

Document: EB 2019/126/R.6
Agenda: 4(a)
Date: 26 March 2019
Distribution: Public
Original: English

E



IFAD Corporate Risk Dashboard

Note to Executive Board representatives

Focal points:

Technical questions:

Cornelia Richter
Vice-President
Tel.: +39 06 5459 2518
e-mail: c.richter@ifad.org

Alvaro Lario
Associate Vice-President
Chief Financial Officer and Chief Controller
Financial Operations Department
Tel.: +39 06 5459 2403
e-mail: a.lario@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Chief
Governing Bodies
Tel.: +39 06 5459 2374
e-mail: gb@ifad.org

Executive Board — 126th Session
Rome, 2-3 May 2019

For: Review

IFAD Corporate Risk Dashboard

1. The Consultation on the Eleventh Replenishment of IFAD's Resources (IFAD11) set a new strategic direction for IFAD, including excellence in operations, a review of IFAD's financial architecture, decentralization, delegation of authority, transparency and enhanced accountability. Among the changes called for are enhanced enterprise risk management in line with international standards to provide the Executive Board and its subsidiary committees with a better flow of information on corporate risks and facilitate strategic discussions with Management.
2. In close coordination with the Audit Committee, Management developed a timeline to review, update and strengthen enterprise risk management (ERM) and contracted Marsh Risk Consulting (MRC) to perform an independent assessment of IFAD's strategic, operational and programme delivery risks.
3. Based on the findings of the independent assessment, which are hereby presented to the 152nd meeting of the Audit Committee, and taking into account comments received from members during the 150th meeting of the Audit Committee and the Executive Board informal seminar held on 11 December 2018, Management prepared an updated corporate risk dashboard (see annex). Based on the independent assessment, Management will develop an action plan with further improvements.
4. While the MRC independent assessment recognized Management's efforts to enhance risk reporting to the governing bodies, it also identified areas for improvement. These include: (i) better measurement of risk severity; (ii) clearer targets and thresholds for each risk indicator; (iii) fewer indicators; (iv) better visuals, perhaps using a traffic light system; and (v) greater distinction between performance and key risk indicators. In addition, MRC concurs with expectations voiced by Members that effective risk reporting should include more succinct and objective information on trends and risk status. As requested, an appendix with definitions for each indicator and linkages to relevant corporate objectives is provided to make the dashboard more user-friendly.
5. In line with the above recommendations, the updated version of the corporate risk dashboard includes the most important risks together with measurable key risk indicators. A revised risk taxonomy groups risks into strategic, financial and operational areas, as recommended.¹ Internally, these risks are monitored as part of a broader corporate risk register reviewed quarterly by the Enterprise Risk Management Committee.
6. In accordance with international standards, IFAD's strategic risks are defined as risks that have an impact on the organization's ability to achieve its mission, execute its strategies and meet its objectives and whose materialization might affect IFAD's positioning in the development landscape. This includes risks in programme delivery as they pertain to delivering quality projects and making a development impact. Financial risks concern the effective management of IFAD's balance sheet and comprise credit risk, market risk and liquidity risk. Operational risks are defined as risks of loss resulting from inadequate or failed internal processes, issues with individuals or systems, or external events. This includes compliance risks associated with IFAD-financed projects, such as social, environmental and climate risks or project procurement risk.
7. Moving forward, Management will further enhance the corporate risk dashboard as it implements its action plan along the ERM maturity curve. The revised risk assessment methodology recommended by MRC will guide future risk assessment processes. While this year's assessment of strategic and operational risks relied on external expertise, the 2020 exercise will already build on strengthened internal

¹ The risk taxonomy might be further revised while building an integrated risk management function at IFAD.

capacities, which in turn will provide opportunities for enhanced strategic and budgetary discussions with governing bodies.



PART I Strategic Risks

PART II Financial Risks

PART III Operational Risks

PART IV Appendix

Abbreviations and acronyms

AUO	Office of Audit and Oversight
CPL	concessional partner loan
CSD	Corporate Services Department
ERG	External Relations and Governance Department
ETH	Ethics Office
FOD	Financial Operations Department
ICO	IFAD Country Office
ICT	Information and Communications Technology Division
IFAD11	Eleventh Replenishment of IFAD's Resources
KRI	key risk indicator
OSC	Operational Strategy and Policy Guidance Committee
PMD	Programme Management Department
RMF	Results Management Framework
PBAS	performance-based allocation system
PoLG	programme of loans and grants
SECAP	Social, Environmental and Climate Assessment Procedures
SBF	Sovereign Borrowing Framework
UNDSS	United Nations Department of Safety and Security

PART I

Strategic Risks



The following table highlights the main strategic risks identified in the 2019 risk assessment conducted by Marsh Risk Consulting (MRC) for which key risk indicators (KRIs) were found. While a comprehensive evaluation of risk exposure (i.e. which traffic light applies) will be provided at a later stage, KRIs with critical thresholds already provide additional information. Thresholds are defined as tolerance levels, so that a KRI result is green if it falls within tolerance levels and red if it does not. The "1-year trend" arrow indicates the direction of change for each KRI and whether the trend is towards lower (green) or increasing risk (red).

[Relationship with donors] Risk 1: Received replenishment contributions and sovereign borrowing are insufficient for planned PoLG						
Risk owner	ERG					Green Yellow Orange Red
Key risk indicators	Threshold indicating a critical risk	2018 Q4	2019 Q1	2019 Q2	2019 Q3	1-year trend
Percentage of IFAD11 pledges received	TBD	78				
US\$ million secured in borrowing (cumulative)	TBD	77				
[Strategic agility and responsiveness] Risk 2: Mission drift as an unintended consequence of implementing the new business model						
Risk owner	OPV					Green Yellow Orange Red
Key risk indicators	Threshold indicating a critical risk	2018 Q4	2019 Q1	2019 Q2	2019 Q3	1-year trend
Share of IFAD11 core resources allocated through the PBAS to LICs and LMICs	Considerably below RMF target (i.e. 90% at end of IFAD11)	Not available (n/a)				
[Programme delivery] Risk 3: Failure to ensure quality project design in light of existing time and resource constraints						
Risk owner	PMD and SKD					Green Yellow Orange Red
Key risk indicators	Threshold indicating a critical risk	2018 Q4	2019 Q1	2019 Q2	2019 Q3	1-year trend
% of projects rated moderately satisfactory or better for overall quality of project design	Considerably below RMF target (90%)	94.4				
Average time from concept note to approval (in months)	Considerably above RMF target (8 months)	13				
[Programme delivery] Risk 4: Failure to meet outcome targets due to implementation challenges						
Risk owner	PMD					Green Yellow Orange Red
Key risk indicators	Threshold indicating a critical risk	2018 Q4	2019 Q1	2019 Q2	2019 Q3	1-year trend
% of IFAD financing invested in projects at risk	TBD	n/a				
[Human resources management] Risk 5: Difficulty in recruiting and retaining qualified staff to match the changing needs of the organization						
Risk owner	CSD					Green Yellow Orange Red
Key risk indicators	Threshold indicating a critical risk	2018 Q4	2019 Q1	2019 Q2	2019 Q3	1-year trend
Vacancy rate (positions)	Considerably above 3-year-average (13%)	16.5%				
Retention rate (staff)	Considerably below 3-year-average (97%)	96.3%				
Staff engagement index	Considerably below 3-year-average (75%)	74%	n/a	n/a	n/a	

PART II

Financial Risks



As IFAD is currently drafting policies that will provide new key metrics, notably the Capital Adequacy Framework and the Liquidity Policy, a full assessment of financial risks would be premature. The risk metrics will have to be aligned with the risk appetite statement once it is developed and endorsed, which will define the institution's risk capacity and tolerance to risk of. While three key financial risks with relevant indicators are highlighted in the table below, some of the ratios will be replaced once new policies are in place by year-end. The "1-year trend" arrow indicates the direction of change for each KRI and whether the trend is towards lower (green) or increasing risk (red).

[Leverage and capitalization risks] Risk 6: Maintain the amount of capital required in relation to balance sheet risk						
Risk owner	FOD					Green Yellow Orange Red
Key risk indicators	Threshold indicating a critical risk	2018 Q4	2019 Q1	2019 Q2	2019 Q3	1-year trend
Debt to equity	Above 35%	6.3%				↑
Deployable available capital	TBD	n/a				
[Liquidity risk] Risk 7: Risk of inability to meet contractual financial obligations maturing in the short and medium term						
Risk owner	FOD					Green Yellow Orange Red
Key risk indicators	Threshold indicating a critical risk	2018 Q4	2019 Q1	2019 Q2	2019 Q3	1-year trend
Liquidity ratio as per SBF	Below 5%	11.2%				↓
Minimum liquidity ratio	Below 60%	121%				↓
[Credit risk] Risk 8: Potential losses due to a country not meeting its contractual obligations						
Risk owner	FOD					Green Yellow Orange Red
Key risk indicators	Threshold indicating a critical risk	2018 Q4	2019 Q1	2019 Q2	2019 Q3	1-year trend
% of non-performing loans	Above 5%	2.8%				↓

PART III

Operational Risks



The following table highlights the main operational risks identified in the 2019 risk assessment conducted by MRC for which KRIs were found. While a comprehensive evaluation of risk exposure (i.e. which traffic light applies) will be provided at a later stage, KRIs with critical thresholds already provide additional information. Thresholds are defined as tolerance levels, so that a KRI result is green if it falls within tolerance levels, and red if it does not. The "1-year trend" arrow indicates the direction of change for each KRI and whether the trend is towards lower (green) or increasing risk (red).

[Fraud] Risk 9: High profile fraud cases resulting from diversion or misuse of IFAD financing							
Risk owner	FOD					Green Yellow Orange Red 	
Key risk indicators	Threshold indicating a critical risk	2018 Q4	2019 Q1	2019 Q2	2019 Q3	1-year trend	
Total number of fraud cases resulting from diversion or misuse of IFAD financing	TBD	4					
[Compliance] Risk 10: Project procurement results in misuse of IFAD financing							
Risk owner	PMD					Green Yellow Orange Red 	
Key risk indicators	Threshold indicating a critical risk	2018 Q4	2019 Q1	2019 Q2	2019 Q3	1-year trend	
% of projects with moderately unsatisfactory or lower compliance with procurement guidelines	TBD	n/a				x	
[Compliance] Risk 11: Under-reporting on SECAP safeguard risks							
Risk owner	PMD					Green Yellow Orange Red 	
Key risk indicators	Threshold indicating a critical risk	2018 Q4	2019 Q1	2019 Q2	2019 Q3	1-year trend	
% of supervision reports with moderately unsatisfactory or lower SECAP rating	TBD	n/a				x	
[Misconduct] Risk 12: Potential misconduct committed by staff in breach of the Code of Conduct (abuse of authority, sexual harassment or exploitation)							
Risk owner	ETH					Green Yellow Orange Red 	
Key risk indicators	Threshold indicating a critical risk	2018 Q4	2019 Q1	2019 Q2	2019 Q3	1-year trend	
No. of allegations of misconduct concerning a staff member or consultant received by ETH	Not applicable	13					
No. of referrals to AUO for investigation after ETH prior review	One or more	0					
[Disruption to business continuity] Risk 13: Major event or crisis seriously impacting staff safety and security							
Risk owner	CSD					Green Yellow Orange Red 	
Key risk indicators	Threshold indicating a critical risk	2018 Q4	2019 Q1	2019 Q2	2019 Q3	1-year trend	
Number of reported security incidents involving staff or consultants	TBD	n/a					
% of ICOs in locations with reported UNDSS security levels =/ > 3 (moderate)	Not applicable	38%					

PART IV

Appendix



This appendix provides definitions for each risk category and key risk indicator, together with linkages to relevant objectives in the IFAD Strategic Framework 2016-2025.

Strategic risks

IFAD's strategic risks are defined as risks that have an impact on the organization's ability to achieve its mission, execute its strategies and meet its objectives and whose materialization might affect IFAD positioning in the development landscape. The risk taxonomy for strategic risks include: (i) strategic agility and responsiveness; (ii) relationships with the private sector and external partners; (iii) the role and expectations of borrowing countries and donors; (iv) ability to effectively allocate financial and human resources; (v) ability to retain and recruit talent; and, most importantly, (vi) risks to programme delivery as they pertain to delivering high quality projects and achieving development impact.

Key risk indicator	Most direct link to objectives in Strategic Framework	Definition of KRI
[Risk 1] Percentage of IFAD11 pledges received	<ul style="list-style-type: none"> Results pillar 1 "country programme delivery" Results pillar 3 "financial capacity and instruments" 	The value of pledges received divided by the target for IFAD11.
[Risk 1] US\$ million secured in borrowing (cumulative)	<ul style="list-style-type: none"> Results pillar 1 "country programme delivery" Results pillar 3 "financial capacity and instruments" 	The US\$ value secured in sovereign borrowing and concessional partner loans received for use in IFAD11 PoLG.
[Risk 2] Share of IFAD11 core resources allocated through the PBAS to LICs and LMICs	<ul style="list-style-type: none"> Strategic objectives 1, 2 and 3 Results pillar 1 "country programme delivery" 	Share of IFAD11 resources allocated through the PBAS to low-income and lower-middle income countries divided by total IFAD11 resources allocated through the PBAS.
[Risk 3] % of projects rated moderately satisfactory or better for overall quality of project design	<ul style="list-style-type: none"> Results pillar 1 "country programme delivery" 	A summary rating provided during the quality assurance process across several dimensions, including: (i) alignment with country context; (ii) assessment of national/local institutional capacities; (iii) consistency of the proposed objectives, activities and expected outputs and outcomes; (iv) implementation readiness; (v) likelihood of achieving development objectives; and (vi) extent to which quality recommendations have been addressed. The ratings are reported on a 24-month average basis.
[Risk 3] Average time from concept note to approval (in months)	<ul style="list-style-type: none"> Results pillar 1 "country programme delivery" 	The average time elapsed between presentation of a concept note at the Operational Strategy and Policy Guidance Committee (OSC) and project approval by the Executive Board. Includes only projects approved by the Executive Board during the 36 months preceding the reporting date with stand-alone concept notes.
[Risk 4] % of IFAD financing invested in projects at risk	<ul style="list-style-type: none"> Results pillar 1 "country programme delivery" 	The US\$ value of IFAD financing currently invested in projects at risk divided by total IFAD financing in the current portfolio.
[Risk 5] Vacancy rate (positions)	<ul style="list-style-type: none"> Results pillar 4 "institutional functions, services and systems" 	A vacancy is defined as a regular budgeted position in all categories and locations that is newly created, unencumbered or encumbered by short-term staff or consultants (regular positions and administrative budget only). The vacancy rate is the number of vacancies expressed as a percentage of the sum of the total number of regular fixed-term positions encumbered by fixed-term staff in all categories and locations and the number of vacancies.
[Risk 5] Retention rate (staff)	<ul style="list-style-type: none"> Results pillar 4 "institutional functions, services and systems" 	Total number of staff minus separations (excluding retirements, mutually-agreed separations, voluntary separations, terminations and deaths) for staff on fixed-term and indefinite appointments over average number of staff on fixed-term and indefinite appointments (calculated on preceding rolling 12 month period).
[Risk 5] Staff engagement index	<ul style="list-style-type: none"> Results pillar 4 "institutional functions, services and systems" 	Percentage of staff positively engaged in IFAD objectives based on the number of favourable responses from the staff survey on six key questions divided by total number of responses.



Financial risks

IFAD's financial risks relate to effective balance sheet management balance sheet and comprise credit risk, market risk and liquidity risk .

Key risk indicator	Most direct link to objectives in Strategic Framework	Definition of KRI
[Risk 6] Debt to equity	<ul style="list-style-type: none"> Results pillar 3 "Financial capacity and instruments" 	Percentage of outstanding debt to equity. Leverage above the threshold could result in an increase in financial risk.
[Risk 6] Deployable available capital	<ul style="list-style-type: none"> Results pillar 3 "Financial capacity and instruments" 	Equity available to support operations based on the risk profile. Exceeding the threshold could result in the need to adjust the PoLG and/or an increase in financial risk.
[Risk 7] Liquidity ratio as per SBF	<ul style="list-style-type: none"> Results pillar 3 "Financial capacity and instruments" 	(Cash in hand and in banks + investments)/total assets. A result below the threshold could result in an increase in financial risk.
[Risk 7] Minimum liquidity ratio	<ul style="list-style-type: none"> Results pillar 3 "Financial capacity and instruments" 	Minimum liquidity ratio to support operations. A result below the threshold could result in an increase in financial risk.
[Risk 8] % of non-performing loans	<ul style="list-style-type: none"> Results pillar 3 "Financial capacity and instruments" 	Percentage of outstanding non-performing loans to total loans. A high level will lead to higher provisions and erosion of equity.

Operational risks

Operational risks are defined as risks of loss resulting from inadequate or failed internal processes, people and systems or from external events. The underlying categories for operational risks include: (i) internal fraud and misconduct; (ii) disruption to business continuity; (iii) employment practices and workplace safety; (iv) process execution and management; (v) external fraud; (vi) compliance; and (vii) information and communications technology issues.

Key risk indicator	Most direct link to objectives in Strategic Framework	Definition of KRI
[Risk 9] Total number of fraud cases resulting from diversion or misuse of IFAD financing	<ul style="list-style-type: none"> Results pillar 1 "programme delivery" Results pillar 4 "institutional functions, services and systems" 	Allegations of prohibited practices under the Anticorruption Policy resulting in proven fraud cases following an AUO investigation. AUO has a mandate to review and investigate allegations of fraud and determines whether the allegations are proven through sufficient evidence considering the applicable legal evidentiary threshold. When cases are proven, it increases potential fiduciary, reputational and/or integrity risks for the institution.
[Risk 10] % of projects with moderately unsatisfactory or lower compliance with procurement guidelines	<ul style="list-style-type: none"> Results pillar 1 "country programme delivery" 	A ratings-based indicator that draws on an informed assessment of the borrower/implementing agency's performance in carrying out procurement processes in terms of compliance with relevant policies, procedures and the procurement plan, efficiency, transparency, quality of documentation, and number and severity of substantiated complaints. The indicator is assessed annually during the supervision of ongoing projects.
[Risk 11] % of supervision reports with moderately unsatisfactory or lower SECAP rating	<ul style="list-style-type: none"> Strategic objective 3 (resilience) 	A ratings-based indicator that measures how SECAP requirements identified during the project design and subsequent loan negotiations are being applied during project implementation and the extent to which the investment has benefited from SECAP in enhancing social, environmental and climate opportunities and reducing any potential adverse impacts on local communities. The rating does not depend on the project categorization but rather on progress made on implementing SECAP measures established for this project. This rating is mandatory and must be done on an annual basis.

Operational risks (continued)

Key risk indicator	Most direct link to objectives in Strategic Framework	Definition of KRI
[Risk 12] No. of allegations of misconduct concerning a staff member or consultant received by ETH	<ul style="list-style-type: none"> Results pillar 4 "institutional functions, services and systems" 	Number of allegations of misconduct concerning a staff member or consultant that violates the Code of Conduct received by ETH through its reporting channels.
[Risk 12] No. of referrals to AUO for investigation after ETH prior review	<ul style="list-style-type: none"> Results pillar 4 "institutional functions, services and systems" 	As per applicable procedures, ETH conducts a prior review of the allegations and refers the matter to AUO if it determines that there are prima facie elements in support of the allegations. Reaching the investigation threshold increases the potential reputational risks for the organization.
[Risk 13] Number of reported security incidents involving staff or consultants	<ul style="list-style-type: none"> Results pillar 4 "institutional functions, services and systems" 	Number of security incidents reported involving staff or consultants.
[Risk 13] % of ICOs in locations with reported UNDSS security levels =/ >3 (moderate)	<ul style="list-style-type: none"> Results pillar 4 "institutional functions, services and systems" 	This external indicator quantifies the exposure of IFAD personnel to security threats in field duty stations/ICOs. A target or threshold is not applicable.