



Risk assessment  
in the Risk  
Management  
framework

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# Risk assessment in the Risk Management framework

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2013



# The Risk Management Framework – Objectives

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## 2 objectives

- a tool during the identification, formulation and implementation of budget support operations
- information for the policy and political dialogue

## 5 steps

- identify specific risks linked to the provision of budget support
- identify mitigating measures and risk responses as part of a risk strategy
- inform budget support dialogue
- monitor risks and measures during implementation
- react to immediate deteriorations of a partner country's situation

# A comprehensive risk assessment

## 5 risk categories

- political governance
- **macroeconomic**
- developmental
- public financial management
- corruption / fraud

## And 2 specific concerns to keep in mind

- budget support involves a transfer of resources to a country's system, which must be carefully considered
- general budget support seen as overall endorsement of the political stance of the partner country

# Macroeconomic risk

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A thorough macroeconomic risk assessment comprises several aspects

- macroeconomic policy and financial sector
- debt sustainability
- vulnerability and exogenous shocks

# Risk assessment procedure

For each question, a quantitative answer is requested, as well as a narrative to justify it. The possible quantitative answers are

- **LOW:** unlikely materialisation of the risk and limited possible impact
- **MODERATE:** additional monitoring necessary, but if the risk materialises anyway, its impact should not go beyond a delay or a partial implementation
- **SUBSTANTIAL:** insufficient country system and institutional structure. Possible disruption of the programme or of its achievements
- **HIGH:** risk cannot be handled by the country's structures. Possible failure of the programme and reputation risk for the EC



# Recap of risks previously identified

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- domestic and external absorption volatility
- price volatility and inflation
- external financial volatility
- domestic financial vulnerabilities
- sovereign debt sustainability
- LT competitiveness issues, not really relevant in the RMF