initial outbreak in China, the spread to other countries, mitigation efforts by authorities, and activation of the Fund's Crisis Management Team (CMT) to manage the internal response. Risk events related to the pandemic and associated travel and business restrictions have mainly concerned safety and wellbeing, member services, financial impacts, and reputation and have involved personnel both at HQ and in the field. A significant non-COVID-19 risk event included a serious injury to a staff member during a home invasion in the field. Separately, the email account of a third-party provider was compromised and used to instruct and confirm a payment instruction with the Fund in May 2020. The potential financial impact would be at the low end of the moderate threshold. Asset recovery is in progress. Staff is conducting investigations and an impact analysis of the facts, extent, and root cause of the event, and seeking to identify control gaps and remediation. In the interim, departments involved have taken protective measures such as stop payment and use of alternative communication channels with the provider. Fund's initial period of work-from-home. During the initial weeks of WFH, risk events concerned staff health and wellbeing, problems working remotely, and work pressures. An incorrect and widely shared social media post and the use of unapproved video conferencing technology highlighted the importance of ongoing risk mitigation needs in information security and technology.

Risk Events by Severity, FY2019–FY2020

(in number, includes actual impacts and near miss events)



2. **Relevant external events** impacting other institutions, organizations, or governments that may be relevant for the Fund to help with early risk identification and mitigation included the following. Cyber-attacks have increased since the pandemic began as malicious actors seek to take advantage of the changing landscape. Cyber-attacks have targeted high profile institutions including the World Bank and World Health Organization as well as vendors. The unauthorized release of email addresses and passwords from some institutions could be relevant for Fund staff who previously worked there.[1] A ransomware strain has been successfully deployed against private and public sector organizations and governments, including an IT firm currently supporting an IT capital project and bidding on others. No Fund assets were at risk in this attack.[2]

1/ Nearly 25,000 email addresses and passwords allegedly from NIH, WHO, Gates Foundation and others are dumped online, The Washington Post, April 22, 2020.

2/ IT services giant Cognizant suffers Maze Ransomware cyber-attack, Bleeping Computer, April 18, 2020.

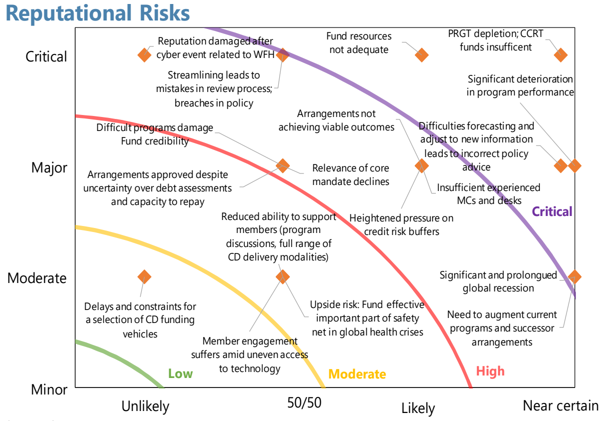
Annex II. Enterprise Risk Matrix and Scenario Analysis

The enterprise risk matrix and scenario analysis are among the tools used for risk identification, assessment, monitoring, and communication. They help to provide a high level view of key risks and to prioritize risk mitigation.

1. **Description: The enterprise risk matrix** identifies key risks and tracks their drivers, mitigation, and the residual risks that remain. It is updated biweekly. **Scenario analysis** adapts the tool and underlying methodology of the Fund@Risk Survey to "stress-test" the risk matrix and map the impact and likelihood of various scenarios that could arise[1] It is updated in the context of the Risk Report/Update, and more frequently if needed. The scenario analysis narrows down a large set of initial scenarios to a more focused set, and maps the impact and likelihood of various scenarios based on interactions with Departments, developments in key risk indicators, and a perspective on risks facing the Fund and the membership. The scenarios reflect residual risks, taking into account inherent risks as well as existing mitigation.

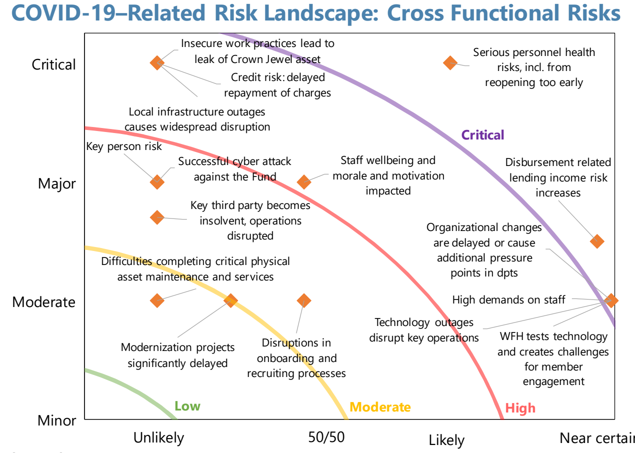
2. **Highlighted risks (May 2020):** The key risks at this juncture are about program portfolio performance and the associated pressure on credit and income risk, adequacy of lending resources, related operational risks associated with human capital and resources, and information security. Additional residual risks include the global economic outlook and forecast uncertainty, pressure on the review process, staff health and wellbeing, technology challenges, and reputational risks.

COVID-19–Related Risk Landscape: Core, Strategic, and Reputational Risks



Source: ORM.

COVID-19–Related Risk Landscape: Cross Functional Risks



Source: ORM.

[1] The twice-yearly *Fund@Risk survey* provides a bottom-up perspective from Departments, and it is supplemented with a survey of Executive Directors for the annual risk report.