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Risk Management at IFAD

28 January 2021

IFAD's Enterprise Risk Management Framework

IFAD's reform agenda and substantive changes to its business model require focusing on optimizing institutional efficiency and effectiveness. An effective and robust ERMF is key to adapt to an ever changing environment, to support and defend the rating achieved, to enable better strategic decisions at all levels, to be able to test options, to empower a better, more effective dialogue with Board and stakeholders.



Key points of attention for transitioning to an effective and robust ERMF

1. Adequate Integrated Policy Framework
2. Generation and maintenance of quality data, metrics, information flows
3. Risk identification, analysis, prioritization, control, mitigation processes
4. Transition to a seamless 3LoD model ensuring well defined risk ownership, effective oversight, escalation, empowering strategic decision



Optimizing Institutional Efficiency and Effectiveness through Risk Management



Three Lines of Defense: Best Practices and Value Addition

The Guidelines (EBA/GL/2017/11) set out detailed requirements for the second line of defense

Control level	Control Function	Description
1st control level	Business Lines	<ul style="list-style-type: none"> The business lines, as the 1st line of defense, take risks under a predefined policy and limits, and are responsible for their operational management directly and on a permanent basis. They carry out controls.
2 nd control level	Risk Management and Compliance Function (RMF)	<ul style="list-style-type: none"> The 2nd line of defense is formed by CF and RMF and is considered to be independent from the first-lines business function. The RMF should oversee all the first-line risk owner in ensuring that all risks are identified, assessed, measured, monitored, managed and properly reported on by the relevant units in the institution.
3 rd control level	Internal Audit	<ul style="list-style-type: none"> Consists of the Internal Audit Function (AUO) which provides an independent, objective and critical review of the first two lines of defense.



IFAD Enterprise Risk Management Framework

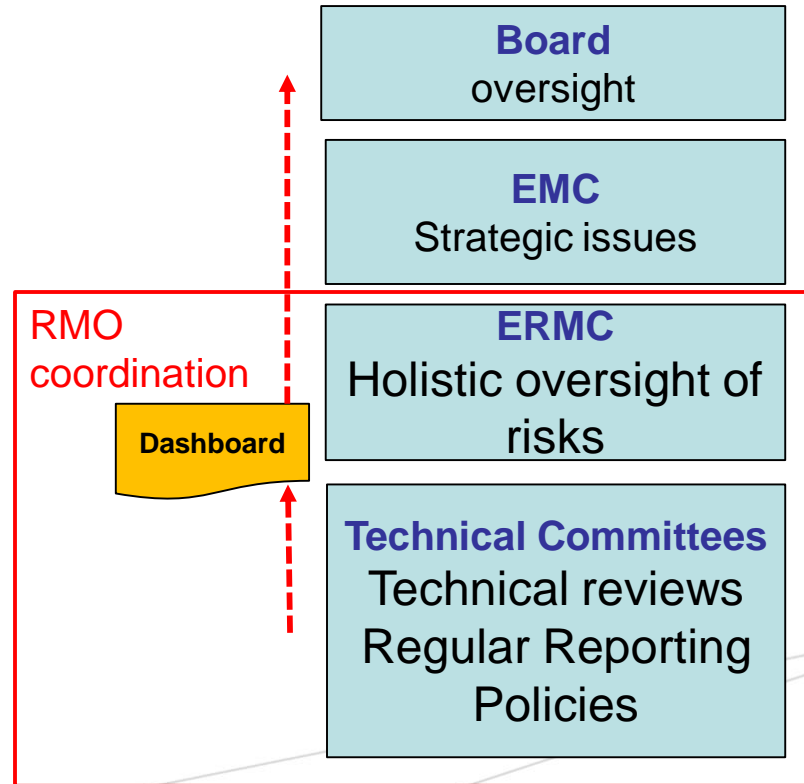
The Office of Enterprise Risk Management (RMO)

- ✓ Forms the **second line of defense** and it is independent from units that originate risk (first line);
- ✓ 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.

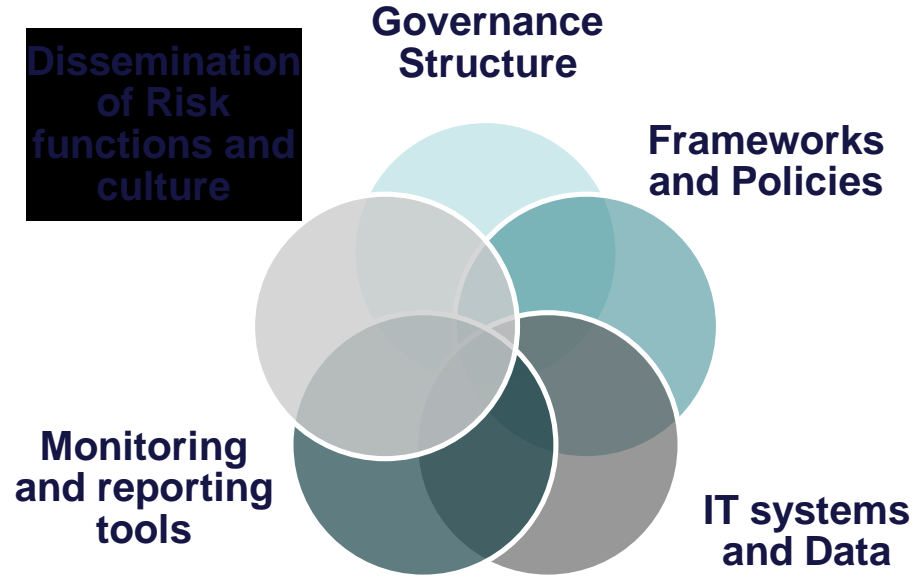


Risk Governance Structure: guiding principles

- **Stature** and **Representativeness** of lines of defense
- Distinguish **levels (Board, Management, Functional)** of **accountability and responsibilities** along the risk management pyramid
- **Limit bureaucracy and overlapping** of steps and revisions
- Empower **decision-making** at the adequate level
- **Accountability** and **definition of technical and strategic review**
- Ensure **coordination**



IFAD Enterprise Risk Management: RMO's focus



RMO's main deliverables in the transition phase

- Finalization of ERM Policy
- Finalization of Risk Appetite Statement
- Enhancement and implementation of Risk dashboard
- Revision of governance arrangements

FINANCIAL RISK:

Implementation of polices
Ensure financial discipline
Enhance Data / Reporting

OPERATIONAL RISK:

Organisation
Policy & Process review
Data Repository & Tools
Implementation of oversight process

OTHER RISKS:

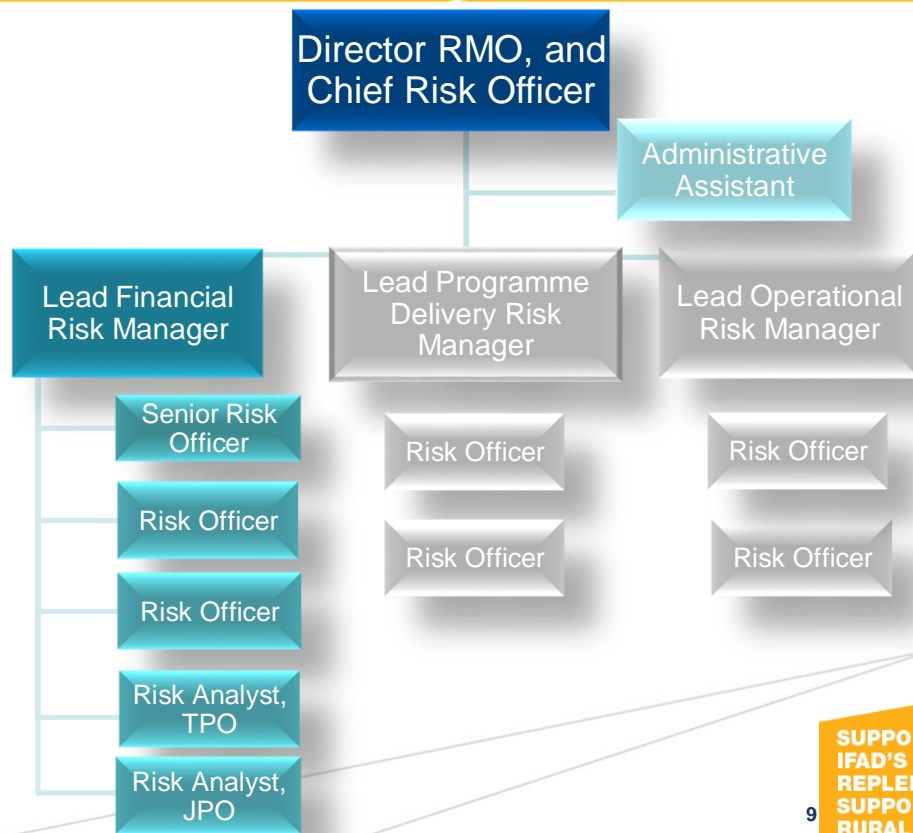
Organization
Policy process and data review
Development of oversight
process and standards

- Ensuring implementation of key financial policies and creation of new policies (i.e. Operational Risk)
- Ensuring adequate and timely reporting
- Building Data Repository / Enhancing data availability
- Staffing
- Risk culture



Organizational Layout of RMO (provisional)

- ✓ Aligned with best industry practices
- ✓ Calibrated on IFAD's Taxonomy
- ✓ Ongoing recruitment and staffing
- ✓ Formalization of competencies



Thank you!

