Document: EB 2018/123/INF.3
Date: 15 March 2018
Distribution: Public
Original: English

Investing in rural people

High-level Review of IFAD's Financial Statements for 2017

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Executive Board —123rd Session
Rome, 16-17 April 2018

For: Information

High-level Review of IFAD's Financial Statements for 2017

I. Introduction

1. This document provides additional information to assist readers in interpreting IFAD's Consolidated Financial Statements. Its analysis mainly focuses on the IFAD-only financial statements, which reflect the financial status and transactions of the Fund's core business.

II. External financial environment

2. Financial markets remained volatile in 2017 with a prevailing negative interest rate in the euro area. Nonetheless, IFAD's overall investment portfolio had a positive net rate of return of 2.21 per cent (compared to 2.91 per cent in 2016).

3. The year's overall results have been positively impacted by the weakening of the United States dollar against both special drawing rights (SDR) and the euro. The US$/SDR exchange rate increased 5.1 per cent from 2016 to 2017, compared to a decrease of 2.8 per cent from 2015 to 2016. The US$/EUR exchange rate increased 13.8 per cent from 2016 to 2017, compared to a decrease of 2.9 per cent from 2015 to 2016.

III. Financial results (IFAD-only)

4. 2017 was the second year of the Tenth Replenishment of IFAD's Resources (IFAD10) period (2016-2018) and loans, grants and Debt Sustainability Framework (DSF) approvals, as well as the contributions received were aligned to the IFAD10 scenarios.

5. IFAD total assets (in fair value terms) amounted to US$7.7 billion at year-end 2017 (2016: US$7.2 billion).

6. Total net loans outstanding (in fair value terms) had increased to US$5.8 billion at year-end 2017 from US$5.2 billion in 2016. This movement was the result of the net effect of additional disbursements and loan repayments, and positive exchange rate movements.

7. IFAD received additional instruments of contribution towards IFAD10 resulting in equity at year-end 2017 of US$8.2 billion (2016: US$8.0 billion).

8. The Fund reported a total comprehensive income in 2017 of US$58.7 million (2016: total comprehensive loss of US$447.4 million).

9. The Fund's liquidity position remained within policy thresholds, with sufficient liquid assets to cover projected disbursement needs for more than two years.[1] Liquidity at year-end 2017 represented 15.1 per cent of total assets.

10. Term risks are the financial risks that arise when the timing and/or financial maturity of cash flows (i.e. principal and interest) from assets do not match those of their funding liabilities. Funding, refinancing and reinvestment risks are three of the most typical term-structure risks. IFAD has no significant exposure to term risks since it is mostly funded by equity (i.e. contributions and reserves), which, by definition, does not entail specific interest/principal payments.

11. Under the current financial mechanism (inclusive of borrowing), and despite negative retained earnings (as explained below), IFAD's net equity is positive. At year-end 2017, total equity (contributions plus General Reserve) represented 93.0 per cent of total assets in nominal terms. It should be noted that, as of year-

[1] IFAD liquidity US$1,352 million/net disbursement needs of US$533.6 million as per the minimum liquidity ratio = 2.3 years.

end 2017, IFAD's total assets (i.e. US$7.7 billion, at fair value) were sufficient relative to total liabilities (i.e. US$0.9 million), undisbursed commitments for loans (i.e. US$3.9 billion) and undisbursed commitments under the Debt Sustainability Framework (i.e. US$0.8 billion).

12. As an additional risk indicator, the Sovereign Borrowing Framework requires the debt/equity ratio[2] to be no higher than 35 per cent. At year-end 2017, the ratio was calculated as 5.4 per cent.

13. All financial risk parameters are within the thresholds established by the Sovereign Borrowing Framework, as adopted in 2015. The financial ratios are summarized in the table below.

Table 1
Financial ratios as at December 2017, 2016, 2015
(Percentage)

	Dec 17	*Dec 16*	*Dec15*	*Threshold*
Equity/total assets	93.0	97.3	93.5	>60*
Debt/equity	5.4	3.3	2.0	<35
Liquidity/assets	15.1	15.9	17.8	>5
Liquidity/disbursement needs	2.5 years	2.2 years	2.2 years	
Debt service coverage	0.2	0.1	0.1	<50

*Threshold established in the Framework Agreement with KfW Development Bank.

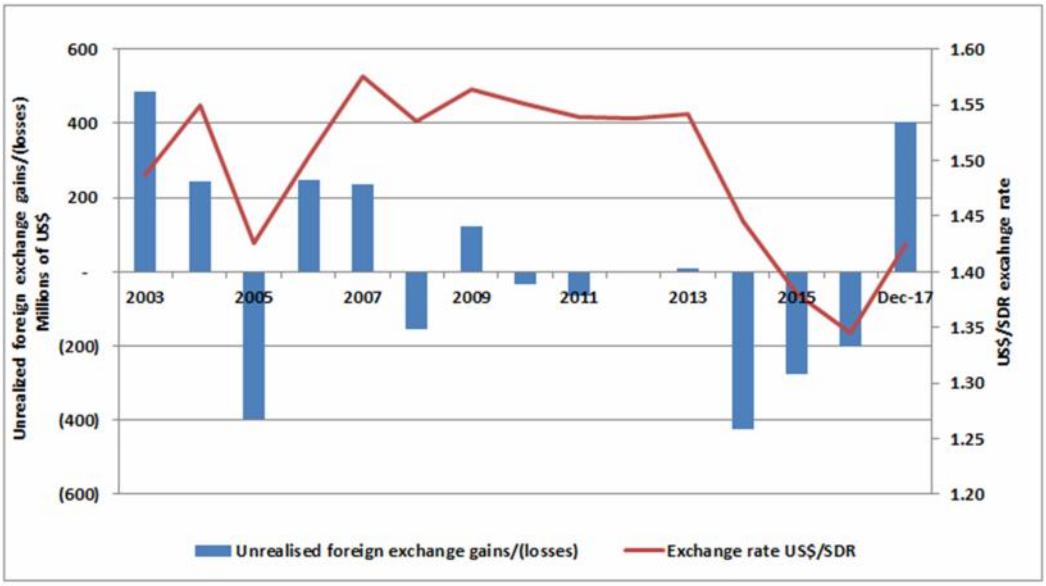
14. The introduction of borrowing activities has also generated some interest rate risk (the risk that IFAD is unable to repay interest due to a mismatch between the interest rate stipulated on its borrowed funds and the interest rate applicable to IFAD's loan portfolio). This risk is currently mitigated by ensuring that the lending terms of IFAD's financial liabilities are matched against the terms of the onlent funds while ensuring the PBAS allocation.[3]

15. IFAD conducts its operations in various currencies; the bulk of IFAD's assets are denominated in special drawing rights (SDR);[4] while for reporting purposes its accounting records are maintained in United States dollars. Material fluctuations in the US$/SDR exchange rate create volatility in IFAD's accounts.

16. The retranslation of assets in United States dollars for reporting purposes has always generated foreign exchange movements which appear as unrealized gains/losses on IFAD's statement of comprehensive income. In other words, they do not have repercussions for IFAD's financial stability because the Fund makes sure it has enough liquidity to meet its disbursement requirements. IFAD's currency risk is mitigated by ensuring that commitments for undisbursed loans and grants (mainly denominated in SDR) are supported by assets denominated in the SDR basket of currencies. Foreign exchange movements are always anticipated in institutions such as IFAD that work in a multi-currency environment.

[2] The debt/equity ratio is: (a) the ratio of principal portion of total outstanding debt to total contributions plus General Reserve (expressed in percentage terms); (b) calculated as (total outstanding debt principal / contributions plus General Reserve).
[3] For example, interest rates applied to loan outstanding balances should be higher overall than interest on financial liabilities.
[4] The SDR is a basket of currencies. The value of the SDR is based on a basket of five currencies: the United States dollar, the euro, the Chinese renminbi, the Japanese yen and the British pound sterling. The weights of the five currencies in the new SDR basket based on the new formula are: United States dollar – 41.73 per cent (compared with 41.9 percent at the 2010 review); Euro – 30.93 per cent (compared with 37.4 per cent at the 2010 review); Chinese renminbi – 10.92 per cent; Japanese yen 8.33 per cent (compared with 9.4 per cent at the 2010 review); Pound sterling – 8.09 per cent (compared with 11.3 percent at the 2010 review).

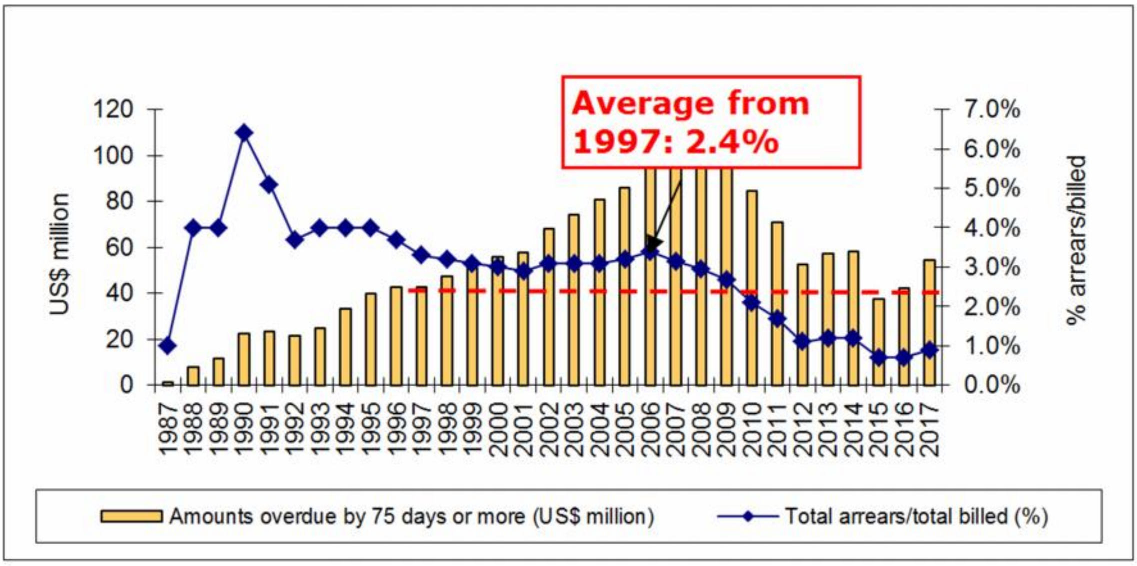
Figure 1
Unrealized foreign exchange gains/(losses) due to movements in US$/SDR exchange rate trends since 2003



17. After three consecutive years of unrealized foreign exchange losses, in 2017, due primarily to the appreciation of the SDR against the US$, an unrealized consolidated exchange gain of US$345.1 million was recorded. Exchange rate fluctuations have historically netted out as illustrated in figure 1 above.

18. The Fund enjoys preferred creditor status and adopts several operational measures to reduce the risk of accumulating arrears balances (default risk). These may include suspending disbursements on loans that are 75 days in arrears and/or suspending the entire country portfolio. Figure 2 shows the percentage of amounts in arrears for more than 75 days, relative to overall billed amounts. As at 31 December 2017, the level of arrears is below the historical average of 2.4 per cent.

Figure 2
Amounts in arrears for more than 75 days compared to billed amounts



19. The introduction of International Financial Reporting Standard (IFRS) 9 on financial instruments, and particularly on impairment of loans, will be completed in 2018. The new reporting standard aims to strengthen the measures to assess default risk

associated with the loan portfolio, as the allowance will be based on the expected credit losses associated with the entire life cycle of the loan.

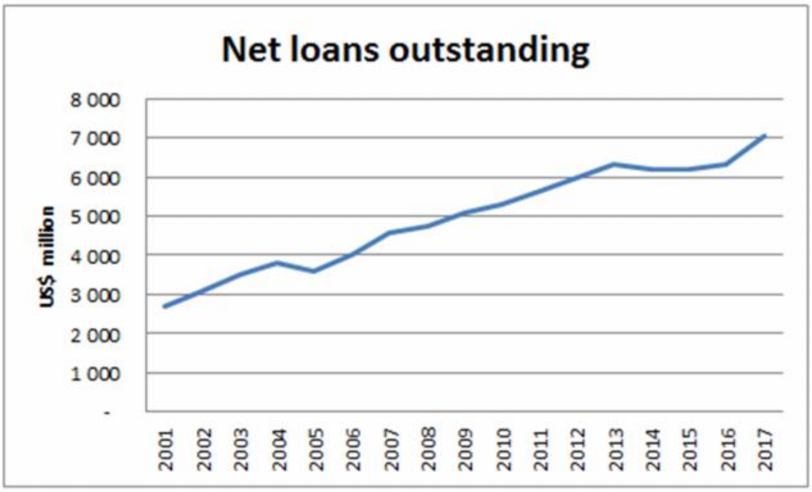
20. Risks and performance associated with the investment portfolio are detailed in the disclosure notes to the financial statements (i.e. appendix D), and in the document Report on IFAD's Investment Portfolio for 2017, which was submitted to the Audit Committee and Executive Board.

IV. IFAD's operational activities

21. During 2017, the Fund approved loans and grants totalling US$1,318.7 million (2016: US$822.0 million). This is an historically high rate for midway through a replenishment cycle (for further details refer to table 2).

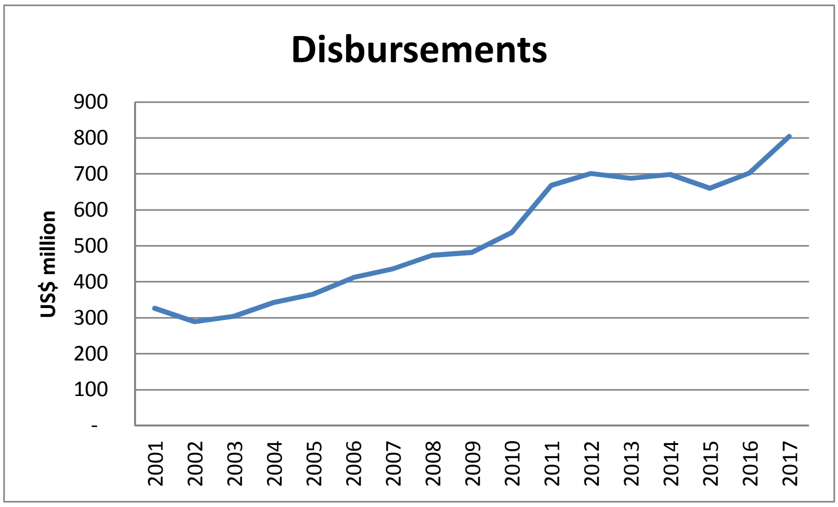
22. The balance of loans outstanding has been increasing over the years (as shown in figure 3 below); the majority of IFAD loans are provided on highly concessional terms with a repayment period of up to 40 years. Loans typically disburse over an average period of seven to eight years.

Figure 3
Outstanding loan balance



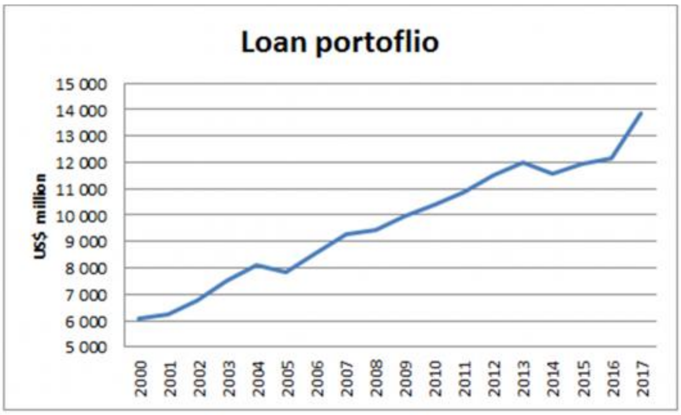
23. Overall, yearly operational activities are increasing. Figure 4 illustrates the overall trends in yearly disbursements for IFAD-funded projects (through loans, grants and DSF).

Figure 4
Yearly disbursements 2001-2017



24. Figure 5 provides loan portfolio trends pertaining to the overall cumulative loans approved (committed).

Figure 5
Cumulative loan approvals (less cancellations)



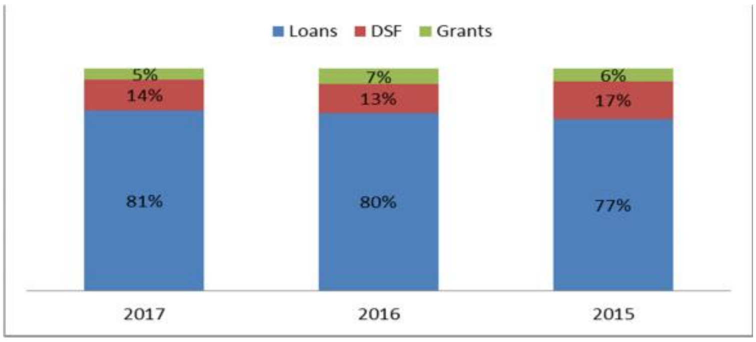
25. Table 2 and figure 6 summarize information about the volume of operational activities, and loan approvals by product type.

Table 2
Loan and grant flows and balances
(Millions of United States dollars – nominal values)

	2017	*2016*	*2015*
Approvals			
Loans approved	1 069.8	657.6	1 005.7
DSF loans approved	183.3	105.5	224.4
Grants approved	65.6	58.9	74.3
Total approvals	**1 318.7**	**822.0**	**1 304.4**
Outstanding/undisbursed*			
Loans outstanding	7 140.3	6 377.2	6 270.4
Undisbursed DSF	828.5	740.0	780.4
Undisbursed grants	98.0	80.5	68.1
Disbursements			
Loan disbursements	631.4	539.4	486.7
DSF disbursements	127.8	123.9	125.6
Grant disbursements	45.4	39.3	48.2
Total disbursements	**804.6**	**702.6**	**660.5**
Loan repayments	**315.9**	**299.2**	**274.4**

* Balances as at 31 December in nominal terms.

Figure 6
Loan, DSF and grant approvals by year
(Percentage)



26. During 2017, the overall volume of loan repayments and disbursements was higher than in the previous year in denomination currency as well as in reporting currency terms.

27. Loan interest income in 2017 was higher than in 2016 (in denomination currency as well as in dollar terms) due to the effect of the weaker United States dollar relative to SDR and because reference interest rates, based on the World Bank's rates, for 2017 were higher than those in 2016 (for both ordinary and blend terms).

V. IFAD financing activities

28. In line with the replenishment cycle, in 2017 additional instruments of contribution (IOCs) were received towards IFAD10. This is reflected in an increase in equity (contributions) of US$156.5 million in 2017 compared to 2016. Overall equity (paid-in-capital) at year-end 2017 totalled US$8.2 billion.

29. Cumulative compensation for DSF received amounted to US$2.8 million and increased retained earnings by this amount; DSF compensation due during the IFAD10 period amounted to US$3.4 million.

30. In November 2014, IFAD entered into a framework borrowing agreement with KfW Development Bank for an amount of EUR 400 million. During 2017, IFAD drew-down the final instalment of EUR 150 million; the overall borrowing liability amounted to EUR 400 million at year-end, equivalent to US$480.3 million.

31. Negotiations with Agence Française de Développement (AFD) were concluded in March 2017 with the signing of a loan agreement for EUR 200 million.

32. The IFAD11 Consultation began in February 2017. IFAD's Member States held four Consultation sessions in 2017 during which the future direction and priorities of the Fund were reinforced. In 2018, after a fifth and final Consultation session, Member States agreed to a target for IFAD11 contributions of US$1.2 billion to fund a programme of loans and grants of US$3.5 billion for the three-year IFAD11 period.

VI. IFAD-only Financial Statements

Balance sheet

33. The following analysis is performed on appendix A of the consolidated financial statements and related notes (appendix D).

Assets

34. *Cash and investments*. The value of the cash and investments portfolio, including investment receivables and payables, remained at US$1.3 billion. This is consistent with the adopted replenishment scenarios, for which detailed information is contained in the Report on IFAD's Investment Portfolio for 2017.

35. *Receivables for IOCs and promissory notes*. Net receivables decreased to US$0.35 billion at year-end 2017 (2016: US$0.58 billion), in line with the IFAD10 cycle as reported in paragraphs 7 and 27 of this document.

36. *Loans outstanding*. Loans outstanding, net of accumulated allowances for loan impairment losses and the Heavily Indebted Poor Countries (HIPC) Initiative were US$5.8 billion in 2017 in fair value terms (2016: US$5.2 billion). This increase is a result of the net effect of additional disbursements, loan repayments and positive exchange rate movements.

37. The fair-value adjustment in United States dollar terms decreased owing to the net effect of an additional fair-value annual charge (due to overall higher market rates in 2017) and the unwinding effect of loans valued at fair value in earlier years.

Table 3
Loans outstanding
(Millions of United States dollars)

	2017	*2016*
Loans outstanding at nominal value*	**7 140.3**	**6 377.2**
Less fair-value adjustment	(1 280.6)	(1 182.8)
Loans outstanding at fair value*	**5 859.7**	**5 194.4**

***** Balances as at 31 December.

38. Allowance for loan-impairment losses. The balance of the allowance for loan-impairment losses in nominal terms rose to US$69.4 million in 2017 (2016: US$59.6 million), reflecting a deterioration in the creditworthiness of two IFAD borrowers. At year-end 2017, this allowance represented 0.9 per cent of the balance of loans outstanding (US$7.1 billion), which is below the historical average of 2.4 per cent.

39. HIPC Initiative allowance. The reduction to US$14.9 million, in nominal terms, in 2017 (2016: US$17.7 million) mainly reflects the debt relief provided to eligible countries. IFAD has been participating in the HIPC Debt Initiative since 1997 (see details in appendix J of the financial statements). As at year-end 2017, the total cumulative cost of debt relief approved by IFAD was US$510.6 million, in nominal terms; the amount of debt relief provided was US$371.2 million in respect of principal and US$113.6 million for interest.

Liabilities and equity

40. Borrowing liabilities. At end-December 2017, borrowing liabilities amounted to US$480.3 million equivalent (EUR 400 million).

41. Contributions. Cumulative contributions for regular resources, net of impairment allowances, rose to US$8.2 billion (2016: US$8.0 billion), consistent with the IFAD10 cycle. Table 4 below provides information on the status of contributions for IFAD10.

Table 4
Contribution flows
(Millions of United States dollars)

IFAD10	*2017*	*2016*
Pledges		
Regular resources	1 100.7	1 126.7
DSF compensation	2.9	2.9
Cumulative pledges to date*	**1 103.6**	**1 129.6**
Less: IOCs received	1 051.9	905.7
Outstanding pledges	**51.7**	**223.9**
Payments received		
Cash	857.2	512.1
DSF	2.8	2.3
Total payments	**860.0**	**514.4**

* During 2017, one Member State decreased its level of pledge announced for IFAD10.

42. Full details of Members' replenishment contributions are shown in appendix H of the financial statements.

Statement of comprehensive income (appendix B)

Revenue

43. Income from loan interest and service charges amounted to US$57.4 million in 2017 (2016: US$51.8 million).

44. Income from cash and investments decreased to US$33.3 million (2016: US$46.0 million).

45. Expenses reported in 2017 include those incurred under the annual administrative expenses budget in that year, but funded by carry-forward funds from the previous year's budget, plus the costs of the Independent Office of Evaluation of IFAD (IOE) and annual After-Service Medical Coverage Scheme (ASMCS) costs. Table 5 compares expenses incurred in 2017 and 2016 (see appendix B).

Table 5
Operating expenses
(Millions of United States dollars)

Operating expense	*2017*	*2016*	*Movement +(-)*
Staff salaries and benefits			
Staff salaries and post adjustments	52.5	52.2	0.3
ASMCS current costs	6.7	4.9	1.7
Other allowances	30.1	23.4	6.9
Subtotal	**89.3**	**80.5**	**8.8**
Office and general expenses	39.8	33.1	6.7
Consultants and other non-staff costs	41.9	40.1	1.8
Direct investment costs	1.6	2.4	(0.8)
Total	**172.6**	**156.1**	

46. The total balances shown above include expenses funded from other sources (US$20.7 million in 2017; US$16.9 million in 2016), mainly by the Italian Government in the case of reimbursable expenses (US$7.9 million in 2017 and US$7.7 million in 2016), matched by associated revenue.

47. The above balances also include local staffing costs at IFAD Country Offices (ICOs), totaling US$5.2 million in 2017 (2016: US$4.8 million) and operating and consultancy expenses of US$3.3 million (2016: US$4.8 million). ICO administration is managed through service-level agreements, mainly with the United Nations Development Programme, the Food and Agriculture Organization of the United Nations and the World Food Programme.

48. Staff salaries and benefits. Staff salaries and post adjustments remained stable. The increase in other entitlements is mainly related to the rise in ASMCS current costs (see paragraph 54) and to the increase pertaining to other allowances triggered by the weakening of the United States dollar against the euro by approximately 13.8 per cent.

49. Office and general expenses. Administrative expenses are closely linked to the euro environment. In 2017 there was an overall increase in value in United States dollar terms i.e. US$39.8 million in 2017 (2016: US$33.1 million), owing to the appreciation of the United States dollar against the euro.

50. Consultants and other non-staff costs. The increase to US$41.9 million (2016: US$40.1 million) mainly reflects the larger volume of services provided by consultants and other organizations.

51. Loan interest expenditures. In 2017, IFAD accrued interest expenses and paid fees amounted to approximately US$0.7 million in respect of KfW Development Bank borrowing activities.

52. Adjustment for changes in fair value. In 2017, a negative fair-value adjustment of US$21.6 million was made. This was mainly attributable to the higher market rates prevailing during 2017, thus leading to a higher discount rate

being used when calculating the fair value of the loan portfolio. The average SDR curve was 1.52 per cent at end-2017, compared to 1.26 per cent at the end of the previous year.

53. Exchange rate movements. An analysis is provided in table 6 below.

Table 6
Exchange rate movements
(Millions of United States dollars)

	2017	*2016*
Cumulative net unrealized gain as at 1 January	**19.8**	**189.3**
Exchange rate movement on:		
Cash and investments	30.7	(28.6)
Net receivables/payables	(11.5)	4.6
Loans and grants outstanding	317.7	(146.0)
Promissory notes and Members' receivables	22.8	(9.8)
Members' contributions	(20.8)	10.3
Total movement in the year	**338.8**	**(169.5)**
Cumulative net unrealized gain as at 31 December	**358.6**	**19.8**

54. As stated above (paragraphs 15 and 16), IFAD assets are mainly denominated in SDR, or held in assets replicating the SDR basket, therefore the translation of such assets into United States dollars for reporting purposes generated an unrealized gain in 2017. At year-end 2017, cumulative net unrealized gains amounted to US$358.6 million (see table 6).

55. After-service medical benefits. In 2017, as in previous years, IFAD engaged an independent actuary to perform an independent valuation of the ASMCS. The methodology adopted is consistent with the previous year's valuation, and the assumptions used reflect prevailing market conditions. The 2017 ASMCS actuarial valuation calculated a liability of US$127.7 million at year-end 2017 (2016: US$106.5 million). IFAD recorded a net charge for current service costs of US$6.1 million during 2017 (comprising interest costs and current service charges). This resulted in a net unrealized actuarial loss of US$15.1 million (compared to an unrealized actuarial gain of US$22.2 million in 2016). The change in liability was caused principally by the adoption of new mortality tables and by the prevailing market conditions, which also affected the discount rate used in the 2017 valuation, i.e. 2.3 per cent (2016: 2.5 per cent).

Statement of changes in retained earnings (appendix B1)

56. The balance of the accumulated deficit changed from negative US$1,511.6 million at the end of 2016 to negative US$1,452.6 at the end of 2017. This balance represents the accumulation of yearly reported financial results from operations and the impact of exchange rate movements – mainly relating to the translation of loan balances denominated in SDR into United States dollars, IFAD's reporting currency. The total annual comprehensive gains of US$58.7 million for 2017 contributed to the aforementioned retained earnings balance; additional DSF compensation amounted to US$0.3 million, which was received during the year.

57. The 2017 annual results (net income of US$58.7 million). This comprises revenue of US$135.9 million plus an unrealized foreign exchange gain of US$338.8 million, offset against grant expenses and DSF grant expenses of (US$192.6 million), operating expenses (staff, consulting services, supplier expenses) of (US$172.6 million), and other expenses/required accounting adjustments of (US$50.8 million).

58. In line with IFRS requirements, the General Reserve represents "appropriation of retained earnings". Over the years the Executive Board approved several transfers (between 1980 and 1994) bringing it to the current level of US$95.0 million.

59. During 2017, Management conducted a review of the adequacy of the General Reserve, which was reviewed by the Audit Committee at its 145th meeting and approved by the Executive Board at its 121st session. The recommendations, adopted by the Governing Council at its forty-first session, will be applicable for the 2018 financial year. The comprehensive review included a comparison with other international financial institutions. It was concluded that the Reserve has an intrinsic value as a mechanism to ensure a sound financial framework and enhance flexible risk mitigation measures in light of the evolution of IFAD's business model and the increasing borrowing activities.

60. For the 2018 financial year, the following change will be applicable to Financial Regulation XIII: "Annual transfers from the accumulated surplus to the General Reserve shall be determined by the Executive Board after taking into account the Fund's financial position in the context of the review/approval of yearly audited financial statements of the Fund" (new text in italics).

61. Aspects to be considered in assessing annual transfers to the General Reserve are: the overall balance of the accumulated surplus/deficit; and the underlying drivers of the yearly net income/loss, particularly unrealized gain/loss balances.

62. Considering that at the end of 2017 the Fund reported a net comprehensive gain on a consolidated basis of US$78.2 million and a net comprehensive gain for IFAD-only of US$58.7 million, it is noted that the 2017 result is primarily due to unrealized foreign exchange rate gains. Considering that the net retained earning remains negative at approximately US$1.4 billion (for both the consolidated and the IFAD-only balance sheet), at the end of 2017 it would not be recommended that any transfer to the General Reserve be made.

Consolidated cash flow statement (appendix C)

63. Appendix C shows movements in liquid unrestricted cash and investments in the balance sheet. It is noted that 71.3 per cent of consolidated cash and investment balances relate to IFAD (80.1 per cent in 2016).

64. IFAD grant disbursements increased to US$45.4 million (2016: US$39.3 million). Non-IFAD grant disbursements increased to US$131.1 million in 2017 (2016: US$90.5 million).

65. Disbursements under DSF financing increased to US$127.8 million in 2017 (2016: US$123.9 million).

66. IFAD loan disbursements increased to US$631.4 million in 2017 (2016: US$539.4 million). Non-IFAD loan disbursements increased to US$59.2 million in 2017 (2016: US$50.4 million).

67. During 2017, IFAD drew down additional instalments under the KFW Development Bank borrowing facility amounting to EUR 150 million, equivalent to US$174.1 million.

68. Receipts from cash and promissory notes as replenishment contributions totaled US$378.0 million in 2017 (2016: US$242.7 million).

VII. Governance

69. IFAD's business process is continually evolving and several measures have been adopted to mitigate underlying risks.

70. According to the Internal Control Framework for IFAD Investments, staff produce information used in the internal control system or take other action needed to effect control. Each major entity in corporate governance has a particular role to play, which in IFAD translates to:

(i) The Governing Council, which is the supreme plenary organ of the Fund. It is composed of representatives of the Member States. All powers of the Fund are vested in the Governing Council. Subject to the limitations stated in the Fund's charter, it may delegate powers to the Executive Board.

(ii) The Executive Board, and the Audit Committee appointed by the Board, supervise internal control and risk management. Assisted by the Audit Committee, the Board is informed and updated on any changes to the operating principles of internal control including the main features of the risk management process, a summary of risks, control objectives and common control points for financial reporting.

(iii) The internal auditors provide independent and objective assurance and advisory services designed to add value and improve IFAD's operations. This function helps IFAD accomplish its objectives by ensuring a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

(iv) The external auditors of the organization measure the effectiveness of internal controls. They assess whether the controls are properly designed, implemented and working effectively while making recommendations on how to improve internal controls. Moreover external auditors assess whether the financial statements present fairly, in all material respects, the financial position of the Fund, and its performance and cash flow.

(v) The Independent Office of Evaluation of IFAD conducts evaluations of IFAD-financed policies, strategies and operations to promote accountability and learning. The main purpose is to contribute to improving IFAD's and its partners' performance in supporting rural transformation in developing Member States. IOE's independent evaluations assess the impact of IFAD-funded activities, analyse successes and shortcomings and identify factors affecting performance.

(vi) Management is responsible for designing, approving and implementing the internal control and risk management process together with the group management team, subsidiary management teams and finance managers. In particular, the Enterprise Risk Management (ERM) Committee is responsible for supporting and overseeing IFAD's risk management activities. It is a critical element for the management of operational risk as it affects the investment activities of the Fund.

71. IFAD Management and staff are committed to the organization's Code of Conduct, which was established to regulate their conduct and align it with the interests of IFAD.

72. IFAD Management's objective is to ensure that the consolidated financial statements present fairly, in all material respects, the financial position, financial performance and cash flows of the Fund, in accordance with IFRS as issued by the International Accounting Standards Board.

73. As such, IFAD has identified the 2013 Framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as a suitable basis for

Management's approach to evaluating the effectiveness of internal controls over financial reporting (ICFR).

74. Since 2011, IFAD included in its financial statements a management assertion as to the effectiveness of IFAD's ICFR framework. An attestation by the external auditors (Deloitte) regarding the reliability of the Management assertion has also been included since 2012.

75. Management's self-assessment against this ICFR framework underscores IFAD's commitment to effective internal controls and proactiveness in seeking to anticipate and address developments that may affect the integrity of the financial statements. This attentive stance puts IFAD at par with industry best practice. The ICFR provides a comprehensive account of the IFAD processes underpinning the preparation of financial statements and the implementation of internal controls over transactions impacting financial statements.

76. The ICFR are subject to internal and external auditing testing on a yearly basis. A total of 30 process flows, mapped across six divisions, identifying 62 key controls underpin the testing, which is performed by the auditors to ensure effectiveness of ICFR. The timely updating of process flows is coordinated by the Accounting and Controller's Division (ACD). Process owners are responsible for ensuring that flows accurately describe activities currently performed, that they reflect controls undertaken at various points throughout the flow, and clearly indicate the key controls. ACD is responsible for ensuring that any resulting audit recommendations are addressed/implemented accordingly.