Annual Report on Enterprise Risk Management Activities in IFAD

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For: Information
Annual Report on Enterprise Risk Management Activities in IFAD

I. Introduction
1. In line with IFAD’s Enterprise Risk Management Policy (EB 2008/94/R.4, reviewed by the Audit Committee and Executive Board in September 2008) the purpose of this report is to provide IFAD’s governing bodies with an annual overview of enterprise risk management (ERM) activities carried out by IFAD, and an update on the corporate risks IFAD faces. This is the third such report, and it covers progress made in 2010 and the first quarter of 2011.

II. Background
2. Implementation of ERM aims to ensure that risks that may impede IFAD’s ability to carry out its mission and achieve its objectives are managed better and mitigated earlier to the extent practicable. It also brings IFAD’s management and fiduciary processes into line with good practice.
3. During the Consultation on the Seventh Replenishment of IFAD’s Resources, Management committed to implementing ERM gradually and in a structured manner within IFAD’s decision-making processes without creating new and separate organizational units and positions. The need to deepen the ERM agenda was subsequently reaffirmed during the Eighth Replenishment Consultation.
4. Many key elements of risk management and internal control – such as results-based and risk-informed strategic planning, and investment management (focusing on market, currency and credit risks) - were put in place during the Seventh Replenishment period 2007–2009. In 2008, an ERM Committee (ERMC), chaired by the Vice-President, was established to catalyze the mainstreaming of ERM in IFAD, introduce a more formal and systematic approach to ERM, and regularly review ERM processes and outputs. IFAD’s policy on ERM was formalized and reviewed by the Audit Committee and Executive Board in September 2008. In 2009, an ERM framework based on risk and control standards set by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) was released, and a corporate risk profile identifying key risks faced by IFAD was completed.

III. ERM activities performed
6. With many of the ERM building blocks in place by the end of 2009, in 2010 greater emphasis was placed on putting them into effect to concretely manage IFAD’s key risks in a systematic manner. Completion of a corporate accountability framework and implementation of a financial disclosure policy, two Eighth Replenishment (IFAD8) deliverables, were also accorded high priority – and to ensure their effective implementation an Ethics Office was established and became operational in February 2011. Furthermore, important progress was made towards obtaining management assertion and an independent external audit attestation of the state of internal controls over financial reporting, and in developing IFAD’s framework for business continuity.
Managing IFAD’s corporate risks

7. The corporate risk profile – IFAD’s apex risk management tool – served as the main basis for managing IFAD’s corporate risks, including for the assignment of accountabilities for each risk, formulation of risk mitigation strategies, and regular reporting and review of the status of each risk throughout the year by the ERMC and Management. An account of the measures put in place to mitigate the corporate risks identified through the assessment carried out in 2009 is provided in the annex, together with brief remarks for each risk giving Management’s view on the effectiveness of the measures taken and any perceived changes in their importance, which are a reflection of the dynamic nature of risks and how they evolve as mitigating actions put in place take effect and new circumstances and issues arise over time. The review and management of risks contained in the corporate risk profile was complemented by the regular assessment of emergent risks by Management in the context of the quarterly performance conversations. With a view to a consolidated “refresh” of IFAD’s corporate risk profile, preparations are under way to conduct a formal review of IFAD’s corporate risks in 2011 to reassess the current risks and identify/assess any emerging new risks.

8. As shown by the overview provided in the annex, significant work was undertaken in 2010 to manage all of the corporate risks. Management considers that four of the top five risks – i.e. those relating to strategic workforce planning, development of new staff rules, the country presence initiative and direct supervision – are being addressed adequately by the actions that are currently under way. While several measures were implemented in 2010 to manage the risk relating to corporate efficiency, Management recognizes that further effort will be required in this area over the medium term. This was highlighted in the report “IFAD at the Midterm of the Eighth Replenishment” (REPL.IX/1/R.2) presented to the first session of the Consultation on the Ninth Replenishment of IFAD’s Resources on 21 February 2011, which states: “...the medium-term objective is not only to raise administrative efficiency, which has been ongoing, but to control administrative costs.” To this end, as agreed at the February 2011 meeting “operational and organizational efficiency” will be one of the themes discussed at the third session of the Ninth Replenishment Consultation on 24-25 October 2011.

9. Looking beyond the top five risks, in light of Management’s heightened appreciation of its importance, the risk relating to IFAD’s financial capacity to respond to the growing demand for investment in small-scale agriculture and rural development (ranked seventh in the corporate risk profile) received significant attention in 2010. This was in part driven by concerns regarding the potential adverse effect that the fiscal challenges faced by some of IFAD’s key donors may have on the outcome of the Ninth Replenishment (IFAD9), as well as the growing view within Management that IFAD should expand its capacity to mobilize resources from alternative sources. Although external factors beyond IFAD’s control play a considerable role in this risk, the actions implemented by Management, some of which are expected to take full effect in 2011, are expected to contribute to its mitigation.

10. In the course of the risk status reviews performed in 2010 the overlap between the risks relating to knowledge management (KM) and policy engagement, and the associated mitigating measures, became increasingly apparent. In light of this, and to ensure a more coherent risk management strategy, the three risks were merged
into one.\(^1\) In a similar vein, the risk relating to broadening IFAD’s donors base in the context of IFAD\(^2\) was subsumed under the finance risk discussed above in paragraph 9.

**Accountability framework**

11. As part of its commitments for IFAD\(^8\), Management adopted an accountability framework in early 2011. This document defines responsibilities and authorities at various levels of IFAD’s governance structure, including the Governing Council, the Executive Board and its committees, IFAD Management and staff. It also describes the management tools (and how they will be used), the processes and oversight mechanisms in place to support IFAD in the effective delivery of expected results, and the proper management of resources entrusted to IFAD.

**Financial disclosure policy**

12. With regard to the implementation of a financial disclosure policy, also an IFAD\(^8\) deliverable, a two-phase approach was followed. Starting in 2010, all staff members were required to complete an annual certification of compliance with IFAD’s Code of Conduct and disclosure of any assets and income sources outside of IFAD. A more detailed disclosure requirement for Senior Management and, where deemed appropriate, also staff in other key influential roles, is planned for implementation in 2011. These measures will bring IFAD into line with practices followed by international financial institutions, most United Nations organizations and other public organizations.

**Management assertion and external audit attestation of internal controls over financial reporting**

13. In 2010 an independent consultancy firm carried out an assessment of IFAD’s readiness to obtain management assertion and external audit attestation of internal controls over financial reporting for financial years 2011 and 2012, respectively. The assessment found IFAD’s control environment to be generally robust with very few control design gaps. The overall conclusion of the report was that given the work done to date and assuming areas identified for improvement were addressed, IFAD should be in a good position to have a clean attestation opinion by 2012. High priority will be given to the implementation of the report’s recommendations in 2011.

**Business continuity**

14. A comprehensive framework for business continuity was developed in 2010 with the support of a business continuity expert. This overarching document sets out the policy, governance structure, systems and tools, and a corporate business continuity plan for IFAD, including the identification of critical business processes and their owners. The framework covers the entire cycle of business continuity, and identifies and consolidates the many existing and envisaged plans and systems for business continuity. Further details of actions taken with respect to business continuity can be found in the status update for the related risk (ranked eleventh in the corporate risk profile) in the annex.

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1 Two of the risks were folded into the risk relating to knowledge management and sharing, namely, “If concrete guidance on KM practice and appropriate incentives/accountability are not defined, there is a risk that KM may not be effectively mainstreamed into IFAD’s business processes, inhibiting efforts to become a more effective knowledge-sharing institution.” Thus, the following two risks were removed from the corporate risk profile: (i) “IF IFAD’s processes for assessment and selection of policy priorities, and planning for international policy engagement are not adequately designed or managed, there is a risk that its international policy engagement may be improvised and reactive, with the result that it is of limited strategic value”; and, (ii) “Because IFAD does not have well-developed and systematic programme-to-policy knowledge linkages, there is a risk that IFAD may have limited policy models or best practices to offer or share with policymakers, potentially undermining the strategic value of its engagement in policy advocacy.”

2 Namely: “There is a risk that IFAD may not fully exploit the resource mobilization potential of non-OECD countries for the Ninth Replenishment.”
Revised Charter of the IFAD Office of Audit and Oversight

15. A revised charter for IFAD’s Office of Audit and Oversight was submitted to the Audit Committee and Executive Board for review and confirmation in 2010. The changes introduced contribute to the enhancement of the quality and independence of the internal audit function in line with evolving best practice and recent developments in international standards for internal auditing.

IV. ERM workplan for 2011

16. Key ERM priorities and deliverables for 2011 include:

- Formal review of IFAD’s corporate risk profile to reassess the current risks and identify/assess any emerging new risks;
- Implementation of detailed financial disclosure requirement for key staff;
- Addressing control design gaps to obtain management assertion and external audit attestation of internal controls over financial reporting for financial years 2011 and 2012, respectively; and
- ERM training activities.
Report on IFAD’s corporate risks as at March 2011

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<th>Rank as at 11/09</th>
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<th>Status update and Management remarks as at 03/11</th>
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<td>1</td>
<td>Imp. 5 Prob. 5 Tot. 25</td>
<td>If strategic workforce planning is not approached from a corporate perspective and aligned with the corporate medium-term plan, and appropriate tools and measures to implement it are not developed, there is a risk that recruitment, deployment, development and release phases may be misguided and very challenging to implement, hindering IFAD’s ability to marshal the appropriate workforce to achieve its ambitious programme of work.</td>
<td>A corporate Strategic Workforce Plan for 2010-2012 was submitted to the Executive Board in December 2010. It includes targets for workforce realignment principally towards: (i) increasing the number and capacity of professional staff in operations, particularly in IFAD country offices; (ii) reducing administrative staff costs through process streamlining, outsourcing, and aligning labour costs with local market conditions. An action plan to support its implementation is under preparation, in particular to help address issues related to recruitment and release, including through a second phase of the Voluntary Separation Programme, and the conduct of job audits. <strong>Management remarks:</strong> Good progress has been made towards mitigating this risk. Staff and consultants employed directly in country programme development and implementation constituted 63 per cent of the total workforce at the end of 2010 – well on the way to the 65 per cent target set for 2012 in the Results Measurement Framework. The risk of diverging from the direction established by the plan is low given its alignment with the 2011 administrative budget.</td>
<td>Head, Corporate Services Department; supported by the Chief Development Strategist</td>
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<td>Imp. 5 Prob. 5 Tot. 25</td>
<td>If IFAD does not take a strategic approach or have a strong corporate culture of administrative efficiency, there is a risk that short-term cuts may be made at the expense of the quality and effectiveness of business processes and of the achievement of real efficiency gains in the longer term.</td>
<td>1. A review of duplicate functions and processes was carried out in 2010, and many of the process changes identified have already been implemented, e.g. the new loan and grant administration model (which defines roles and responsibilities of functional units and staff involved in loan and grant administration); and the consolidation of the Information Resource Centre with the mail room. 2. Further process streamlining is being undertaken as part of two major ongoing IT projects, namely, the PeopleSoft Upgrade and the new Loans and Grants System. In this context, the payment, payroll, travel and loan and grant administration processes are being reviewed for simplification and value-added. 3. A review of the key performance indicators (KPIs) used to track and manage efficiency of internal services was undertaken in 2010, resulting in improvements in the quality of KPIs applied in the performance areas measured. A survey assessing the quality and efficiency of internal services was developed and will be administered in the second quarter of 2011. 4. The new Human Resource Framework on mobility of staff was developed and became effective in January 2011. 5. An external assessment of IFAD’s human resource management was conducted and presented to the Executive Board in 2010. The main findings were that: (i) compensation and benefits of professional staff and senior management are below those of other international financial institutions (IFIs); (ii) compensation and benefits of support staff in Rome are comparatively high relative to other IFIs; and (iii) the proportion of support staff to professional staff is too high. In the meantime, pending further analysis of potential solutions, Management has decided to freeze salary increases in 2011 for support staff, and will carry out job audits to gain a better grasp of the deployment of professional and support staff.</td>
<td>Vice-President; supported by the Chief Finance Officer, and the Head, CSD</td>
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1 Following standard risk assessment practice, all listed risks were voted on using a 1–6 scale (1=lowest; 6=highest) for impact (Imp.) and probability (Prob.). The respective ratings for each risk were in turn multiplied to yield an overall score (Tot.) used to rank the risks in order of relative importance. For presentational purposes the ratings have been rounded to whole numbers.
### 6. The second phase of the Voluntary Separation Programme was approved by the Governing Council in February 2011, with the proposal to extend the implementation time-frame until end-2011.

**Management remarks:** Many activities to enhance efficiency and reduce costs were initiated in 2010, with further activities planned for 2011-2012. Encouraging results can be seen in terms of reduced transaction times for key services, e.g. the time to process withdrawal applications has been considerably reduced. However, material cost savings have yet to be generated and are somewhat challenging to measure in the context of IFAD’s rapidly growing programme of work. The Accenture review of the financial complex carried out in 2010 provides recommendations relating to efficiency that will be followed up in 2011. By including operational and organizational efficiency as a proposed special theme for the Ninth Replenishment Consultation Management is committed to identifying means to pursue this agenda more vigorously in the 2013-2015 period.

### 3. Imp. 5 Prob. 5 Tot. 25

If the process for defining IFAD’s new staff rules is not appropriately designed and managed, there is a risk that such rules may take much longer than planned to finalize and represent only a marginal improvement over previous rules, resulting in limited strengthening of IFAD’s capabilities to manage its workforce.

New staff rules have been rewritten from scratch to ensure greater clarity on relevant procedures and processes relating to staff recruitment, contractual aspects, performance management, and entitlements. The new staff rules and revised Human Resources Procedures Manual will be released in May 2011.

**Management remarks:** Actions taken to mitigate this risk give reasonable assurance that it is being adequately managed.

Head, CSD

### 4. Imp. 5 Prob. 5 Tot. 25

Because of unclear and inconsistent guidance and practice with respect to setting up and operation of country presence offices, there is a risk that country presence offices may take longer to set up properly and have higher administrative set-up/running costs than planned, resulting in expected benefits from the establishment of country presence not being fully achieved.

1. Aware of the vital contribution country presence makes to the performance and impact of IFAD-supported programmes, a coordination group composed of Senior Management and other key staff was established in 2010 to steer IFAD’s country presence initiative. By end of 2010, 28 of the 30 authorized offices were operational (with six country programme managers outposted and all country officers holding IFAD contracts), compared with one office in 2006; the remaining two offices are due to be opened in 2011.

2. Strong emphasis will continue to be placed on this initiative to ensure human resource management and operational procedures are optimized to maximize the benefits of country-level presence. A comprehensive Country Presence Handbook covering all administrative aspects of the set-up and operation of country offices will be released in the second quarter of 2011, and a dynamic induction programme for field staff has been rolled out.

3. An assessment is currently under way to guide the strategy for the next stage of country presence and decentralization. The results of the assessment will be presented to the Executive Board in May 2011. This is expected to lead to fuller decentralization of IFAD’s professional staff engaged in development operations and increased delegation of authority to allow for faster decision-making and more efficient loan and grant administration.

Associate Vice-President, Programmes; supported by the Head, CSD
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<td>Because of IFAD’s relatively limited experience with direct supervision, poor business process definitions, leading to unclear division of labour and duplication of processes for conducting it, there is the risk that supervision of fulfilment of fiduciary requirements and loan administration may not be carried out efficiently, effectively and in a timely manner, thus delaying project implementation and achievement of development objectives.</td>
<td>Management remarks: This risk has been managed in a proactive manner that has yielded good results. Evidence shows that country-level presence is paying off in terms of programme performance and development impact, and that set-up and running costs are relatively modest and hence contributing to enhanced value for money. While the pace at which offices are established varies depending on country circumstances, the framework agreements with United Nations Development Programme (UNDP) and the Food and Agriculture Organization of the United Nations (FAO), in addition to templates for host country agreements developed in 2010, should speed up the process for future new offices. 1. A new loan administration model introduced in November 2010 clearly setting out responsibilities for the staff of the Programme Management Department and the Controller’s and Financial Services Division involved in this process is being operationalized. The new model introduces a risk-based approach that will lead to a streamlined process while facilitating more focused controls. 2. A pilot for decentralized processing of disbursements was launched through the IFAD country office in Kenya. The results of the pilot will be fully assessed in early 2011 and will inform consideration of potential replication of this modality in other countries and possibly regions. 3. A significant effort to build IFAD staff capacities in fiduciary management and procurement has been under way since 2009, including compulsory certified training for all staff involved in direct supervision and loan administration. 4. Revised Project Procurement Guidelines were submitted to the Executive Board in September 2010, and new grant procedures will be presented to the Executive Board in May 2011. 5. Several IT systems to support direct supervision were delivered in 2009-2010, including the Withdrawal Application Tracking System, the online Project Status Report, the online Results and Impact Management System, the Operations Dashboard and the Project Life File; furthermore, an Audit Report tracking system will be released in the second quarter of 2011. The Loans and Grants System and the Project Portfolio Management System have been modified to allow remote access from country offices and are now operational in India, Kenya and Panama. The implementation of an electronic signature solution has been piloted in 2010 with plans for full deployment in 2011.</td>
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<td>Given the greater complexities involved in managing larger programmes (and noting that the number of larger programmes may increase as a result of the expanded programme of work (POW)), there is a risk that government, IFAD and partner capacities to effectively support their management may be inadequate, hindering full achievement of development objectives.</td>
<td>Significantly more attention is being devoted to the assessment and development of government and local partner capacities to manage projects. This is being done in various ways: on a project-by-project basis in the project design cycle during the quality enhancement and assurance phases and, on a broader level, as part of the annual country strategic opportunities programme (COSOP) review process. Grant programmes are being used increasingly as a means to strengthen institutional capacities for agriculture and rural development programme design and management. Furthermore, the annual corporate portfolio review (covering all projects and country programmes) now includes specific focus on IFAD’s performance in developing government and local partner capacities. <strong>Management remarks:</strong> Actions taken to mitigate this risk give reasonable assurance that it is being adequately managed.</td>
<td>Associate Vice-President, Programmes</td>
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<td>Imp. 4 Prob. 4</td>
<td>Due to increased POW, debt sustainability framework, new general conditions (which lead to faster disbursement schedules) and the expected increased role of IFAD in addressing food security and climate change, there is a risk that there may be a mismatch between resource inflows, outflows and liquidity requirements, causing increased financial volatility and overdependence on replenishment.</td>
<td>1. Strengthened financial capacity and sustainability is essential if IFAD is to play an effective role in responding to growing demand for investment in smallholder development and food security. To this end, IFAD is aligning itself with approaches used by other IFIs for assessing future commitment capacity that are predicated on long-term cash-flow sustainability. Among other things this will entail a careful review of the role of internal resources in supporting increased commitments while ensuring IFAD’s financial health. 2. The outreach strategy developed for IFAD9 places strong emphasis on broadening IFAD’s donor base to maximize the engagement of emerging countries and Members States of the Organization of the Petroleum Exporting Countries (OPEC), as well as enlisting membership and participation of new Member States in the process. Establishment of the Arab Gulf States Liaison Office, and proactive planning and monitoring of outreach activities by the Replenishment Coordination Committee (chaired the President) support the implementation of this strategy. 3. A further area of focus will be the expansion of IFAD’s external resource mobilization capacity, including areas possibly involving more complex financial operations, an example of which is the Spanish Food Security Cofinancing Facility Trust Fund approved by the Executive Board in December 2010. 4. In light of the above, IFAD’s internal financial management structure was reviewed in 2010 by Accenture. As a consequence of the recommendations of that study, Management has established a separate financial department led by an externally recruited Chief Finance Officer. 5. Preparation of a revised Investment Policy is under way, incorporating comments provided by the Audit Committee in November 2010 and scheduled for resubmission to the Audit Committee in April 2011. <strong>Management remarks:</strong> the importance of this risk is deemed to have risen since it was formally assessed in 2009 as a result of the uncertainties that would normally be expected to accompany the upcoming negotiation of IFAD9, such as the target level of donor contributions and the consequent programme of work for IFAD9, and the authority IFAD will be given the explore new financial instruments and opportunities for external resource mobilization. While it is envisaged that the measures discussed above will help mitigate the risk, they are as yet still under way and, therefore, it will not be possible to judge their effectiveness for some time. Having established a robust internal structure to manage IFAD9 and with the employment of an external chair for the IFAD9 Consultation, Management is committed to securing a successful IFAD9, notwithstanding the difficult fiscal situation faced by some of its major donors.</td>
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| 8              | Imp. 4 Prob. 4  | 1. To ensure the mobilization of effective capacity to play a greater role in the global dialogue on food security issues and smallholder development, a Chief Development Strategist was appointed at Senior Management level in January 2010, charged with forming and heading up what has become a new department of strategy and knowledge management at the beginning of 2011.  
2. A rolling knowledge management and innovation implementation framework has been in use since 2010, describing major objectives, outputs, time-frames and corresponding accountabilities in this area, ranging from outputs such as delivery and launch of the Rural Poverty Report 2011 to staff training and adoption of incentive mechanisms within the staff performance management system. This is in turn supporting more effective policy advocacy engagement at the international level.  
3. The knowledge interface with country-level operations has been strengthened through the creation of the knowledge management officer role across the regional operations divisions, and establishment of interactive web platforms for inter-project and country knowledge exchange.  
Management remarks: Actions taken to mitigate this risk give reasonable assurance that it is being adequately managed. | Chief Development Strategist |
| 9              | Imp. 4 Prob. 4  | Based on the recommendations of the United Nations Department of Safety and Security (UNDSS) security risk assessment of IFAD, a new Security Strategy was adopted by Management in November 2010. The strategy will be implemented over 2011-2012, with required resources sourced partly through the capital budget and the administrative budget. To this end, the IFAD Security Unit is being strengthened to provide improved services with respect to:  
• Monitoring of compliance with United Nations security standards and rules and advice to IFAD staff/units on their implementation;  
• Analysis of incident reports and UNDSS compliance reports for United Nations country offices worldwide;  
• Delivery of mandatory staff security training; and  
• Monitoring of security clearances and advice on aviation safety procedures.  
Management remarks: Since January 2011 the Security Unit reports directly to the Head, CSD. Implementation of the Security Strategy represents a key element of the work plan of the Security Unit for 2011 and 2012. Agreed measures will be fully implemented once the new Field Security Officer position is filled and the guard services required to manage the new systems are in place. | Head, CSD |
| Tot. 16        |                 |                                      |                                               |                           |
Because of poor governance and/or anticorruption measures by governments, there is a risk that fiduciary covenants of loans and grants may not be complied with, hindering full achievement of development objectives.

1. Quality-at-entry reviews of new projects pay considerable attention to fraud and corruption issues, and all new projects are required to have governance and anticorruption (GAC) frameworks based on GAC principles.

2. The assessment and strengthening of implementing agencies’ capacities in financial and procurement management is now a standard part of IFAD procedures for direct project supervision.

3. Scrutiny of project audit reports has become more systematic and thorough, with more proactive follow-up being undertaken on delayed or qualified audit reports.

4. A significant effort to build IFAD staff capacities in fiduciary management and procurement has been under way since 2009, including compulsory certified training for all staff involved in direct supervision and loan administration.

Management remarks: The new loan administration model issued in November 2010 provides a sound framework for the implementation of the above measures. The framework itself is reinforced by the establishment of the Sanctions Committee responsible for the review of investigations into irregular practices in IFAD’s operations and by IFAD’s increased involvement with project implementation authorities through both the expansion of its country presence and the assumption of responsibility for direct supervision. This approach also supports IFAD’s efforts to respond to the principles of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, which advocate strengthening and increasing the use of existing country systems. Recognizing this risk involves external factors beyond IFAD’s control, the above measures are deemed adequate.

Management remarks: The new loan administration model issued in November 2010 provides a sound framework for the implementation of the above measures. The framework itself is reinforced by the establishment of the Sanctions Committee responsible for the review of investigations into irregular practices in IFAD’s operations and by IFAD’s increased involvement with project implementation authorities through both the expansion of its country presence and the assumption of responsibility for direct supervision. This approach also supports IFAD’s efforts to respond to the principles of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, which advocate strengthening and increasing the use of existing country systems. Recognizing this risk involves external factors beyond IFAD’s control, the above measures are deemed adequate.

Head, CSD