ANNEX 8

# ENTERPRISE RISK ASSESSMENT

**This annex provides an overview of the enterprise risk implications arising from the evaluation's findings and recommendations.** It broadly follows the templates for assessing enterprise risk provided by the IMF's Office of Risk Management (ORM). The annex outlines the risks the Exceptional Access Policy (EAP) has sought to address and its success in doing so. It also explores the risks that arise in the status quo, how the recommendations would address them, the risks associated with the recommendations, and the residual risks for the Fund.

## RISK MITIGATION BY THE EAP

### Objectives

**The EAP seeks to allow the Fund to respond to members facing exceptional needs while addressing concerns with the previous, more ad hoc approach that raised several key risks for the Fund.** The policy has four key objectives: (i) to shape members' and market expectations; (ii) to provide clearer benchmarks for Board decisions on program design and exceptional access (EA); (iii) to safeguard the Fund's resources by controlling the Fund's assumption of risk; and (iv) to help ensure uniformity of treatment of members. While not all of these objectives were explicitly formulated as risk mitigation objectives, they can be seen as responding to strategic, financial, reputational, and operational risks associated with the previous approach based on use of the exceptional circumstances (EC) clause. The EAP sought to mitigate these risks through its different elements comprising the four EAC, the enhanced decision-making procedures, and the ex post evaluations (EPEs). It was understood as seeking to provide greater safeguards to accompany the higher risks associated with higher access.

**The EAP's design and application evolved during 2002–16, with implications for risk management**. The amendment of the EAP to include precautionary balance of payments (BOP) needs as well as non-capital account crises since 2009 implicitly responded to strategic, business (including member engagement), and reputational risks by seeking to apply a consistent set of policies and procedures across the membership in EA programs.

### Assessment

**The EAP has helped mitigate some key risks by compelling the institution to pay due regard to a consistent set of criteria and procedures in considering EA cases.** The evaluation revealed that the structured deliberation as a result of applying the EAP has provided a guardrail against the more discretionary and potentially inconsistent approach the Fund followed before.

**However, issues with the design and implementation of the EAP have led to the policy falling short of the above objectives, which has raised several risks.** The Fund has not undertaken a dedicated review of the EAP since 2004, instead adapting the policy on an ad hoc basis in response to country cases. The ad hoc adaptation of the policy in response to particular country or regional circumstances has given rise to perceptions of a lack of evenhandedness, raising reputational risks.

**More broadly, the evaluation finds the EAP has had only mixed success in delivering on its objectives, suggesting only limited mitigation of the related strategic, financial, operational, and reputational risks.** The EAC have not provided a substantively higher standard relative to NA programs (except for the criterion on debt sustainability) and have not significantly influenced program design. The evaluation also identified technical issues with the EAC. EA programs often have not succeeded in resolving members' BOP problems—and often have not catalyzed private sector financing as envisaged—evidenced in EA programs' rarely being accompanied by warranted debt restructuring and frequently being associated with successor programs or the repeated use of Fund resources. The repeated use of Fund resources in turn has resulted in a concentration of Fund exposure to a small group of countries, with implications for how the Fund interacts with these members (to avoid arrears), its financial position, and its technical credibility. These issues have contributed to raise related enterprise risks. Reputational risks have been further exacerbated by the perception of reverse engineering EAC assessments when pressures on staff and management to move forward were high.

**While the EAP decision-making procedures and EPEs have mitigated risks relative to the pre-EAP practice, gaps in fulfilling the procedures and limited use made of EPEs have contributed to business, operational, and reputational risks.** The enhanced procedures have tried to make the Board the locus of key EA decisions. The EPEs have sought to strengthen learning and accountability. These have been important moves for mitigating business, operational, and reputational risks. However, risks have arisen relating to: gaps in consultation with the Board ahead of staff level agreement and public communications of proposed access levels; and limitations in the timeliness, content, and procedures for the materials provided to the Board for the informal sessions and for the financial risk supplements. These issues may hinder the Board's decision-making and add to related risks. The limited use made of EPEs and the problems identified in their procedures give rise to business and reputational risks.

**The Fund's Enterprise Risk Management Policy—approved in December 2022—plans to provide greater coverage of financial risk assessments in the EAP.** It includes ORM providing an independent view of assessments in enterprise risk related to lending and conducting Risk Control Self Assessments on the end-to-end process of EAP. This coverage could alleviate business and strategic risks in the policy remaining relevant and continuing to meet membership needs.

## RECOMMENDATIONS

### Risk Mitigation

**The IEO recommendations address several risks associated with the status quo**:

- ***Recommendation 1*** addresses strategic and business risks making the policy more effective and better aligned with strategic objectives, and changing needs of the membership, as well as ensuring the EAP remains relevant. The possibility of using an EC clause would help mitigate strategic, business (member engagement), and reputational risks. Reviewing the EAP regularly will also help ensure the policy is applied in a uniform manner, alleviating reputational risk.
- ***Recommendation 2*** aims to better align EAP objectives with strategic risks by refocusing the assessment of prospects for program success around program design. It addresses strategic (membership), business (member engagement) and governance risks related to program design and ownership. It could also alleviate operational (process) and reputational risks by the clearer presentation of policy choices and trade-offs in staff reports.
- ***Recommendation 3*** aims to better align EAP objectives with strategic risks by clarifying how the EACs provide a higher standard for EA programs. It addresses financial risks by further safeguarding the Fund's resources and mitigates business risks related to the analytical accuracy of EAC3. The recommended measures to clarify and strengthen the criteria enhance the transparency and clarity of the EAP, addressing reputational and strategic risks.

- *Recommendation 4* strengthens the application of EAP procedures, potentially mitigating governance, business, and strategic risks related to the membership. Better leveraging EPEs and strengthening EAP procedures would provide further clarity and transparency in documents and program design, alleviating reputational risk, and allowing for improvement in Board decision-making. Improvements to the EAP procedures would also mitigate operational risk related to EAP procedures and process.

- *Recommendation 5* proposes a closer integration between the EAP with the ERM policy that would mitigate strategic and financial risks related to the Fund's lending mandate and safeguarding the Fund's resources, as well as operational risks in ensuring effective and improved policies.

## Risks Associated with Recommendations

**Implementing the IEO recommendations would require managing budget, human capital, and process risks.** The EAP review(s) will require resources, even though its load may be lightened by the possibility that some of the recommendations could be handled within existing work streams. Regular reviews in the future, however, would reduce the burden on any particular review. The need to align the EAP with the ERM policy could be handled complementarily with the Fund's efforts to mainstream ERM but may involve additional resources and training. Clarifying the higher safeguards in the EACs relative to NA programs may increase incentives for optimistic forecasts and assessments. If the option of an EC clause is considered, associated enterprise risks will need to be managed carefully relating to evenhandedness, proliferation, adequate safeguards, and reputation. Disclosure of these risks to the Board would be important. Greater early engagement and sharing of preliminary information draws attention to the need to manage the risk of leaks of confidential information, which can have significant impacts.

## RESIDUAL RISKS

**The Fund will need to continue to find the right balance between rules and flexibility following the implementation of the IEO recommendations for the EAP.** The Fund will continue to face reputational risks associated with its credibility and the uniformity of treatment of its members. There will always be a level of judgment involved in decisions related to EA programs, including judgments related to the EAC and any decisions to use the EC clause (if it is adopted). These judgments and decisions will carry strategic and reputational risks. The impact of potential leaks in sensitive information would remain significant in terms of reputational and strategic risk. The EAP's design and implementation also pose financial risks to the adequacy and liquidity of the Fund resources in being able to meet the needs of members and the Fund's own financial obligations. Strategic risks to the EAP's relevance will remain given the membership's needs will continuously change and the need to realign objectives with the circumstances of the membership.