

**EXECUTIVE
BOARD
MEETING**

SM/20/95
Correction 1

CONFIDENTIAL

June 9, 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: The attached corrections to SM/20/95 (6/2/20) have been provided by the staff:

Evident Ambiguity **Pages 11 and 22**

Questions: Mr. Arora, ORM (ext. 36211)
Ms. Ivaschenko, ORM (ext. 35427)

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 weakening in scrutiny** 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.

Policies and Decisions

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.

2019 Risk Assessment: **L**

Directional Change: ↗

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.²² 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 ~~that can undermine the scrutiny required by between-meeting demands for Fund lending versus interpreting stringently~~ the Fund's policy framework and safeguards (for example, ~~exercising judgment to assess 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

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

Overall 2019 Risk Report Assessment: **M**

Directional Change: ↗

²² 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)*.