ANNEX 4

ENTERPRISE RISK ASSESSMENT

This annex provides an overview of the enterprise risks identified through the evaluation process, the efforts the Fund has made to address them, the residual risks that remain, and how the IEO's recommendations may help mitigate them.

Risk identification. The significant expansion of the IMF's work into newer policy areas conducted through ad hoc processes results in several enterprise risks:

- Insufficiently inclusive and transparent decision-making processes and lack of clarity and consistency in the principles of engagement in newer policy areas harm the perception of the Fund's impartiality and entail reputational risk. It also creates a business risk for the Fund insofar as it might lead to lack of consistency in policy advice.

- Decisions on strategies to engage in newer policy areas are not taken in a holistic manner with appropriate scope, resource allocation, and risk management considerations. This leads to the misalignment between the ambition of Fund strategies and their implementation, including insufficient availability of expertise in the newer policy areas and unsustainable work pressures on staff. The absence of critical information, including granular human resource and budget data by policy area, restricts the Board's ability to carry out the strategic oversight of Fund operations. This creates a variety of risks, including operational (process and human capital), business (management effectiveness and analytical accuracy), and reputational (credibility) risks.

- The absence of a comprehensive institutional approach for Fund engagement with partners, paired with inadequate deliberation on how decisions to expand Fund activities into newer policy areas fit into a larger context, including the Fund's position vis-à-vis other international organizations, entails business, operational, and reputational risks.

Risk mitigation. The following measures have helped mitigate these risks:

- *Decision-making process measures.* To improve formulation of institutional priorities and increase effectiveness in delivering the Fund's mandate, management implemented a new planning cycle and framework in 2012. It included two new instruments, namely, the Global Policy Agenda and the departmental Accountability Framework. To improve understanding of key terms and how they should be used to operationalize the expansion of Fund activities into newer areas, management and staff prepared multiple documents, including guidance notes, frameworks, strategies, and how-to notes.

- *Budget measures.* Within the context of a real flat budget, the IMF undertook several initiatives to make the use of existing resources more efficient. First, the Fund undertook two major streamlining exercises in 2015 and 2018, which allowed it to redirect, on average, 4 percent of the aggregate budget envelope to high-priority tasks and new initiatives. Second, from FY2018 onward, the Fund's MTBs included dedicated risk sections which identified near- and medium-term risks related to budget preparation and implementation. Third, the Budget Augmentation Framework approved by the Board in 2021 increased the Fund's administrative budget by 6 percent to provide additional resources to expand the Fund's activities into newer areas and help relieve unsustainable work pressures.

- *Modernization agenda.* The Fund has been implementing a modernization agenda aimed at increasing the effectiveness of its operations, and which focused primarily on investment in modern IT solutions, such as document, data, and HR management systems; cyber security; and Artificial Intelligence.

Residual Risks. The risk mitigation efforts described above were only partially successful, as residual risks persist:

- *Overstretched resources.* Despite the efforts described above, the IMF's operational budget remains overstretched, and the workload remains unsustainable. The 2021 decision to increase the operational budget by 6 percent in real terms fell short of management's request of 9.1 percent, and also underestimated the real costs of expansion of work into newer areas. Consequently, significant business, operational, and reputational risks remain unaddressed. In particular, the excessive staff workload continues to create operational risk and provision of advice in areas where Fund staff has limited expertise is a source of reputational risk.
- *Lack of clarity on principles of engagement in newer policy areas.* The legal implications of the Board's decisions to expand the Fund's activities into newer policy areas remain unclear to key stakeholders, and insofar as they create unrealistic expectations regarding deliverables in these areas, they pose a reputational risk to the Fund. Insufficient clarity on the operationalization of the five specific strategies constrains staff's ability to deliver consistently high-quality policy advice in these new areas, creating business, operational, and reputational risks.
- *Insufficient information.* The absence of critical information, particularly (i) granular budget data by policy area; (ii) a comprehensive risk assessment; and (iii) knowledge on the extent to which and in what ways the IMF relies on engagement with partners in areas beyond its expertise remains unaddressed and continues to pose business and operational risks to the Fund.
- *Engagement with partners.* The Fund has failed to address business, operational, and reputational risks stemming from the lack of a Board-approved Statement of Principles and a lack of deeper reflection on how the Fund should position itself within the international institutional structure.

Impact of IEO recommendations on addressing residual risks. The recommendations made by this evaluation could help the Fund to mitigate the residual risks in the following ways:

- **Recommendation 1** advises that the Board and management enhance the decision-making process by (i) developing a Fund-wide institutional strategy in an inclusive manner, and (ii) taking a more holistic approach when endorsing newer policy areas by better linking the decisions related to scope, budget, human resource, and risk management implications. Implementation of this recommendation would limit existing and potential future discrepancies between ambition and ability to deliver, mitigating business, operational, and reputational risks. Enhancing the inclusiveness of decision-making processes would limit the perception of a lack of evenhandedness, which would further mitigate reputational risk.
- **Recommendation 2** calls on management and staff to address certain operational challenges by producing more granular budget data by policy area across all Fund activities and operations. It also recommends that the Board consider which policy areas to track and the level of granularity required. This recommendation directly addresses operational (process) and business (management effectiveness) risks, as providing sufficiently granular data would allow more precise estimation of costs and resource needs by

policy area. It would also enable the Board and management to make more informed decisions that account for trade-offs, risks, and budget implications, better ensuring the delivery of institutional priorities.

- **Recommendation 3** proposes that management and staff update the 2022 Guidance Note for Surveillance Under Article IV Consultations in order to enhance the clarity of key elements regarding Fund surveillance in newer policy areas. Implementing this recommendation would enhance the clarity and consistency of engagement in newer policy areas, including through better internal and external communications around these key elements, which would mitigate reputational and business risks.

- **Recommendation 4** advocates for the adoption of an Executive Board-approved high-level Statement of Principles for Engagement with Partners. Implementing this recommendation would enable a coherent institutional approach to engagement with external organizations and would properly position the Fund vis-à-vis other international organizations, which, in turn, would help mitigate operational (process), business (management effectiveness), and reputational risks.