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Enabling poor rural people
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Governance and Risk Management of the Credit Union of IFAD Employees

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For: Information

Governance and Risk Management of the Credit Union of IFAD Employees

I. Introduction

1. At its hundred and third Session, the Executive Board approved the recommendation contained in EB 2011/103/R.40 that Management engage in carrying out a study to define an efficient and effective mechanism to address regulatory and management concerns as highlighted in said paper.
2. IFAD Management and the Board of Directors of the Credit Union (BoD) agree that a hasty analysis of the way forward is to be discouraged. Rather, careful and accurate planning is needed for an appropriate study to be submitted to the Executive Board.
3. In order to proceed in the most efficient and effective way forward, IFAD Management has agreed to engage the BoD and follow a similar modus operandi as the one adopted for the Intra-Divisional Working Group (described fully in EB 2011/103/R.40). Agreement has also been reached upon a series of interim measures to be adopted.
4. This Information Paper provides an overview of actions taken to date and on-going ones to address and improve the Credit Union's risk management and oversight. It has been prepared in consultation with the BoD and therefore also expresses the views of the latter.
5. As described in EB 2011/103/R.40, the Credit Union of IFAD Employees was created by the Executive Board in 1992 to provide IFAD staff with access to credit and to encourage thrift. The Credit Union was created to be managed by a Board of Directors including a Representative of the President. As of 1 November 2011 it has 640 members who are IFAD Staff and IFAD Pensioners.
6. Since its establishment, the Credit Union has served IFAD staff by providing a suitable means of savings and speedy credit facilities. Throughout its nearly 20 years of existence, the Credit Union has approved over 2,900 rapid, ordinary and long term loans. These loans have enabled staff to meet personal financial needs, such as urgent medical expenses and education fees. They have also enabled newly recruited international staff (who at the time of their recruitment were not able to readily avail themselves of Italian banking facilities) to finance installation-related expenses.
7. All financial transactions are made through IFAD Euro and USD accounts with the Banca Popolare di Sondrio (the current bank selected by the organization through a tender process in 2007 to provide IFAD with corporate banking services) and are subject to national banking controls. The Credit Union is a self-regulating entity which manages the resources of its members with extreme prudence in accordance with its Statutes and has registered no losses or defaults on any loan since it was established.
8. For some time the BoD with support from IFAD Management has sought to strengthen the overall framework of its operations to ensure: appropriate safeguards are in place; the integrity of its operations and services to its members; and the interest of IFAD are safeguarded. In the context of this commitment, the BoD is committed to working with IFAD Management to ensure that all concerns and risks are addressed.

II. The way forward

9. The BoD, on the basis of the experience of other Credit Unions that operate in other UN organizations with the support of Management, is convinced that measures can

be put in place to the full satisfaction of all parties concerned; the members of the Credit Union, the Executive Board of IFAD and IFAD Management.

10. First and foremost, the BoD will engage external expertise to perform an independent external review of Credit Union operations and structure in order to provide assurance to both IFAD Management and to the Credit Union membership as to the current state of its affairs and to assess Credit Union alignment with best practices. The independent review will benchmark operations, membership, policies and structure existing in other UN and IFI Credit Unions against IFAD's. The outcome of the review will provide a well-informed basis on which IFAD and the BoD may define the necessary actions to be taken to further align Credit Union operations with best practice..
11. Following the external review, IFAD and the BoD will move forward with actioning the results of the assessment in order to strengthen existing controls, implement a supervisory framework and support risk reduction activities already underway in the Credit Union.

III. Interim measures

12. Prior to the start of the independent external review of Credit Union operations and in consultation with IFAD Management and the BoD, the following interim measures have been implemented.
 - a. Deposits into Credit Union members' accounts may be made only by fund flows coming from the following known and traceable sources:
 - IFAD payroll of relevant Credit Union member
 - Bank account(s) owned by relevant Credit Union member
 - Other UN sources from which Credit Union members are entitled to receive money
 - b. Credit Union accounts may be used by members to transfer funds to:
 - IFAD accounts (in case of money owed by a member to IFAD)
 - Bank account(s) owned by the relevant member (including joint accounts where the member is co-signatory)
 - Internal transfers between members and settlements of Credit Union loans
 - Other UN accounts (e.g. other Credit Unions)
 - c. Requests for counter cheques payable at the IFAD Branch of the Banca Popolare di Sondrio will be limited in accordance to best practice regulations.
13. The above measures eliminate those risks to IFAD that are related to the origin or destination of Credit Union funds. Such risk is automatically transferred to the banks involved in the transfers, which are regulated and monitored by the relevant national banking systems and authorities.
14. With regards to Credit Union investments, current Credit Union investment guidelines, which confine Credit Union investments to short term instruments, will be maintained. Should longer term investment be considered, the Credit Union investment policy requires a minimum credit quality of Aa3/AA- (Moody's /S&P) for long term investments (i.e. investment in instruments that exceed the 1 year threshold), and therefore IFAD's developed countries' government bonds credit quality would be taken as a reference. Thus the new Investment Policy being presented to the Board for its approval, if approved would have no impact on Credit Union investments which are carried out independently and in accordance with instructions provided by BoD to IFAD.

15. In addition to the interim measures that have already been implemented, the BoD shall, as a matter of priority and in consultation with IFAD Management, review and redraft the Credit Union Statutes as required.
16. IFAD Management and the BoD are in agreement that in the short term the implementation of the above interim measures will further strengthen existing controls and supervision of the Credit Union and support the reduction of risks identified by IFAD Management.