Risk Management at IFAD

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Associate Vice-President & Chief Risk Officer
Office of Enterprise Risk Management (RMO)
11 January 2022
An effective and robust ERMF is supported by

1. Adequate Integrated Policy Framework
2. Generation and maintenance of quality data, metrics, information flows
3. Risk identification, analysis, prioritization, control, mitigation processes
4. A risk management model ensuring well defined risk ownership, effective oversight, escalation, risk-informed strategic decision
Risk Management at IFAD – Optimizing Institutional Efficiency and Effectiveness through Risk Management

- Risks of loss resulting from inadequate or failed internal processes, issues with individuals or systems, or external events.

- Effective management of IFAD's balance sheet. It comprises essentially credit risk, market risk and liquidity risk.

- Risks taken in deploying IFAD's development assistance, from preparation of the programs, to implementation, to supervision.

- Risks that have an impact on IFAD's ability to carry out its mission, execute its strategies and meet its objectives, and whose materialization might affect IFAD's positioning in the development landscape.

- Risks of loss resulting from inadequate or failed internal processes, issues with individuals or systems, or external events.

- Are we doing the right things?
- Are we getting the results?
- Are we managing our financial resources well?
- Are we doing things right?
Clear roles and responsibilities help to establish accountability across IFAD. IFAD’s ERM roles and responsibilities are outlined below and are broken down by governance level. To establish coordinated risk management efforts, IFAD further structures the management of risk are each of the Fund’s core risks.
The Office of Enterprise Risk Management ensures oversight over the correct and effective operationalization of the whole Enterprise Risk management framework

- Forms the **second line of defense** and is independent from units that originate and mitigate risk (first line) and units that perform audits on the effectiveness of the whole ERMF;

- **Identifies risks** to the Fund’s capital and balance-sheet position. It monitors, analyzes, measures, reports, on risks and **provides support to management** in managing risks through adequate controls and processes, ensuring the achievement of a holistic view on all risks and ensuring that the Fund’s rating is not affected;

- Monitors compliance with internal policies pertaining to risk generating activities and establishes policies and processes to **manage compliance risk**.

- Reports on Risk Management and mitigation to the AC and EB through the Corp. Risk Dashboard.
IFAD Enterprise Risk Management: RMO’s focus

- Governance
- Structure
- Dissemination of Risk functions and culture
- Monitoring and reporting tools
- Frameworks and Policies
- IT systems and Data
ERMF operationalization – Progress and improvements

*Embedded/ advanced risk management implies carefully assessing *institutions maturity, creating conditions and adopting tools* conducive to the transition process.*

<table>
<thead>
<tr>
<th>MAIN NEEDS</th>
<th>MAIN TOOLS</th>
<th>Status in January 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Development, revision, upgrade of policies</td>
<td>ERM policy, RAS, ORM framework</td>
</tr>
<tr>
<td>2</td>
<td>Operationalizing Risk Governance</td>
<td>New Risk Committees, RMO positioning</td>
</tr>
<tr>
<td>3</td>
<td>Risk Capacity build up: processes, culture, resources</td>
<td>RMO Staffing, use of WGs, defining strategies and sequencing, budgeting</td>
</tr>
<tr>
<td>4</td>
<td>Refine tools fit for second line oversight</td>
<td>Data quality, frequency, depth, access, adequacy of metrics/tools to measure risks</td>
</tr>
<tr>
<td>5</td>
<td>Relationship building with CR Agencies</td>
<td>Information exchange, embedding of RA considerations in operational strategy</td>
</tr>
<tr>
<td>6</td>
<td>Defining internal and external information protocols, reporting and info flows</td>
<td>Tools for info exchange (Service Level Agreements), Improving info quality</td>
</tr>
</tbody>
</table>
CRD - Improvements in communicating about risks

Transitional CRD presented to AC in March 2020

FINANCIAL RISKS

Financial risk is defined as the risk of financial loss resulting from the Fund’s ability to efficiently and economically manage financial resources and satisfy financial commitments.

CRD presented to EB in Nov. 2021, now regularly updated, EB seminars to be launched in 1H2022

<table>
<thead>
<tr>
<th>Risk</th>
<th>Key Risk Indicator</th>
<th>Department</th>
<th>Indicative Threshold</th>
<th>2019 H1</th>
<th>2019 H2</th>
<th>2020 H1</th>
<th>2020 H2</th>
<th>Status</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leverage and Capitalization (L2): Commitment capacity (L3)</td>
<td>Leverage: Financial liabilities as a percentage of initial capital available</td>
<td>RMO</td>
<td>&lt;35%</td>
<td>8.5%</td>
<td>9.8%</td>
<td>10.4%</td>
<td>14.6%</td>
<td>Green</td>
<td>↑</td>
</tr>
<tr>
<td>Deployable capital: Initial capital available less total resources required and a prudent buffer as a percentage of initial capital available</td>
<td>RMO</td>
<td>&gt;0%</td>
<td>42.2%</td>
<td>40.3%</td>
<td>40.1%</td>
<td>39.3%</td>
<td>Green</td>
<td>↓</td>
<td></td>
</tr>
</tbody>
</table>

Explanation of tolerance:
- IFAD strives to maintain no more than 35% leverage
- Due to nature of the risk, data is only available on a semi-annual basis
- While leverage increased during the second half of 2020, the KRI remains within tolerance

Explanation of tolerance:
- IFAD must have deployable capital above 0%
- Due to nature of the risk, data is only available on a semi-annual basis
- While the deployable capital decreased during the second half of 2020, the KRI remains within tolerance

Leverage: Financial liabilities as a percentage of initial capital available

Deployable capital: Initial capital available less total resources required and a prudent buffer as a percentage of initial capital available

FINANCIAL RISKS

Leverage and capitalization risk: The risk that the Fund’s capitalization or capital position is not adequate to safeguard its ability to continue as a going concern.

Key risk indicator | Risk tolerance level | 2019 Q1 | 2019 Q2 | 2019 Q3 | 2019 Q4 | Trend |
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I.1 Debt to equity</td>
<td>35%</td>
<td>6.2%</td>
<td>7.2%</td>
<td>7.6%</td>
<td>8.1%</td>
<td>n/a</td>
</tr>
<tr>
<td>II.2 Deployable available capital</td>
<td>TBD</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>
## Financial Risk
### Summary in table view

<table>
<thead>
<tr>
<th>Risk</th>
<th>Key Risk Indicator</th>
<th>Department</th>
<th>Threshold</th>
<th>2020 Q2</th>
<th>2020 Q3</th>
<th>2020 Q4</th>
<th>2021 Q1</th>
<th>2021 Q2</th>
<th>2021 H1</th>
<th>Status</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leverage &amp; Capitalization</strong></td>
<td>Commitment capacity (L3)</td>
<td>RMO</td>
<td>&lt;35%</td>
<td>8.5%</td>
<td>9.8%</td>
<td>10.4%</td>
<td>14.6%</td>
<td>17.3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Leverage &amp; Capitalization</strong></td>
<td>Pledge receipt rate: The ratio of total pledges to target replenishment contributions, expressed as a percentage (by current Replenishment)**</td>
<td>FCD</td>
<td>&gt;90%</td>
<td>89.0%</td>
<td>89.0%</td>
<td>89.0%</td>
<td>92.0%</td>
<td>92.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Credit (L2): Default (L3)</strong></td>
<td>Non-performing loans (NPL): Non-performing loans (NPLs) to loans outstanding</td>
<td>FCD</td>
<td>&lt;5%</td>
<td>2.7%</td>
<td>2.6%</td>
<td>2.6%</td>
<td>2.8%</td>
<td>2.8%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Liquidity &amp; Funding (L2):</strong></td>
<td>Minimum liquidity ratio (MLR):*** Liquidity to minimum liquidity requirement</td>
<td>TRE</td>
<td>&gt;100%</td>
<td>185.8%</td>
<td>146.2%</td>
<td>182.4%</td>
<td>210.6%</td>
<td>231.2%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Market (L2): Interest rate</strong></td>
<td>Investment Portfolio Conditional value at risk (CVaR): 1-year CVaR at 95 per cent confidence level</td>
<td>RMO/TRE</td>
<td>&lt;3.0%</td>
<td>1.8%</td>
<td>1.5%</td>
<td>1.1%</td>
<td>2.2%</td>
<td>1.9%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Legend
- **Within tolerance threshold**
- **KRI increasing in favorable direction**
- **KRI increasing in unfavorable direction**
- **Outside of tolerance threshold**
- **KRI decreasing in favorable direction**
- **KRI decreasing in unfavorable direction**

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* According to IFAD’s Integrated Borrowing Framework (EB 2020/131(R)/R.21/Rev.1) from December 2020.
** Current replenishment refers to the actual ongoing replenishment period (IFAD11=2019-2021)
*** According to IFAD’s 2020 Liquidity Policy (AC 2020/158/R.6), at the beginning of IFAD12, the provisions of IFAD’s 2006 Liquidity Policy will be entirely superseded and replaced by IFAD’s 2020 Liquidity Policy. Until then, current MLR will be reported in the CRD.
Financial Risk

Explanation of tolerance and graphical representation of trends I

**Leverage & Capitalization (L2): Commitment capacity (L3)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Leverage</th>
<th>Deployable Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 H1</td>
<td>8.5%</td>
<td>0%</td>
</tr>
<tr>
<td>2019 H2</td>
<td>9.8%</td>
<td>0%</td>
</tr>
<tr>
<td>2020 H1</td>
<td>10.4%</td>
<td>0%</td>
</tr>
<tr>
<td>2020 H2</td>
<td>14.6%</td>
<td>0%</td>
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<td>0%</td>
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Thank you!