

Document: EB 2018/124/R.33/Rev.2  
Agenda: 9(a)  
Date: 13 September 2018  
Distribution: Public  
Original: English

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Investing in rural people

## IFAD Risk Dashboard

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Executive Board — 124<sup>th</sup> Session  
Rome, 11-13 September 2018

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For: Review

## IFAD Risk Dashboard

1. Risk management lies at the heart of IFAD's enhanced business model. The institution's evolving risk exposure calls for improved risk management, including a strengthened communication flow on corporate risks between the Executive Board and Management. This will allow the Membership to exercise effective oversight and facilitate a structured dialogue around risk at Executive Board sessions and meetings of the Audit Committee.
2. In close coordination with Audit Committee members, Management therefore prepared a draft risk dashboard, which was presented at the 149<sup>th</sup> meeting of the Audit Committee in June. Based on constructive feedback received at that meeting and in line with the Timeline for the Review, Update, and Strengthening of IFAD's Enterprise Risk Management Covering Strategic, Operational and Financial Risks,<sup>1</sup> an updated version of the dashboard has been developed and can be found in the annex.
3. The purpose of the dashboard is to report on risks and risk management to the Audit Committee and Executive Board. The draft dashboard covers the four corporate risk areas identified in IFAD: (i) strategic risks; (ii) financial risks; (iii) operational risks; and (iv) programme delivery risks.
4. The updated version of the dashboard incorporates the following improvements:
  - (a) Risk owners for each risk;
  - (b) Data on indicator performance;
  - (c) Targets, ranges or thresholds where applicable.
5. The current version is a draft and will evolve as IFAD further assesses its risk exposure through the Comprehensive Independent Financial Risk Assessment and Independent Assessment of IFAD's Strategic, Operational and Programme Delivery Risks. In particular, the linkages between IFAD's corporate objectives and the risks presented in the dashboard will be strengthened over the coming months and will benefit from the findings of the aforementioned risk assessments.
6. Remaining data and corresponding targets, ranges or thresholds will be included in subsequent versions of the dashboard. Reporting through the risk dashboard is planned to commence on 1 January 2019.

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<sup>1</sup> The Timeline for the Review, Update, and Strengthening of IFAD's Enterprise Risk Management Covering Strategic, Operational and Financial Risks was presented at the 148<sup>th</sup> meeting of the Audit Committee.



13 September 2018

**PART I** Strategic Risks

**PART II** Financial Risks

**PART III** Operational Risks

**PART IV** Programme Delivery Risks



## Abbreviations and acronyms

AUO	Office of Audit and Oversight
BOD	Office of Budget and Organizational Development
DSF	Debt Sustainability Fund
FOD	Financial Operations Department
ICO	IFAD Country Office
IFAD11	Eleventh Replenishment of IFAD's Resources
ORMS	Operational Results Management System
PMD	Programme Management Department
PoLG	programme of loans and grants
POW	programme of work
RMF	Results Management Framework
SKD	Strategy and Knowledge Department
UNDSS	United Nations Department of Safety and Security
YTD	year-to-date

## PART I

## Strategic Risks



**RISK 1: Replenishment contributions, sovereign borrowing and cofinancing received are insufficient for the planned programme of loans and grants and programme of work**

	2017 Q1	2017 Q4	2018 Q1	Risk owner	Status
Pledge of contribution versus IFAD11 Replenishment target		Target (T): 100% 25.9%	T: 100% 70.5%	FOD	
Sovereign borrowing and concessional partner loans (signed for IFAD11 PoLG; cumulative)		0	0	FOD	
Cofinancing ratio* (IFAD11 [RMF] indicator 3.1.3/3.1.4)  *For IFAD11, cofinancing will be disaggregated by domestic and international sources.		T: 1.4  1.01	T: 1.4  1.01	PMD	

**RISK 2: IFAD's aggregate poverty-reducing impact is not being credibly demonstrated**

	2017 Q1	2017 Q4	2018 Q1	Risk owner	Status
Delivery of IFAD11 PoLG (IFAD11 RMF indicator 3.1.1; cumulative)		T: 100% -	T: 100% -	PMD	
Overall project achievement at completion (rated 4 and above) (IFAD11 RMF indicator 2.2.1)		T: 90% 86.4%	T: 90% 87.4%	PMD	
Delivery of IFAD impact assessments versus planned (cumulative)		T: 18-24 1	T: 18-24 3	SKD	

## PART II

# Financial Risks



### RISK 3: Liquidity risk

	2017 Q1	2017 Q4	2018 Q1	Risk owner	Status
Actual liquidity relative to minimum liquidity requirement		T: >60% 252%	T: >60% 265%	FOD	
Liquidity ratio as per Sovereign Borrowing Framework		T: >5% 15.1%	T: >5% 15.5%	FOD	

### RISK 4: Leverage

	2017 Q1	2017 Q4	2018 Q1	Risk owner	Status
Debt-to-equity ratio (IFAD11 RMF 3.1.2)		T: <35% 5.8	T: <35% 6.7	FOD	
Equity to total assets		T: >60% 92.77	T: >60% 91.3	FOD	

### RISK 5: Grant and Debt Sustainability Framework

	2017 Q1	2017 Q4	2018 Q1	Risk owner	Status
Grant approvals compared to ceiling (YTD cumulative)		T: <6.5% 5.0%	T: <6.5% 0	FOD	
Grants and DSF grants relative to PoLG (YTD cumulative)		18.9%	0	FOD	
DSF received relative to amount due (against IFAD11 Replenishment target)		T: 100% 25.3%	T: 100% 69.9%	FOD	

### RISK 6: Credit risk

	2017 Q1	2017 Q4	2018 Q1	Risk owner	Status
Average rating of IFAD borrowers		Aaa-Baa3 44% Ba1-B3 25% Caa1- Unrated 31%	n/a	FOD	
Outstanding loan arrears in the period relative to billed amounts		2.4%* 0.9%	2.4%* 1.0%	FOD	

\* Historical trend (1979-2018) as reference point

### RISK 7: Market Risk

	2017 Q1	2017 Q4	2018 Q1	Risk owner	Status
IFAD 1-year portfolio conditional value at risk		T: <6% 1.77%	T: <6% 1.62%	FOD	
Average duration of investment portfolio (years)		2.2	2.1	FOD	

## PART III

## Operational Risks



## RISK 8: Fraud, corruption and unethical behaviour causing losses and reputational damage (corporate level)

	2017 Q1		2017 Q4		2018 Q1		Risk owner	Status
	HQ	ICO	HQ	ICO	HQ	ICO		
Total number of fraud/corruption allegations received at AUO in relation to IFAD staff, consultants and vendors – headquarters/ICOs			1	0	1	0	AUO	
Composite indicator on reputational risks (Indicator is being defined and will tentatively include sexual exploitation and abuse, safeguards, transparency)								

## RISK 9: IFAD's new business model is not fully implemented, reducing organizational effectiveness

	2017 Q1		2017 Q4		2018 Q1		Risk owner	Status
	Tot	ICO	Tot	ICO	Tot	ICO		
Ratio of budgeted staff positions in ICOs and regional hubs to overall staff (IFAD11 RMF 3.6.1)			18%		30%		BOD	
Percentage of IFAD's investment projects (by financing volume) managed by ICOs/regional hubs (IFAD11 RMF 3.6.2)			T: 100%		T: 100%		PMD	
Ratio of vacant Professional positions in IFAD to total number of Professional positions (overall/ICO) (%)	Tot	ICO	Tot	ICO	Tot	ICO	BOD	
			13	19	13	23		

## RISK 10: Security in countries where IFAD has offices or funds programmes poses a risk to IFAD staff, assets and business continuity

	2017 Q1		2017 Q4		2018 Q1		Risk owner	Status
	Tot	ICO	Tot	ICO	Tot	ICO		
Reported security incidents involving IFAD staff and consultants (away from headquarters)			T: 0 0		T: 0 1		CSD	
Percentage of ICOs in locations with reported UNDSS security levels being substantial, high or extreme (Security Level >3)			38%		38%		CSD	
Percentage of borrowing countries with reported UNDSS Security levels being substantial, high or extreme (Security level >3)			25%		25%		CSD	

## PART IV

## Programme Delivery Risks

**RISK 11: Implementation challenges in IFAD's country programmes pose a risk to the successful delivery of development results**

	2017 Q1	2017 Q4	2018 Q1	Risk owner	Status
Projects unlikely to achieve their development objectives (ORMS performance rating < 4)		14%	16%	PMD	
Portfolio at risk (percentage of problem projects)		24%	26%	PMD	
Loans/DSF grants older than 5 years with undisbursed balance of 60% or more		1.3%	1.2%	PMD	
% unsatisfactory compliance with Social, Environmental and Climate Assessment Procedures (SECAP) (indicator details are being defined)				PMD	

**RISK 12: Diversion and misuse of IFAD financing undermine IFAD's ability to achieve its programme objectives**

	2017 Q1	2017 Q4	2018 Q1	Risk owner	Status
Percentage of projects rated high risk by financial management assessments		23%	23%	FOD	
Percentage of projects with moderately unsatisfactory or lower compliance with procurement guidelines		26%	28%	PMD	
Percentage of projects with moderately unsatisfactory or lower ratings in quality and timeliness of audits		13%	10%	FOD	
Total number of fraud/corruption allegations received by AUO in relation to projects		7	13	AUO	

**Additional project-level key performance indicators**

	2017 Q1	2017 Q4	2018 Q1	Risk owner	Status
Overall rating for quality of project design (ratings 4 and above) (IFAD11 RMF indicator 3.4.1)		T: 95% 97%	T: 95% 96%	PMD	
Time from project approval to first disbursement (months) (IFAD11 RMF indicator 3.5.2)		T: <12 16.3	T: <12 15.5	PMD	
Disbursement ratio (IFAD11 RMF indicator 3.5.3)		T: 17% 19.1%	T: 17% 18.9%	PMD	