ANNEX 1

ENTERPRISE RISK ASSESSMENT

This annex provides an overview of the enterprise risk implications arising from the evaluation's findings and recommendations, broadly following the templates for assessing enterprise risk provided by ORM.

RISK IDENTIFICATION

As a massive global shock, the onset of the pandemic posed several critical risks for the Fund:

- The Fund faced critical risks to its strategic objective of supporting global economic and financial stability and its business need to help meet members' needs for short-term financing. Relatedly, there were major adverse reputational and strategic risks to the Fund if it was seen as not providing timely assistance to its member countries or not adapting its lending and policy advice, particularly on fiscal policies, to a crisis very different from traditional financial crises.

- At the same time, lending without adequate conditions or regard to where the money ended up also posed major adverse reputational, financial, and business risks to the Fund. Financial risks were particularly acute for the PRGT given the need for adequate funding and subsidy resources and the relatively large scale of potential new exposure in the absence of programs, particularly to countries already at high risk of debt distress.

- The Fund faced major risks to wellbeing and safety of staff from potentially extraordinary work pressures over a sustained period of time or if it asked them to work in conditions that threatened their health.

- In addition, the Fund's core services of surveillance and CD were also heavily affected by numerous risks. Given the narrow focus of this evaluation, this Box does not discuss these risks but they would be important to include in a fuller assessment of enterprise risks posed by the pandemic.

RISK MITIGATION

The Fund took multiple steps to balance and mitigate these risks.

- The Fund sought to mitigate the adverse strategic, business and reputational risk of not providing adequate timely help by an early decision to use emergency financing as the main means of providing support and doubling annual access limits —allowing the Fund to disburse substantial support to countries in need by June 2020. The exigencies of the pandemic were also recognized by scaling back prior actions relative to past use and using flexibility within the existing framework in reaching some difficult judgments about debt sustainability. The Fund adapted and communicated its fiscal policy advice in a way that was bold and appropriate for the circumstances.

- At the same time, the Fund took several steps to offset the reputational and financial risks posed by this strategy of using emergency financing as the main channel for financial support:

    - First, the Fund continued to implement the standard risk framework for use of Fund resources with numerous policies and practices aimed at mitigating the risks from lending. Key elements of this framework included staff's judgments about the urgency of BOP needs, requirements for prior actions in some difficult cases, and the provision of a letter of intent by country authorities on the policies they intend to pursue, as well as debt sustainability, capacity to repay and safeguards assessments. As a result, several countries could not access Fund financing or were held below access limits because of concerns about debt sustainability, governance issues, or policy choices; hence the Fund drew the line in some very difficult cases and held back or curtailed access because of associated risks to the Fund.

    - Second, the Fund took steps to modify the lending architecture under review to respond to shifting understanding of the likely course of the pandemic and its economic and financial impact. It also continued to emphasize that the initial round of emergency financing would need to be followed by UCT programs for countries with continuing financing needs. In the end, the total scale of the financing disbursed—US$29 billion by end-2021—was limited in comparison to the US$98 billion provided in the form of precautionary arrangements to a small number of countries or to that provided in some of the Fund's larger programs in the past. However, the increase in PRGT exposure was very large compared to past experience.

    - Third, the Fund sought to mitigate funding risks by taking steps to maintain its overall GRA resource envelope by renewing its borrowing lines, while seeking to raise new lending and subsidy resources for the PRGT and CCRT.

    - Fourth, the Fund strengthened its attention to governance safeguards in its lending to countries over the course of the pandemic. It also used prior actions to reduce the risks that financing was misused—over half of prior actions during the pandemic were related to governance safeguards—and commitments to conduct ex-post audits of COVID-related spending.

    - Fifth, the Fund's corporate response tried to mitigate the risks to wellbeing and health of staff, for instance through steps to promote redeployment of staff to meet critical needs, authorization of a substantial number of additional hires, and use of virtual working to avoid the need for in-office work or travel as far as possible.

RESIDUAL RISK

The Fund's attempts to balance and mitigate the risks identified at the outset were largely successful as discussed in detail in this report. In particular, the critical strategic and business risks were largely avoided, helping to safeguard the Fund's reputation as premium global economic and financial crisis responder. Nevertheless, the evaluation identified some residual risks.

- First, PRGT finances are now substantially stretched despite fundraising efforts, leaving concerns about ability to deliver the full scale of future concessional financing and leaving the PRGT highly exposed to countries at high risk of debt distress outside the program context.

- Second, variations across countries in the way that policies to mitigate risks were applied—particularly in the degree to which countries were given the benefit of the doubt when their situations on debt sustainability or governance issues fell in a gray area—have fed perceptions of lack of evenhandedness, which leave residual reputational risks for the Fund.

- Third, the Fund also continues to face reputational risks as some country authorities and outside experts felt that the scale of Fund financing was not commensurate with country needs during the pandemic.
- Fourth, the application of governance safeguards was a moving target, so risks of misuse posed by the disbursements made in the initial months of the pandemic were not scrutinized as intensively as became the norm later.
- Fifth, despite the overall scale of the corporate response, indicators of overtime and staff surveys signaled sustained risks to staff wellbeing that have persisted since the initial crisis months, particularly for staff in front-line departments and those with dependents. While physical health has been protected as much as possible, there were residual mental health risks from heavy workloads and stress.

IMPACT OF IEO RECOMMENDATIONS ON RESIDUAL RISKS FROM LARGE EXTERNAL SHOCKS

Clearly, there are inevitable tradeoffs among these residual risks. For example, providing greater access could have alleviated residual reputational and business risks but exacerbated the Fund's financial risks. Nonetheless, the recommendations made by this evaluation could help the Fund manage such tradeoffs and thus better mitigate and balance these risks during future global crises and other large external shocks.

Recommendation 1 proposes that the Fund develop a toolkit of special policies and procedures that could be quickly activated to address the particular needs and circumstances of a global crisis. This could provide for activation of temporary modifications to the lending framework to help countries meet the extraordinary financing needs implied by the crisis while accepting higher levels of risk tolerance for the Fund, thus further mitigating strategic and business risks associated with the crisis. It would also allow for activation of steps to facilitate the corporate response to the crisis, such as temporary deployment of centralized mechanisms for redeployment of staff resources rather than reliance on a free internal market and activation of a temporary budget flexibility mechanism, thus helping to alleviate risks to staff wellbeing.

Recommendation 2 advocates steps to reinforce the IMF's institutional preparedness to deal with global crises and other large shocks. This includes allowing greater room for relating access to countries' need and the strength of their policy framework. This would better balance the adverse strategic, business, and reputational risks of the Fund not doing enough to support member countries with the adverse financial risks that would arise from providing higher across-the-board access for all countries. Developing an initiative to support country efforts to strengthen governance measures, particularly related to crisis-related spending, could help mitigate residual reputational and operational risks arising from misuse of Fund assistance. Reinforcing the existing Crisis Management Team with additional resources would allow better determination of the potential risks to staff's physical and psychological health.