



Risk Management at IFAD

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IFAD's Enterprise Risk Management Framework

INTERNAL REFORMS + BUSINESS MODEL IMPROVEMENTS + RATING

REQUIRE FOCUS ON OPTIMIZING INSTITUTIONAL EFFICIENCY AND EFFECTIVENESS

**Decentralization
2.0**

**Improved
Business
Model**

**Financial
Architecture &
Credit Rating**

**Control environment,
Compliance,
Accountability**

**Enterprise Resilience,
Delivery,
Effectiveness**

An effective and robust ERMF is supported by

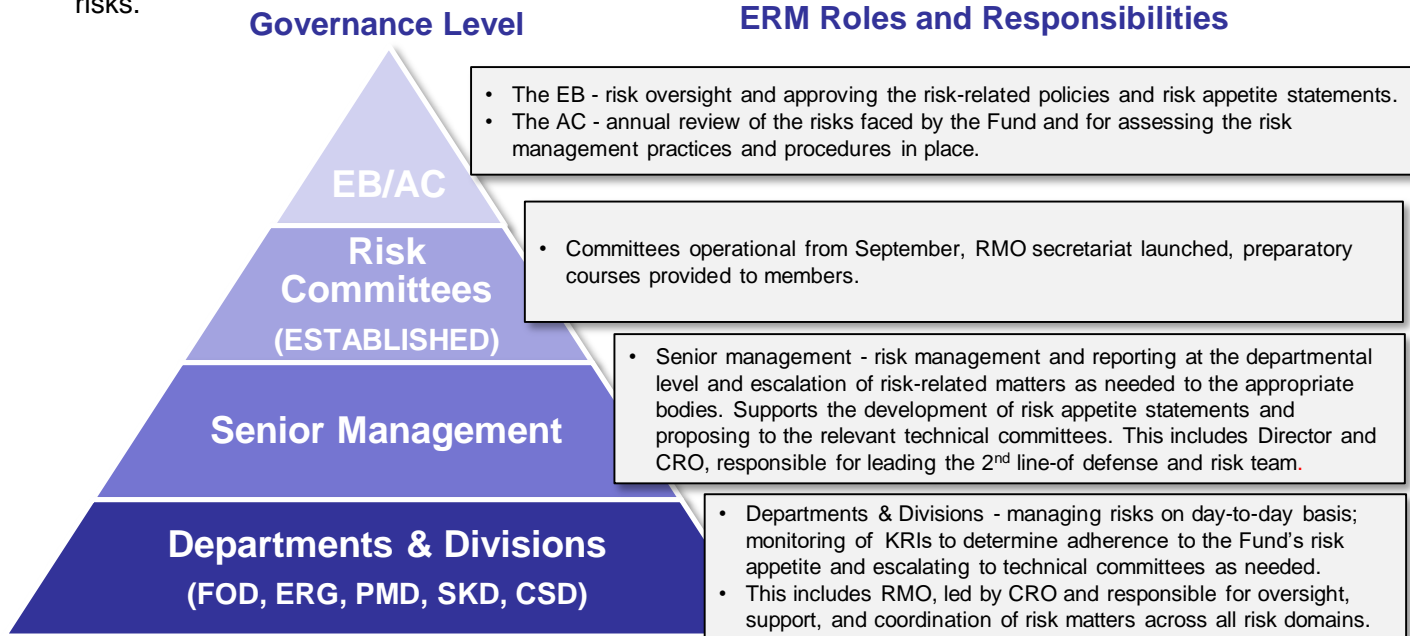
- 1. Adequate Integrated Policy Framework**
- 2. Generation and maintenance of quality data, metrics, information flows**
- 3. Risk identification, analysis, prioritization, control, mitigation processes**
- 4. A risk management model ensuring well defined risk ownership, effective oversight, escalation,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

Risk Management at IFAD – Optimizing Institutional Efficiency and Effectiveness through Risk Management



Risk Governance, roles and responsibility

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.



IFAD Enterprise Risk Management Framework

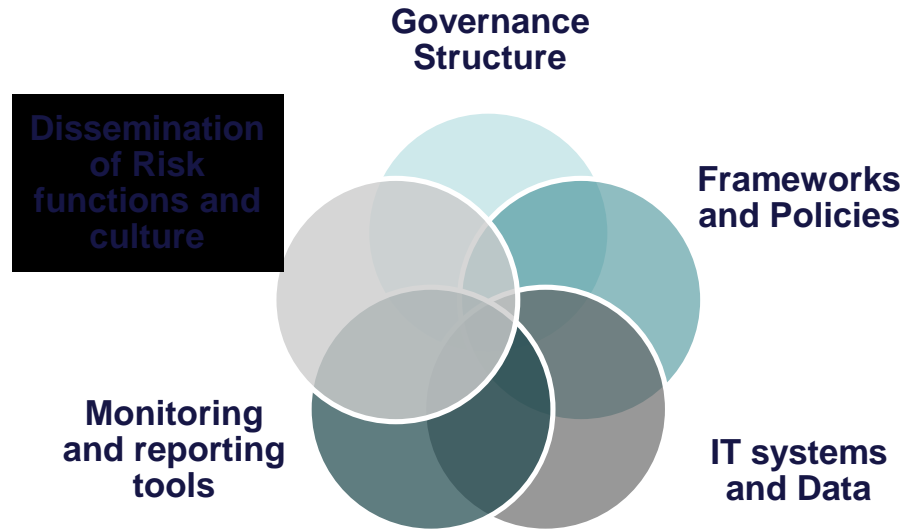
The Office of Enterprise Risk Management (RMO)

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



ERMF operationalization – Progress and improvements

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

	MAIN NEEDS	MAIN TOOLS	Status in January 2022
1	Development, revision, upgrade of policies	ERM policy, RAS, ORM framework	ERM policy and RAS approved, ORM policy ready for approval
2	Operationalizing Risk Governance	New Risk Committees, RMO positioning	Committees established in 2021 and now fully operational, Charter of RMO issued
3	Risk Capacity build up: processes, culture, resources	RMO Staffing, use of WGs, defining strategies and sequencing, budgeting	Staff recruitment in line with capacity build up
4	Refine tools fit for second line oversight	Data quality, frequency, depth, access, adequacy of metrics/tools to measure risks	Databases being finalized, data quality, depth and coverage improving, CRD constantly updated
5	Relationship building with CR Agencies	Information exchange, embedding of RA considerations in operational strategy	CR Agency surveillance ongoing, positive outcomes
6	Defining internal and external information protocols, reporting and info flows	Tools for info exchange (Service Level Agreements), Improving info quality	Data exchanges and information protocols established, risk focuses in all Departments



CRD - Improvements in communicating about risks

Transitional CRD presented to AC in March 2020

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

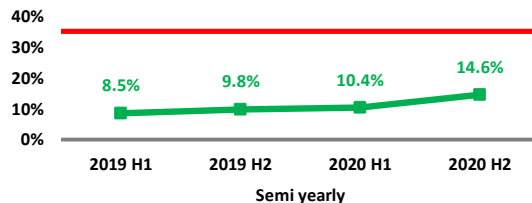
FINANCIAL RISKS

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

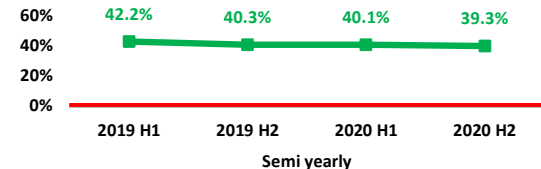
Risk 8: [REVISED]						
Leverage and capitalization risk: The risk that the Fund's capitalization or capital position is not adequate to safeguard its ability to continue as a going concern.						
Risk owner	FOD					
Key risk indicator	Risk tolerance level	2019 Q1	2019 Q2	2019 Q3	2019 Q4	Trend
8.1 Debt to equity	35%	6.2%	7.2%	7.6%	8.1%	n/a
8.2 Deployable available capital	TBD	n/a	n/a	n/a	n/a	n/a

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

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



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



Financial Risk

Summary in table view

						Semi-annually						
Risk	Key Risk Indicator	Department	Threshold	2019 H1	2019 H2	2020 H1	2020 H2	2021 H1	Status	Trend		
Leverage & Capitalization (L2): Commitment capacity (L3)	Leverage: Financial liabilities as a percentage of initial capital available	RMO	<35%*	8.5%	9.8%	10.4%	14.6%	17.3%	●	↑		
	Deployable capital: Initial capital available less total resources required and a prudent buffer as a percentage of initial capital available	RMO	>0%	42.2%	40.3%	40.1%	39.3%	37.8%	●	↓		
	Non-core risk capital ratio: The sum of capital requirements for currency, market, and operational risks as a percentage of initial capital available.	RMO	<10%	2.4%	2.6%	2.3%	2.1%	3.9%	●	↑		
						Quarterly						
Risk	Key Risk Indicator	Department	Threshold	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	Status	Trend		
Leverage & Capitalization (L2): Member support (L3)	Pledge receipt rate: The ratio of total pledges to target replenishment contributions, expressed as a percentage (by current Replenishment)**	FCD	>90%	89.0%	89.0%	89.0%	92.0%	92.0%	●	↑		
Credit (L2): Default (L3)	Non-performing loans (NPL): Non-performing loans (NPLs) to loans outstanding	FCD	<5%	2.7%	2.6%	2.6%	2.8%	2.8%	●	▬		
	Weighted average credit rating loan portfolio	RMO	B (<15.5)	B+ (13.9)	B+ (13.9)	B+ (13.9)	B+ (14.0)	B+ (14.1)	●	▬		
Liquidity & Funding (L2): Liquidity coverage (L3)	Minimum liquidity ratio (MLR):*** Liquidity to minimum liquidity requirement	TRE	>100%	185.8%	146.2%	182.4%	210.6%	231.2%	●	↑		
Market (L2): Interest rate (L3)	Investment Portfolio Conditional value at risk (CVaR): 1-year CVAR at 95 per cent confidence level	RMO/TRE	<3.0%	1.8%	1.5%	1.1%	2.2%	1.9%	●	↓		

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

* 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 to IFAD's 2020 Liquidity Policy. Until then, current MLR will be reported in the CRD.

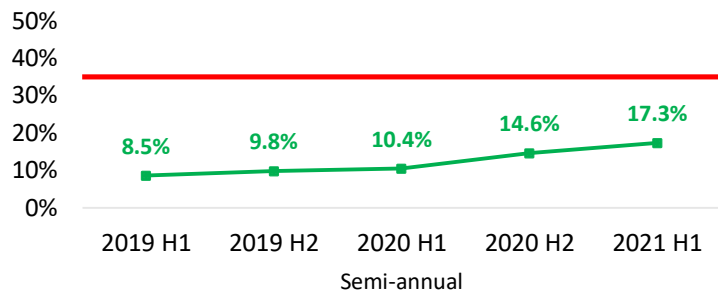


Financial Risk

Explanation of tolerance and graphical representation of trends I

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

Leverage: Financial liabilities as a percentage of initial capital available

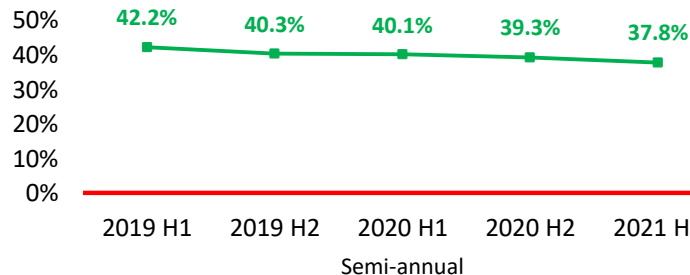


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Leverage & Capitalization (L2): Commitment capacity (L3)

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



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Thank you!

