

# PROVISION OF OPERATIONAL, PROGRAMME DELIVERY AND STRATEGIC RISK ASSESSMENT SERVICES

MARCH 4TH, 2019



## FINAL REPORT

*Private and Confidential*



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## DISCLAIMER

Marsh Risk Consulting (MRC) is pleased to present this report which includes the assessment of IFAD's Enterprise Risk Management Framework, the assessment of IFAD's framework for Risk Management in Programme Delivery and the Strategic and Operational Risk Assessment.

Our work was carried out on the assumption that any information shared with us by IFAD (whether in writing or during the interview process) is complete, accurate and not misleading. We based our comments and our recommendations on the information and the documents provided by IFAD, as an answer to our requests; none of the services provided by MRC in connection with this report are intended to be a legal nor a fiscal/tax advice.

The information contained in this report is confidential. MRC will in no event be liable towards third parties that use, for any reason, this document or its contents.

# 1

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## INTRODUCTION

### 1 Context

The International Fund for Agricultural Development (IFAD, hereinafter also referred to as “the Fund” or “the Organization”), a specialized agency of the United Nations, was established as an international financial institution (IFI) in 1977 to finance agricultural development projects primarily for food production in the developing countries.

IFAD's mission is to enable poor rural people to overcome poverty and is dedicated to eradicating rural poverty in developing countries. Working with rural poor people, governments, donors, non-governmental organizations and many other partners, IFAD focuses on country-specific solutions, which can involve increasing rural poor peoples' access to financial services, markets, technology, land and other natural resources.

Over the past year, in the context of the Consultation on the Eleventh Replenishment of IFAD's Resources (IFAD11), which will cover 2019-2021, Management presented its enhanced business model to deliver impact at scale in support of the 2030 Agenda for Sustainable Development.

The changes in IFAD's business model include new practices in resource mobilization, resource allocation, resource utilization and transforming resources into development results. Concrete examples of ongoing adjustments to the business model include: a critical review of the internal processes for project design; further expansion of country presence; increased delegation of authority to IFAD Country Offices (ICOs); a greater focus on strategic partnerships; and diversification of the Fund's resource base, which since its inception has primarily been funded by core contributions, supplementary funds and other trust funds from its Member States in the form of grants and more recently through sovereign borrowing.

As a result of the adjustments to its business model, IFAD will update the way it manages risks in order to increase its likelihood of meeting the goals set out in the IFAD11 Consultation and more effectively deliver on the Fund's mandate.

### 2 Scope of the Assessment

The aforementioned changes in IFAD's business model are likely to determine an evolution of IFAD's risk profile entailing a comprehensive revision and update of the way the Fund manages risks in order to further support the decision making processes. IFAD is exposed to risks of different nature and importance, facing both Financial and Non-Financial risks, which are closely interrelated.



Figure 1 - Overview of Enterprise Risk Management in IFAD

In this context IFAD has decided to update its Risk Management Frameworks in order to increase its chances to meet its ambitious goals and effectively deliver its mandate. The Fund has therefore started two different studies aimed at assessing and reviewing the existing approach with respect to the management of:

- **Financial Risks:** Generally intended as capital management risk, liquidity risk, foreign exchange risk, interest rate risk, credit and counterparty credit risk. The Financial Risk Assessment was performed by Alvarez & Marsal.
- **Non-Financial Risks:** Generally intended as:
  - **Strategic Risks:** defined as those having 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.
  - **Operational Risks:** defined as risks of loss resulting from inadequate or failed internal processes, people and systems or from external events.
  - **Risks in Programme Delivery:** defined as the risks related to the delivery and implementation of IFAD's Programme of Loans and Grants (PoLG) and include, among others, political, environmental, frauds and technical issues related to projects.

### 3 Project Approach and Timeline

Following the kick-off meeting, the preliminary activities consisted in the analysis of internal documents, including relevant policies and procedures, aimed at obtaining the information necessary to achieve the project goals. Throughout the rest of the project, MRC conducted the following activities:

- Enterprise Risk Management Framework and Risk Management in Programme Delivery Assessment:
  - **Current State Assessment:** assessment of the maturity level of existing frameworks through analysis of internal policies and procedures and information gathered during interviews with internal stakeholders;

## INTRODUCTION

- **Benchmarking:** comparison with respect to selected International Peers, where relevant;
- **Gap Analysis:** identification of main gaps with respect to best practices and/or selected entities, where relevant;
- **Recommendations:** definition of possible areas of improvement for the existing frameworks.
- Operational and Strategic Risk Assessment:
  - **Definition of the risk assessment methodology:** identification of main risk assessment elements;
  - **Risk identification & evaluation:** organization of interviews with Departments/Divisions aimed at identifying Risk Owners, risks applicable to their activities and at evaluating risks;
  - **Divisional/Department risk registers definition and validation:** formalization of the relevant risks, followed by fine-tuning and approval by Risk Owners;
  - **Risk aggregation, prioritization and action plan identification:** aggregation of risks, followed by prioritization and identification of top risks with respective action plans aimed at mitigating such risks.

With respect to the timeline, instead, the following key milestones are highlighted:

- A project kick-off in Rome on October 16<sup>th</sup>, 2018;
- A Dry-run meeting with the ERMC on November 22<sup>nd</sup>, 2018;
- An Informal Seminar with the Executive Board aimed at discussing preliminary findings on December 11<sup>th</sup>, 2018;
- Meetings to discuss project findings with the Enterprise Risk Management Committee on January 28<sup>th</sup>, 2019 and February 8<sup>th</sup>, 2019;
- The delivery of the present report on March 4<sup>th</sup>, 2019.

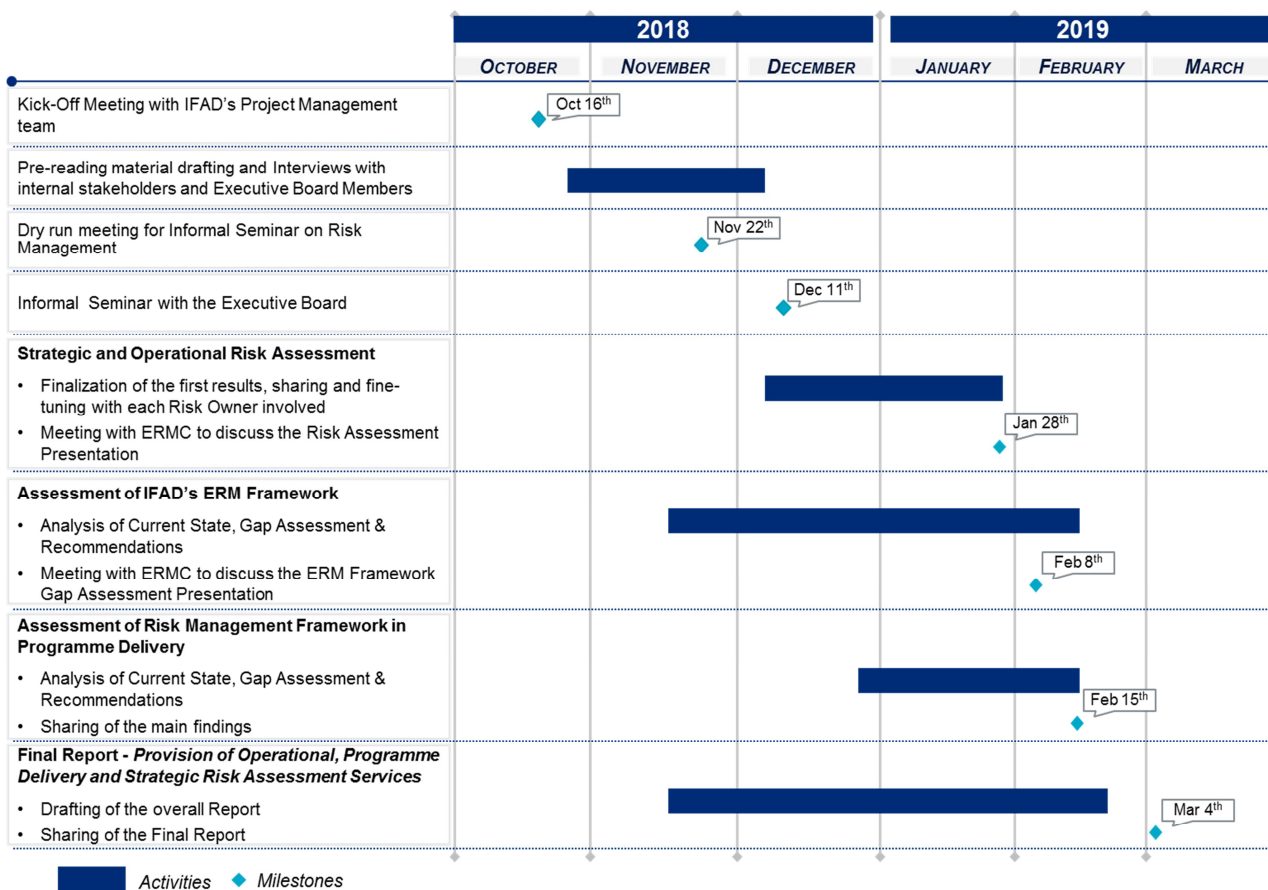


Figure 2 - Timeline of the project and key milestones

## 4 Structure of the Report

Given the mandate, the analysis has been divided in:

- An assessment of the current IFAD's ERM Framework (**Chapter 2**), following the CoSO Framework Pillars: Governance & Culture, Strategy and Objective Setting, Performance, Review and Revision and Information, Communication and Reporting.
- An assessment of the Risk Management Framework in Programme Delivery (**Chapter 3**), including scope and comprehensiveness of the framework, project level risk categorization and escalation mechanism of project level risks for discussion and management. To capture these elements, the analysis is divided into the Risk Management Framework and Governance and Risk Assessment Process and Methodology sections.
- An assessment of IFAD's Operational and Strategic Risks (**Chapter 4**), taking into account Strategic Risks and, among the others, Operational Risks such as business continuity, capacity to delivery, data and cyber security, internal and external fraud, new product development, physical security and staff safety, process execution, suitability of partners, legal risks and vendor management.



# 2

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## ASSESSMENT OF IFAD'S ERM FRAMEWORK

### 1 Introduction

#### 1.1 Background Information

ERM (Enterprise Risk Management) is *“a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its Risk Appetite, to provide reasonable assurance regarding the achievement of entity objectives”*<sup>1</sup>

Integrating Enterprise Risk Management with strategy setting and performance management practices underpins the success of all Organizations and provides the following benefits:

- **Increase positive outcomes and advantages while reducing negative surprises:** by improving its ability to identify and respond to risks, an Organization increases positive outcomes while reducing negative surprises and related costs or losses;
- **Identify and manage entity-wide risks:** by identifying the source of risks that can impact many parts of the Organization, management can build appropriate countermeasures to sustain and improve performance;
- **Reduce performance variability:** an Organization can reduce performance variability by anticipating the risks that might affect performance and thus enabling itself to take actions to minimize disruptions;
- **Improve resource deployment:** obtaining robust information on risks allows management to assess overall resource needs and helps it optimizing resource allocation.

Given the purpose of the study, IFAD's ERM Framework is compared against the 2017 ERM framework of the Committee of Sponsoring Organizations of the Treadway Commission (CoSO). This framework represents the methodological reference for the overall management of risks and is widely recognized and globally applied by Organizations to guide their risk management practices. More in detail, the framework sets out key principles, which an Organization can integrate into its practices. It consists of the following five interrelated components (hereinafter mentioned also as “CoSO Pillars”).

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<sup>1</sup> Committee of Sponsoring Organizations of the Treadway Commission, Enterprise Risk Management – Integrated Framework, Executive Summary - 2017



Figure 3 - Risk Management Components (source: Committee of Sponsoring Organization of the Treadway Commission)




- 1) **Governance and Culture** form the basis for all other components of ERM. More precisely, a proper Risk Governance is crucial in defining the Organization's tone towards risks and establishing oversight over them. Culture supports the achievement of the mission and vision and spans across the whole Organization.
- 2) **Strategy and Objective Setting** are meant to be designed in accordance with the reference context while taking into account the existence of possible internal and external factors whose evolution is likely to have an impact on the organization's capacity to fulfill its mission. On the basis of strategy, objectives are then defined and shape the entity's day-to-day operations and priorities.
- 3) **Performance** entails the assessment of risks that might affect the achievement of strategy and business objectives, the prioritization of risks according to their severity and the definition of risk responses to mitigate those risks that fall outside acceptable levels.
- 4) **Review & Revision** of Enterprise Risk Management practices are crucial in ensuring that the ERM framework has provided added value to the Organization as a whole and will continue doing so in light of substantial changes that might affect the reference context.
- 5) **Information, Communication & Reporting** include both the systems suitable for acquiring and processing data and information relevant to the management of the business, and the mechanisms suitable for ensuring the effective transmission of information related to Risk Management.

## 1.2 Methodology

With respect to the above mentioned CoSO Pillars, the analysis has foreseen:

- 1) The Assessment of IFAD's current ERM Framework;
- 2) Benchmarking with selected entities, where relevant;
- 3) Identification of main gaps with respect to best practices and benchmarks, where relevant;
- 4) Definition of recommendations.

The following criteria, dividing the gaps into three different levels of criticality (high, medium and low) have been applied:

Criticality	Description
<b>High</b> 	Significant gaps with respect to best practices and selected entities, compromising the effectiveness of the functioning of Organization's risk management. Prompt actions are needed to address the gaps.
<b>Medium</b> 	Some gaps with respect to best practices and selected entities having a moderate impact on the functioning of the Organization's risk management. Actions to be started in the short term (e.g. 3-6 months).
<b>Low</b> 	Limited or no gaps with respect to best practices and selected entities. Some limited fine-tuning actions to be evaluated.

In assessing IFAD's ERM Framework positioning with respect to each CoSO component, an Enterprise Risk Management Maturity Model has been used as a reference, represented as follows:

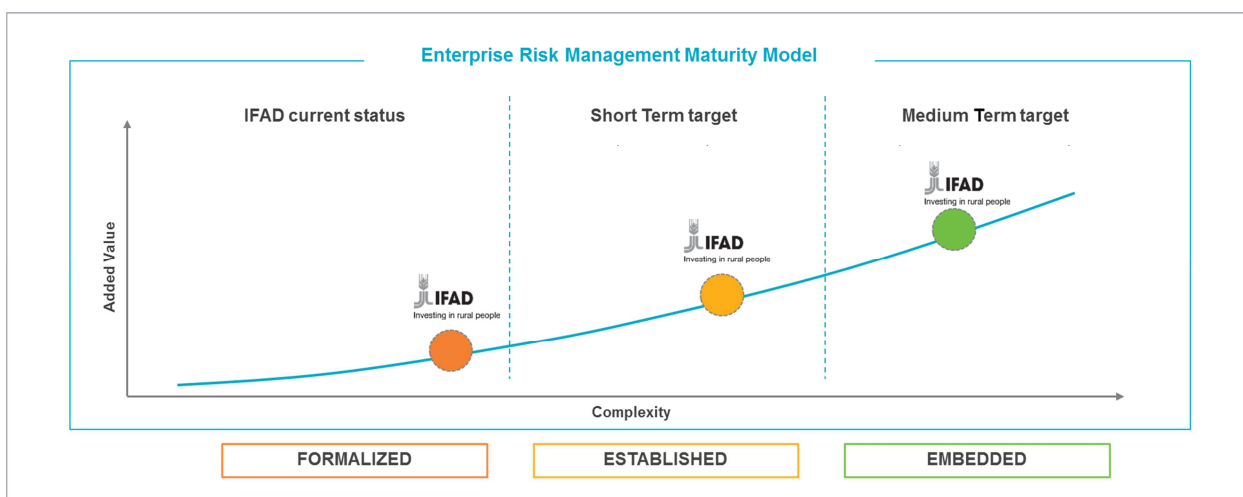


Figure 4 - Enterprise Risk Management Maturity Mode

- 1) **Formalized:** some policies and/or procedures/guidelines are defined, roles and responsibilities are addressed and periodic risk assessment exercises are performed. An overall scattered approach to risk management can be observed and no definition of Risk Appetite is present.
- 2) **Established:** structured/comprehensive risk assessment processes and governance system are put in place and promoted through a clear definition of roles and responsibilities and the presence of a risk accountability culture. A first definition of Risk Appetite and its communication to stakeholders is performed and risk reporting mechanisms across various layers of the Organization are defined.
- 3) **Embedded:** a proactive approach to risk management and a common understanding of risks can be observed across all the levels of the Organization. Risk is embedded in decision making through consistent definition, comprehension and application of Risk Appetite and tolerance levels.

Based on the activities performed, IFAD is considered to be in a **Formalized** state.

In order to allow IFAD's Risk Management Framework to evolve through the ERM Maturity Model, recommendations have been provided for filling in the identified gaps, dividing them between:

- **Short Term**, referring to those actions aimed at bringing IFAD's ERM Framework to an "**Established stage**" of the ERM Maturity Model. Considering the type of recommendations, and according to constraints related to IFAD decision making process, such stage could be reached by the end of 2019;
- **Medium Term**, referring to those actions aimed at bringing IFAD's ERM Framework to an "**Embedded stage**" of the ERM Maturity Model. Considering the type of recommendations, and according to constraints related to IFAD decision making process, such stage could be reached by the end of IFAD 11<sup>th</sup> Replenishment (2021).

## 2 Governance and Culture

### 2.1 Introduction

The review and related recommendations here below considered how IFAD's Governance and Culture form the basis for an effective Enterprise Risk Management framework.

In-depth analysis has been undertaken on:

- IFAD's **ERM policy framework** and to what extent it clearly defines the roles and responsibilities of the actors involved in risk management as well as the process through which risks are identified, evaluated, and managed;
- IFAD's **governing bodies**, considering the frequency, adequacy and comprehensiveness of the information received by and the interaction between the different levels of governance in the exercise of risk oversight;
- The adequacy of IFAD's **operating structure** vis-à-vis the three lines of defence model<sup>2</sup>, clarifying essential roles and duties in risk management distributed by activity among the following lines of defence: (i) 'first line' risk decision makers who own and manage risk as part of day-to-day work; (ii) 'second line' functions that oversee risks and help monitoring the first line of defence controls, and (iii) 'third line' independent functions that provide independent assurance on the overall functioning and effectiveness of the risk management framework;
- IFAD's **risk culture**, including frequency and adequacy of management's communications to staff on risk awareness and risk-informed decision making, diffusion and embedding proper risk management at all levels of the organization, duly reflecting IFAD's Core Values<sup>3</sup>, behaviors and decisions the way they influence applies its ERM Framework.

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<sup>2</sup> IIA Position Paper "The Three Line of Defence in Effective Risk Management and Control"

<sup>3</sup> IFAD's core values are reported on IFAD's website: <https://www.ifad.org/en/ifad-core-values>

## 2.2 Current State Assessment

### Policy Framework

IFAD's current risk governance and management derives from its 2008 "IFAD Policy on Enterprise Risk Management" (ERM Policy)<sup>4</sup> reviewed by the Executive Board and the Audit Committee. It contains the key definitions on risk, the principles to which IFAD adheres in implementing the policy, the roles and responsibilities of the actors involved in IFAD's risk management as well as the key benefits deriving from its implementation.

### Governing Bodies

The ERM Policy states that IFAD's highest governing structure is comprised of:

- **Governing Council (GC);** *"IFAD's highest decision-making body consisting of IFAD's stakeholders and provides overall direction for IFAD";*
- **Executive Board (EB);** *"gives specific direction to Management and approves strategies and corporate policies. It is a critical part of IFAD and significantly influences the Fund's internal environment. The Board provides guidance on managing risks in the context of governance and oversight of new policies, programmes and projects".* The EB plays an oversight role on risk management practices through the Audit Committee. Since 2018, IFAD is working on providing a structured risk information tool to the EB through a specific risk dashboard, also referred as the Corporate Risk Dashboard<sup>5</sup>. The goal of the dashboard, currently under review, is to facilitate an effective oversight and a structured dialogue around risk during EB sessions and meetings of the Audit Committee<sup>6</sup>.
- **The Audit Committee (AC)** *"monitors the efficiency and effectiveness of internal audit functions. It periodically conducts a review of IFAD's risks and risk management procedures, satisfying itself that the internal control and risk management systems established by Management effectively safeguard the Fund's assets and reporting to the Executive Board on the outcome of such reviews"*<sup>7</sup>. With respect to Risk Management, the AC *"every year, review the risks faced by the Fund and assess the risk management practices and procedures in place, and provide its opinion and comments thereon to the Board"*. As also mentioned during interviews with EB representatives, the Audit Committee provides feedback within Executive Board meetings with respect to the structure of the risk dashboard as well as its expectations in terms of risk management processes in order to ensure that the Executive Board is properly informed about IFAD's risk profile.
- **President and the Vice President:** *"the President of IFAD, assisted by the Vice-President and the Assistant Vice Presidents, is accountable to the Board for the implementation of risk management processes".* The President has the responsibility to ensure the implementation of the ERM policy, embedding risk management in corporate processes, reviewing the underlying risks and assigning required accountabilities. The Vice-President supports the President, *"as the corporate risk champion, works with other managers in establishing and maintaining effective risk management in their areas of responsibility, ensuring buy-in for ERM across the organization"*.

<sup>4</sup> "IFAD Policy on Enterprise Risk Management" (EB 2008/94/R.4)

<sup>5</sup> A focus on IFAD's risk dashboard is provided in section "Information, Communication and Reporting"

<sup>6</sup> IFAD Risk Dashboard (EB 2018/124/R.33/Rev.2)

<sup>7</sup> Terms of Reference and Rules of Procedure of the Audit Committee of the Executive Board (EB/2009/97/R.50/Rev.1)

As part of its integrated governance structure, IFAD's Operations Management Committee (OMC) *"shall be responsible for overseeing the implementation and delivery of the Fund's corporate policies, strategies, programme of work and budget"*<sup>8</sup> by taking decisions on routine operational matters. IFAD's Executive Management Committee (EMC) provides advice to the President in discharge of his responsibilities, has open discussions *"regarding policies, strategies, procedures and work plans for direction and operation of the Fund"*, decides *"on the allocation of human and financial resources of the Fund"*<sup>9</sup>.

### *Operating Structure*

#### Three lines of defence Model

The analysis of IFAD's operating structure participating in risk management vis-à-vis the three lines of defence model is as follows:

#### 1<sup>st</sup> Line of Defence

In IFAD, all Departments and Divisions (e.g. PMD, HRD) represent first line actors in the risk management framework. Within the first line, the following Divisions perform specific risk analysis:

- The **Administrative Service Division (ADM)** within the **Corporate Services Department (CSD)** traces, through an Operational Risk Register, updated twice per year, risks applicable to the Division and risks that can be mitigated through insurance. The Division also coordinates security risk assessments at ICO level in close cooperation and consultation with the Hub Heads and the UNDSS.
- The **Information and Communications Technology Division (ICT)** within **CSD** collaborates to the effective management and mitigation of IT related threats.
- The **Environment, Climate, Gender and Social Inclusion Division (ECG)** within the **Strategic Knowledge Department (SKD)** directly takes part in the identification and assessment of Social, Environmental and Climate risks to enhance the sustainability of Country Strategic Opportunities Programs (COSOPs), Country Strategy Notes (CSNs), programs and projects.

#### 2<sup>nd</sup> Line of Defence

The following Divisions/Committee are considered as acting as 2<sup>nd</sup> line of defence:

- The recently instituted **Financial Risk Management structure** within the **Financial and Operations Department (FOD)** guided by the Chief Risk Officer and dealing with corporate financial risks.
- The **Financial Management Services Division (FMD)** within **FOD** is an inherent part of the operational cycle and in charge of assessing the financial management risks in IFAD funded and managed operations during the project design, supervision/ implementation support and closing phases and is responsible for setting the parameters for and monitoring the financial management risks during the design and implementation phase of each project. It also has a quality review unit responsible for ensuring the integrity and consistency of practices in the division and monitoring KPIs and as such is considered the

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<sup>8</sup> PB/2012/05: IFAD Management Committees and IFAD Management Team

<sup>9</sup> PB/2012/05: IFAD Management Committees and IFAD Management Team

second line of defence for financial management in programme delivery. In addition it oversees financial management policies including disbursements and project audit and is responsible for capacity building to the IFAD workforce and projects in terms of project financial management.

- The **Accounting and Controller's Division (ACD)** within **FOD** is in charge of supporting the integrity, transparency and control of IFAD's financial resources and ensuring compliance/integrity related to financial crime risks such as IFAD's interactions with Sanctioned/Criminal counterparties – vendors, contributors, recipients (bribery, terrorism, money laundering) as well as anti-fraud/corruption activities. In addition a **Controllership** function has been created reporting to the ACD Director, as the guardian of the Internal Control Framework responsible to identify, assess and monitor the operational risks related to business processes. In such context, the function has also instituted an incident reporting process on operational risks.
- The **Ethics Office (ETH)** is an independent office that works to ensure that standards of integrity, ethical behavior and transparency are maintained across the Organization. It coordinates processes to manage conflicts of interest and risks related to staff misconduct and non-compliance with IFAD's Code of Conduct and Core Values. It is also responsible for the oversight of measures aimed at preventing and responding to sexual harassment, sexual exploitation and abuse, including definition of relevant policies and specific training programmes. In the context of its activities ETH also develops protocols and guidelines on allegations of harassment and misconduct.
- The **Operational Policy and Results Division (OPR)** within the **Programme Management Department (PMD)** performs SECAP compliance reviews and as such is considered as the second line of defence function for climate, environmental and social risks in Programme Delivery. In addition it oversees project procurement policy and its application.
- The **Investment and Finance Advisory Committee (FISCO)** has the purpose *“to assist and advise the President in determining the overall investment strategy and Investment Policy Statement (IPS) and deciding on other strategic financial matters”*<sup>10</sup>. In addition, it provides governance oversight for financial risk management and therefore is included as the 2<sup>nd</sup> line of defence for financial risks<sup>11</sup>.

The structures forming the second line of defence are completed by the **Enterprise Risk Management Committee (ERMC)** which has the responsibility of launching and guiding the development of the Enterprise Risk Management in IFAD<sup>12</sup>. The current ERMC is chaired by the Vice President and is composed of core members<sup>13</sup>, a Secretary, an Observer<sup>14</sup> and Risk Champions<sup>15</sup>. Directly interested parties are invited on a case by case criteria by the ERMC

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<sup>10</sup> Internal Control Framework for IFAD Investments, Annex 1: Rules of procedure and terms of reference of the Investment and Finance Advisory Committee (FISCO) - (EB2017/122/R.31/Add.1)

<sup>11</sup> At the moment of the current assessment, the purpose and the scope of the committee is under review. Following the Financial Risk Assessment performed by Alvarez & Marsal, October 2018, it was suggested to rename and repurpose such committee in an Asset Liability Management Committee (ALCo)

<sup>12</sup> PB/2016/03: Updated responsibilities of the Enterprise Risk Management Committee

<sup>13</sup> According to PB/2016/03 core members are: AVP CSD, AVP FOD, FMD Director, GEM Director, ICT Director, PRM Director, WCA Director

<sup>14</sup> According to PB/2016/03: Director of the Office of Audit and Oversight

<sup>15</sup> To date Risk Champions and participants include: BOD Director, ACD Director, Treasury Director, HRD Director, Advisor to AVP SKD, Advisor to AVP PMD

chairperson to assist in the committee's deliberations and observe the meeting as deemed appropriate.

In particular, the ERMC's terms of reference foresee the following areas of responsibility:

- **ERM Policy:** maintain and, as necessary, update IFAD's Policy on ERM;
- **Risk Assessment, Risk Register and Risk Mitigation Plans:** coordinate a comprehensive assessment of IFAD's risks every three years aligning this exercise with the end of the consultation on IFAD's replenishment and quarterly review the risk register so as to ensure its completeness, validity and consistency. Furthermore, the ERMC is tasked with monitoring the effectiveness of risk mitigation plans and should provide the Operational Management Committee with information on the budgetary implications of ensuring the effective management of IFAD's corporate risks;
- **Risk Management Culture:** ensure that an appropriate risk management culture is spread within the Organization from the embedment of risk management into existing and new corporate processes and procedures, to the review of decentralized risk management system and the promotion of relevant training and learning.

The Committee meets on a quarterly basis and additional meetings can be called by the Chairperson upon specific needs. Discussions are mostly centered around updates on single risks or selected identified risk topics included in the corporate risk register, risk mitigation strategies and risk status. Other topics are addressed, especially in terms of initiatives aimed at enforcing risk management processes (e.g. Corporate Risk Register improvement discussions), as well as updates on the definition of reporting instruments (e.g. Corporate Risk Dashboard).

Summaries of the ERMC meeting are provided to the OMC<sup>16</sup>, where the main discussion points from the meeting are described together with potentially required actions from OMC.

### 3<sup>rd</sup> Line of Defence

The **Office of Audit and Oversight (AUO)** is the independent function responsible for providing assurance on the overall functioning and effectiveness of the risk management framework. As such, AUO has the mission to *"enhance and protect organizational values by providing risk-based and objective assurance, advice and insights"*<sup>17</sup>. AUO also investigates possible or alleged irregular practices, including staff misconduct, fraud and corruption in IFAD activities. AUO through performed audits identifies exposures that should be addressed by 1<sup>st</sup> and 2<sup>nd</sup> line of defence functions, providing specific recommendations. The single audit reports are accessible by all staff and the follow-up on slow or non-implementation of recommendations are brought to the attention of responsible managers, the President and the Audit Committee on a quarterly basis. In addition, in the context of its activities, AUO collaborates with 1<sup>st</sup> and 2<sup>nd</sup> line of defence functions. The following practices are provided as examples:

- Coordination with ETH in relation to sexual exploitation and abuse, sexual harassment, retaliation, whistleblower protection policies;
- Coordination with FMD, more precisely through considering risk ratings from financial risk assessment in audit risk assessment process leading to the definition country programme activities performed by AUO and sharing of investigation outputs with FMD officers;
- Coordination with ACD for the annual assessment of the effectiveness of the Internal

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<sup>16</sup> Transmittal Page for Documents to OMC, October 2, 2018

<sup>17</sup> Revision of the Charter of the IFAD Office of Audit and Oversight (EB/2018/133/R.21/Rev.2)

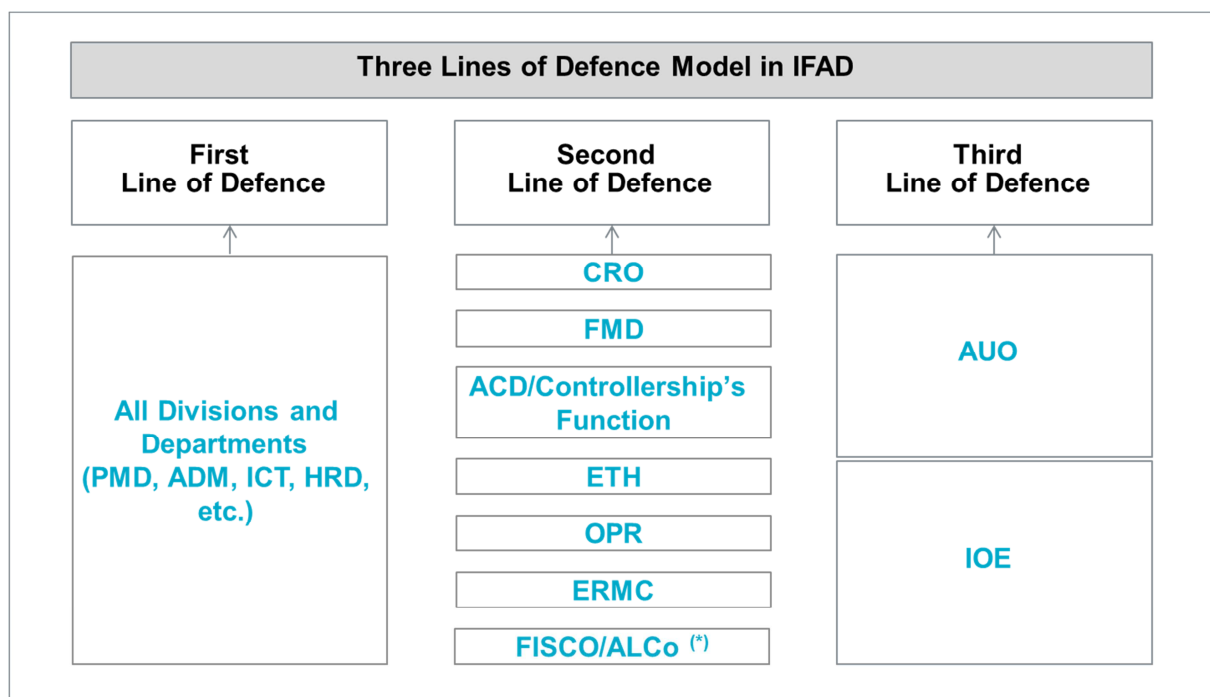


Control Framework;

- Coordination of a dedicated cross-divisional taskforce to assess risk exposures in relation to compliance (e.g. Anti-money laundering, anti-terrorist financing).

AUO performs audits with respect to the efficiency and adequacy of the ERM Process<sup>18</sup>. Through the last report the AUO highlighted some areas for improvement in the ERM architecture. The report suggested recommendations related to the integration of ERM into the planning and budgeting process, to increase risk awareness and to improve/strengthen the link between performance management systems and risk management.

The **Independent Office of Evaluation (IOE)** is considered as a 3<sup>rd</sup> line of defence. *“It is responsible for conducting independent evaluations of IFAD’s financed policies, strategies, and operations”* and *“It will also evaluate key corporate business processes that are essential for enhancing IFAD’s development effectiveness and fulfilling its overall mandate”*. For risk management purposes its assessment and recommendations are instrumental in identifying possible areas of risk and possible improvement areas to be considered by Management and the Executive Board. To this extent IOE publishes a range of documents stemming from analysis of corporate policies (e.g. Corporate-level evaluation of IFAD’s Decentralization Experience published in 2016) to the broader annual report on results and impact of IFAD’s operations.



(\*) Proposal by Alvarez & Marsal to repurpose the FISCO and rename it as the Asset & Liability Management Committee (ALCo). FISCO/ALCo acts as a Second Line of Defence within the scope of its activities related to Financial Risk Management.

**Figure 5: Three Line of Defence Model in IFAD**

**Culture**

The following elements characterizing IFAD’s risk culture are described:

- Internal policies and procedures to promote behavior in line with the values of the fund have been defined and periodically updated (i.e. IFAD’s Core Values, code of conduct,

<sup>18</sup> Internal Audit Report on the Efficiency and Adequacy of the ERM Process, June 2013

policies on preventing fraud and corruption, sexual harassment and sexual exploitation)<sup>19</sup>.

- Risk Champions, Risk Sherpas and Risk Owners mentioned within the Corporate Risk Register and Corporate Risk Dashboard;
- Enterprise Risk Management is mentioned as a key component in the revised draft of the Delegation of Authority Framework<sup>20</sup>.
- The controllership culture is based on risk based approach to prevent and monitor risks, also through incident reporting activities that are currently put in place.
- Risk reporting at division level was noted through Division Management Plans, where however the risk section results to no longer be enforced and updated across all Divisions. In such context Division Management Plan focal points risk training has been provided<sup>21</sup>.

### 2.3 Benchmarking with other International Organizations<sup>22</sup>

This paragraph describes risk governance in other selected Organizations considered to be comparable to IFAD either in the light of their organizational structure or due to the perimeter of their activities. The benchmark is used to provide considerations on organizational developments applicable to IFAD.

International Organizations - selected Benchmarks for Governance					
Area	WFP	WBG	AfDB	AIIB	DFID
<b>Governance</b>	Enterprise Risk Management Department headed by a CRO and reporting to the CFO	The CRO reports to the CAO (Chief Administration Officer) for non-financial risks and to the CFO for financial risks	CRO is an independent function and reports to the President, dealing with both Financial and Non-Financial Risks	Independent Risk Management Department headed by the CRO and reporting to the President, dealing with both Financial and Non-Financial Risks	The Audit Committee advises the accounting officer on the adequacy of risk, control and governance of processes  Risk Management within the Strategy Division

<sup>19</sup> The following documents are available on IFAD's website: IFAD's Code of Conduct; IFAD policy to preventing and responding to sexual harassment, sexual exploitation and abuse; Revised IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations (EB 2018/125/R.6); Whistleblower Protection Procedure booklet.

<sup>20</sup> At the moment of the current study the review process of the Delegation of Authority Framework was ongoing

<sup>21</sup> Internal Audit Report on the Efficiency and Adequacy of the ERM Process, June 2013


<sup>22</sup> The benchmark has been performed with respect to International Organizations that were considered comparable to IFAD on the basis of their respective activities and type of Organization (e.g. UN agencies, International Development agencies, International Financial Institutions).

International Organizations - selected Benchmarks for Governance					
Area	WFP	WBG	AfDB	AiIB	DFID
<b>Committees</b>	<p>Executive Management Group receives and reviews the Corporate Risk Register three times a year</p> <p>The Audit Committee advises the Board and the Executive Director on risk management</p>	<p>Management Committees performing monitoring and oversight of risks:</p> <ul style="list-style-type: none"> <li>• Finance Risk Committee</li> <li>• Enterprise Risk Committee</li> <li>• Operational Risk Committee (sub-committee)</li> </ul>	<p>Management committees:</p> <ul style="list-style-type: none"> <li>• ALCo</li> <li>• Credit Risk Committee</li> <li>• Operational Risk Committee (to be created as a sub-committee)</li> </ul>	<p>Existence of a Risk Committee convening on a regular basis and responsible for the development and oversight of the Bank's risk framework and policy. Performs risk monitoring and issues recommendations</p>	<p>The Executive Committee regularly reviews the Risk Register</p> <p>The Audit, Risk and Assurance Committee (sub-committee) reviews the effectiveness of processes and actions in relation to risk management including for strategic risks</p>




As a result of the Benchmark, the following elements need to be taken into account in defining IFAD's Organizational Risk Unit:

- Presence of an organizational structure that ensures the holistic management of Financial and Non-Financial risks (observed in all of the above entities, even if with a dual reporting line noted in WBG), with a dedicated area dealing with Non-Financial risks;
- Existence of a committee that has the view on the whole set of risks, therefore implying for the current IFAD's structure establishing inbound and outbound information flows between ERMC and FISCO/ALCo;
- Independence of the risk unit from business lines (1<sup>st</sup> Line of Defence) as foreseen in IFIs (e.g. AiIB, AfDB).



## 2.4 Gap Analysis

Governance & Culture		
Area	Main Gaps	Criticality
<b>Policy Framework</b>	<ol style="list-style-type: none"> <li>1. The roles and responsibilities foreseen within the ERM Policy are not in line with the changes in business model and in the governance structure (e.g. the CRO is not mentioned, no reference to the link between Financial and Non-Financial risks).</li> <li>2. There is no formalization of a Risk Appetite Statement/Framework<sup>23</sup>.</li> <li>3. Starting from the high level principles defined in the ERM Policy, there are no operating procedures that describe and detail the risk assessment process and methodology and roles and responsibilities.</li> </ol>	 <b>(Medium)</b>


<sup>23</sup> For further information, please refer to the Section 3 "Strategy and Objective Setting"

Governance & Culture		
Area	Main Gaps	Criticality
<b>The ERMC</b>	<ol style="list-style-type: none"> <li><b>Composition and Participation:</b> The current composition and participation are too broad to ensure a right degree of efficiency and effectiveness.</li> <li><b>Positioning:</b> As the Committee's role is to provide recommendations to a similar decision making level committee (e.g. OMC), it lacks the adequate organizational standing to promote and enforce decisions on risk management.</li> <li><b>Functioning:</b> The ERMC appears to be a discussion-oriented Committee whose agenda is mostly focused on reviewing the Corporate Risk Register rather than taking and enforcing decisions on risk management (e.g. decisions regarding implementation of action plans)<sup>24</sup>.</li> <li><b>Interaction with other Committees:</b> at the current stage of development no formalized evidence of existing inbound and outbound information flows with FISCO/ALCo has been found (e.g. procedures indicating the information flows).</li> </ol>	 <b>(Medium)</b>
<b>The 1<sup>st</sup> and 2<sup>nd</sup> lines of Defence</b>	<ol style="list-style-type: none"> <li>There is <b>no dedicated and full time operating structure</b> with the necessary independence from Risk Owners and responsibilities to provide an effective guidance on Non-Financial risk management and ensure a holistic approach through the coordination with Financial risk management.</li> <li><b>Risk Management approach:</b> in general, the approach to Risk Management is <b>scattered</b>. Specific risk analyses at Division/Department level are based on different methodologies potentially leading to inefficiencies (e.g. specific risk analysis developed independently at division level: ADM, ICT, controllership function).</li> <li>Even if, as indicated in the current state, <b>1<sup>st</sup> and 2<sup>nd</sup> line of defence</b> functions have defined roles and responsibilities (e.g. ETH, FMD, OPR, etc.), no comprehensive formalization has been reported with the possible effect of creating areas of overlap/confusion in certain areas (e.g. operational risks). Similarly, newly defined roles and responsibilities, such as those related to financial crime, are also currently not formalized.</li> </ol>	 <b>(High)</b>
<b>Information flows between 2<sup>nd</sup> and 3<sup>rd</sup> line of Defence</b>	<ol style="list-style-type: none"> <li>Even though, as described in the current state, there are information flows, both inbound and outbound between AUO and the individual functions (e.g. OPR, FMD, ETH, etc.), due to the absence of an integrated risk management unit, the existing information sharing mechanisms between the 3<sup>rd</sup> and 2<sup>nd</sup> line of defence are not fully structured.</li> </ol>	 <b>(Medium)</b>

<sup>24</sup> The gap was identified based on the analysis of the ERM Committee Meeting's Draft summaries and interviews

Governance & Culture		
Area	Main Gaps	Criticality
<b>The Executive Board and the Audit Committee</b>	<ol style="list-style-type: none"> <li>1. Though the ERM policy foresees that the Executive Board provides guidance on managing risks, this is currently perceived as not being fully embedded in the Organization (this might be partially due to not yet consolidated risk reporting flows).</li> <li>2. The AC is represented by different member state countries, where each country has the autonomy to appoint its components. No formalized specification of the overall capabilities is required for representatives of the committee related to overall ERM needs.</li> </ol>	 <b>(Medium)</b>
<b>Culture</b>	<ol style="list-style-type: none"> <li>1. There is no clear definition of <b>accountability</b> for risk management. The lack of a proper definition and selection of the Risk Owner<sup>25</sup> might lead to confusion with the role and responsibilities of the Risk Champion<sup>26</sup>. Similarly, the Risk Sherpas do not have a properly defined role and might have overlapping areas of competence with the others.</li> <li>2. There is no evidence of structured risk management <b>training</b> to staff neither at headquarters' nor at ICOs' level. This gap is further widened when taking into consideration the ongoing decentralization process and the resulting increase of delegation of authority at country offices.</li> <li>3. There is no evidence of a diffused <b>risk awareness</b> at Division/Department level (e.g. generally staff is not involved in risk assessment process, risk consideration not always embedded in decision making).</li> </ol>	 <b>(High)</b>


## 2.5 Recommendations




Governance and Culture			
Area	ID Rec.	Recommendations	Timeline
<b>Policy Framework</b>	1	Update the <b>ERM Policy</b> to reflect the organizational changes and the possible changes on the risk governance structure to align it to support IFAD's new business model and international best practices.	 <b>(Short term - within 2019)</b>
	2	Adopt a Risk Appetite statement to be built upon IFAD's attitude towards risks of different types <sup>27</sup> .	

<sup>25</sup> Risk Owner is defined as the individual who is ultimately accountable for ensuring the appropriate management of the risk






<sup>26</sup> Risk Champion is defined as the person who supports the risk management activities, but is not the risk owner

<sup>27</sup> For further detail, please refer to the Section 3 "Strategy and Objective Setting"

Governance and Culture			
Area	ID Rec.	Recommendations	Timeline
	3	<p>Formalize additional <b>policies/ procedures/ guidelines</b> which discipline the risk management processes and set up structured risk information flows. The new policies/procedure/guidelines should clearly define:</p> <ul style="list-style-type: none"> <li>• Risk Management process for key risk categories (e.g. financial, strategic, operational, risks in programme delivery);</li> <li>• Roles and responsibilities of the involved stakeholders (e.g. 1<sup>st</sup> and 2<sup>nd</sup> lines of defence);</li> <li>• Methodological approaches.</li> </ul>	
The ERMC	4	<p><b>Composition and participation:</b> Update the number of Core members of the ERMC to facilitate the decision making process, by taking into account the appropriate level of <b>seniority, skills and risk awareness</b> of the core members, as well as the distribution between <b>the three lines</b> of defence functions. Given the current IFAD's structure the following composition is suggested:</p> <ul style="list-style-type: none"> <li>• Vice President: chair of the committee;</li> <li>• AVP FOD: in the light of the relevance of the role taking into account the move versus IFI and the related management of Financial Risks;</li> <li>• AVP CSD: given the relevance of corporate operational risks;</li> <li>• AVP PMD: given the relevance of risks in operations for the IFAD's activities;</li> <li>• AUO: to strengthen the link between risk management and internal audit activities;</li> <li>• Risk management function: as the secretary of the ERMC.</li> </ul> <p>Additional participants to be invited based on the risks to be monitored and specific agenda of the ERMC.</p>	 <b>(Short term - within 2019)</b>
	5	<p><b>Positioning:</b> to elevate the role of the ERMC, consider enforcing the positioning of the Committee by removing potential overlaps of roles and responsibilities with the OMC and ensuring the establishment of direct information flows towards the EMC.</p>	
	6	<p><b>Functioning:</b> Strengthen decision making concerning Risk Management process. It is recommended to keep the frequency of quarterly meetings of the ERMC and integrate existing terms of reference to reflect:</p> <ul style="list-style-type: none"> <li>• Information flows to the EMC;</li> <li>• Reporting to the AC and EB;</li> <li>• Role in the definition of the Risk Appetite;</li> </ul>	

Governance and Culture			
Area	ID Rec.	Recommendations	Timeline
		<ul style="list-style-type: none"> <li>Interaction with the risk management function;</li> <li>Frequency of the risk assessment (e.g. annual).</li> </ul>	
	7	<b>Interaction with other risk committees:</b> In the current changing structure formalize and enforce information flows/ with the financial risk management Committees (e.g. FISCO/ALCo) to ensure a holistic approach towards risk management.	
<b>The 1<sup>st</sup> and 2<sup>nd</sup> lines of defence</b>	8	<p>Set-up a <b>Risk Management function</b> for an effective implementation and coordination of risk management practices, leveraging both existing Non-Financial Risk and Financial Risk Management specialists in an holistic and integrated manner.</p> <p>For more details on the <b>proposed alternatives</b> in this area see the section <i>Focus on the Risk Management function</i>.</p>	 <b>(Short term Within 2019)</b>
<b>Information flows between 2<sup>nd</sup> and 3<sup>rd</sup> line of Defence</b>	9	In the context of the establishment of an integrated risk management function, structure information flows between the AUO and such function. This information flow is aimed at, among others, systematically updating risk analysis on the basis of the main deficiencies in existing controls emerging from performed audits.	 <b>(Short term - within 2019)</b>
<b>The Executive Board and the Audit Committee</b>	10	Strengthen the role of the EB in risk discussions and oversight by participating in the definition of IFAD's <b>Risk Appetite</b> , through providing insights to Senior Management and President and Vice President.	 <b>(Short term - within 2019)</b>
	11	Strengthen the role EB in risk discussions providing access to <b>concise and effective risk reporting</b> through a risk dashboard aligned with the timing of the Executive Board meetings (i.e. three times per year and currently being implemented, for further details see the " <i>Information, Communication and Reporting</i> ").	



Governance and Culture			
Area	ID Rec.	Recommendations	Timeline
	12	In order to facilitate the role of the Audit Committee with reference to the oversight of ERM Framework and in line with ongoing initiatives, define the profile and expertise required for each Audit Committee member, providing if necessary related training sessions when needed <sup>28</sup> .	
Culture	13	Further strengthen the <b>tone from the top</b> towards risk culture with the definition of the attitude that the Organization has towards different types of risks <sup>29</sup> and the importance of risk management discussions at all levels.	 (Short term - within 2019)
	14	Enforce <b>accountability</b> and risk ownership by establishing a clear definition of roles and responsibilities for risk analysis, risk mitigation and risk reporting at headquarters' and ICO's level taking into account risks that should be assessed at corporate and project level in programme delivery. Moreover, constant follow up on implementation of action plans should be enforced.	 (Short term - within 2019)
	15	Reintroduce <b>bottom-up risk assessment</b> at Department/Division level and encourage open risk discussions between managers and staff when defining Department/Division strategy and related objectives.	 (Short term – within 2019)
	16	Develop <b>differentiated risk training</b> programmes to ensure that risk competencies are aligned with the assigned roles and responsibilities (e.g. dedicated training in the Operations Academy for CPMs as it will be described in the chapter regarding risk in programme delivery, dedicated training in the HQ for Risk Owners and other selected staff.	 (Short term – within 2019)
	17	Consider the possibility of developing <b>e-learning solutions</b> for all staff.	 (Medium term – within 2021)

<sup>28</sup> Initiatives foreseen in the “Strengthening the Governance role of subsidiary bodies” (EB 2018/124/R.37) and recommendations from the Financial Risk Assessment performed by Alvarez & Marsal, October 2018

<sup>29</sup> See Section 3 “Strategy and Objective Setting”



### *Focus on Risk Management Function*

Given the current state, the best practices in Risk Management and selected benchmarks, IFAD should set-up a Risk Management function to effectively coordinate comprehensive risk assessments and inputs from existing risk specialists, considering both Non-Financial Risks and Financial Risks in an holistic and integrated approach.

At this regard, revised Risk Management function **responsibilities**, with particular reference to “Non-Financial Risk Management”, shall include at least:

- a) Support the ERMC and Governing Bodies in the definition/revision of the Risk Appetite, along with financial risk management specialists;
- b) Propose enhancements to risk management practices regarding strategic and operational risks to the ERMC (e.g. processes, methodologies, tools);
- c) Manage and coordinate the corporate Operational and Strategic Risk Assessment campaign and provide an adequate information to the ERMC in relation to IFAD risk profile, relating with Risk Owners/Risk Champions. For what concerns PMD, the Risk Management function shall liaise with PMD Risk Coordinator to receive aggregated risk reporting and to support, where necessary risk awareness initiatives (see Chapter “Assessment of Risk Management Framework in Programme Delivery” for further details);
- d) Support Risk Owners in monitoring the implementation of the risk mitigation actions identified as part of the Corporate Risk Assessment campaign and provide the ERMC with updated information on their implementation status;
- e) Liaise with the financial risk management to ensure, where appropriate, that synergies between Financial and Non-Financial risk management are put in place;
- f) Liaise with other control functions to continuously strengthen risk management practices (e.g. incident activity currently being put in place by ACD/Controllershship function or other operational risk initiatives);
- g) Liaise with risk specialists that contribute to the risk identification and mitigation process (e.g.: IT Security, Business Continuity Management, staff security, internal controls, management of corporate insurance programmes);
- h) Liaise with the Office of Audit and Oversight to support the risk assurance process and ensure that the collaboration between control functions is in place;
- i) Ensure that appropriate risk management practices are set-up in order to identify and assess risks regarding new product/ initiative development, as well as major process changes and verify their coherence with the risk appetite of the Organization.
- j) Support the ERMC in drafting risk reporting material for the attention of the Senior Management and the Executive Board (e.g. updates on risks, Corporate Risk Dashboard);
- k) Collaborate with HRD to promote the development of training, information and risk-awareness activities directed towards IFAD's general staff.

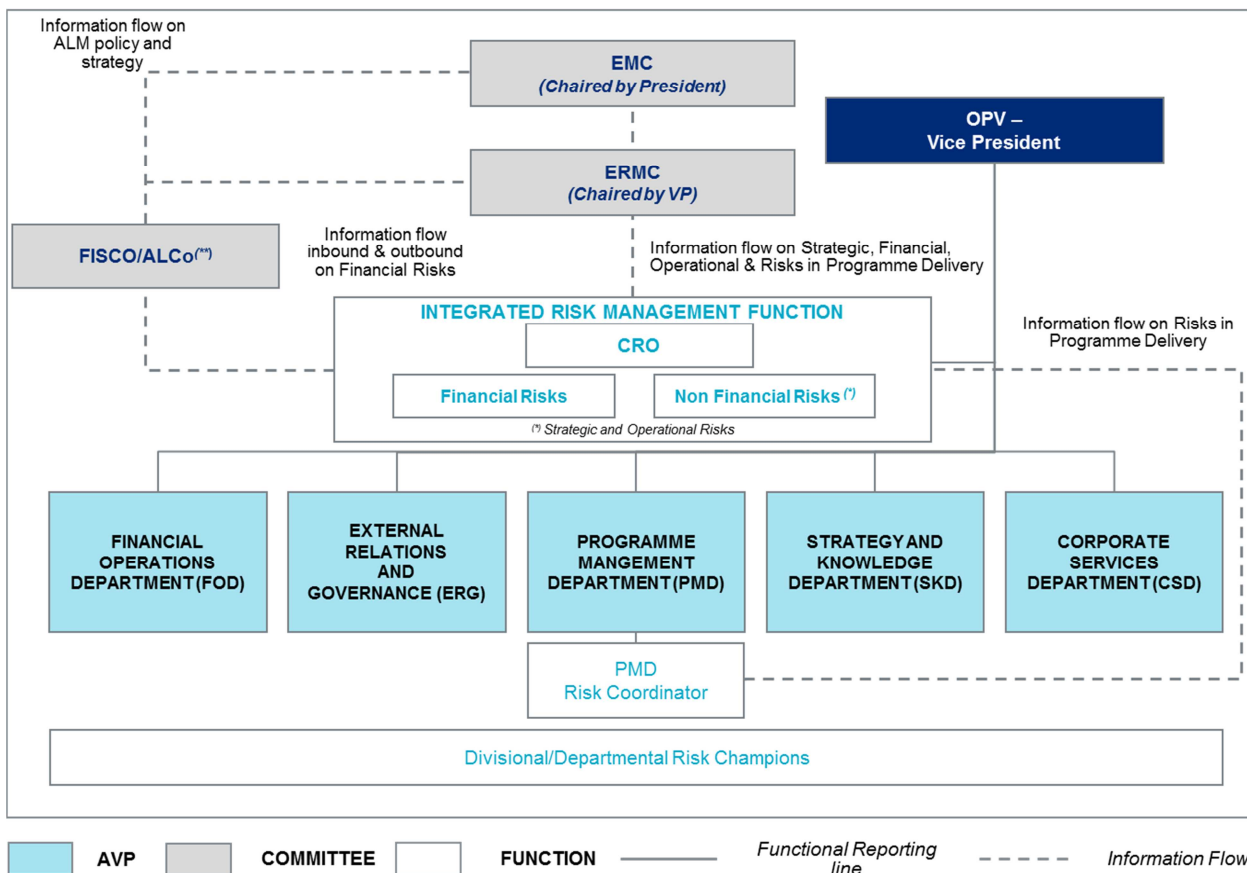
The following alternatives are proposed to establish the revised Risk Management function:

- Alternative 1 – Integrated Risk Management Function;
- Alternative 2 – Dedicated Non-Financial Risk Management Function.

In the following pages the main characteristics of each alternative and its pros and cons are provided:

**Alternative 1: Integrated Risk Management Function**

The first option follows the concept of holistic approach to risk management. It consists in setting up an integrated Risk Management Function, headed the by a Chief Risk Officer, directly responsible for Financial and Non-Financial Risk Management that reports to the Vice President.



(\*) Proposal by Alvarez & Marsal to repurpose the Committee and rename it as the Asset & Liability Management Committee (ALCo). The final structure of FISCO/ALCo may impact the proposed alternative.

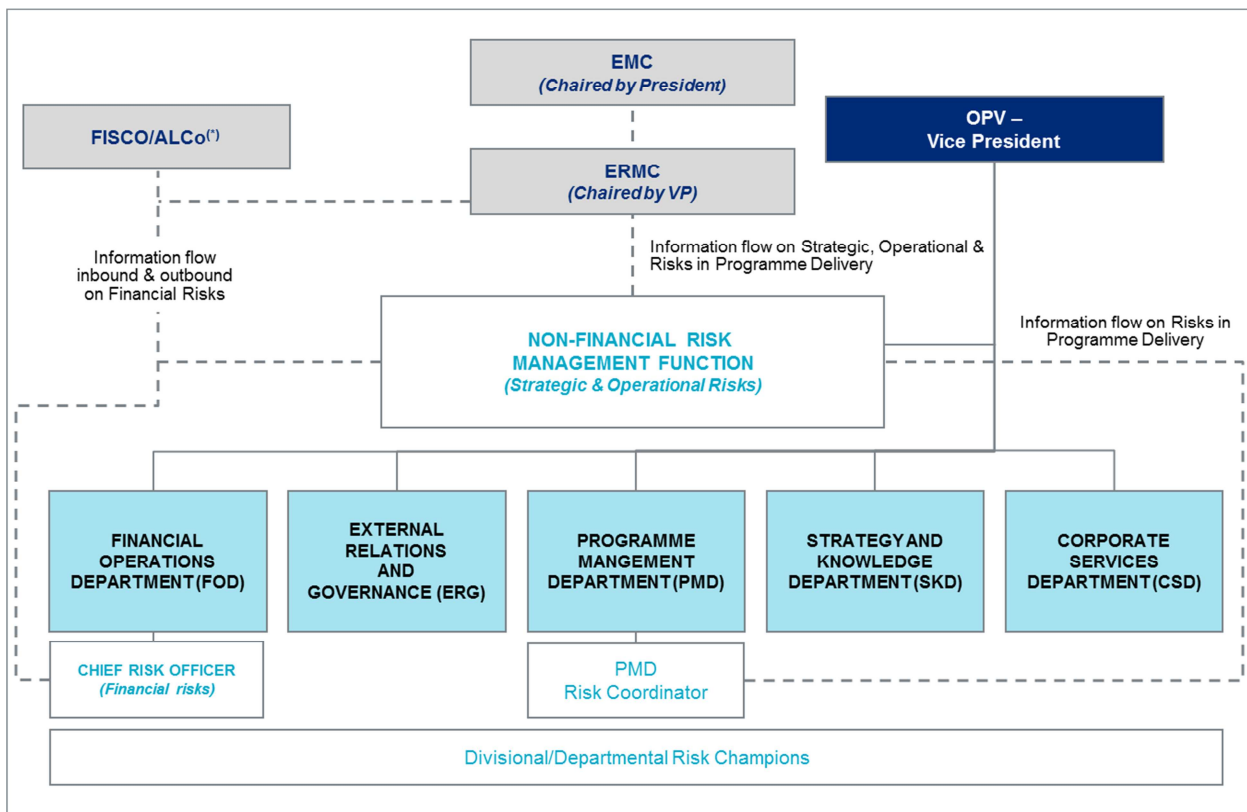
**Figure 6 - Alternative 1 – Integrated Risk Management Function**

Alternative 1 - Main pros and cons	
Pros	Cons
<ul style="list-style-type: none"> <li>• Best practice holistic approach to risk management</li> <li>• Integrated risk governance with coordination between Financial and Non-Financial Risk Management</li> <li>• Independency with respect to Departments</li> <li>• Function led by a Chief Risk Officer with a sufficient seniority to promote effective risk management practices within the Organization</li> </ul>	<ul style="list-style-type: none"> <li>• Additional adjustments from a risk governance perspective (e.g. need to take into account the existing developments in the Financial Risk area)</li> <li>• Potential extra time and costs to fill the required senior position of the Chief Risk Officer of the Integrated Risk Management function (unless existing staff is redirected towards the new function)</li> </ul>

**Alternative 2: Dedicated Non-Financial Risk Management Function**

The second option considers the current IFAD structure. It involves assigning to a Non-Financial Risk Management Function the responsibility for Non-Financial risk management while the oversight on Financial Risks remains within the domain of the CRO (Financial Risks).

By adopting this option, the Non-Financial Risk Management function should report to the Vice President for Non-Financial risks, while appropriate communication flows should be set with the existing CRO to exchange information on Financial Risks.



AVP
  COMMITTEE
  FUNCTION
  Functional Reporting line
  Information Flow

<sup>(\*)</sup> Proposal by Alvarez & Marsal to repurpose the Committee and rename it as the Asset & Liability Management Committee (ALCo). The final structure of FISCO/ALCo may impact the proposed alternative.

**Figure 7 - Alternative 2 – Dedicated Non Financial Risk Management Function**

<b>Alternative 2 – Main Pros and Cons</b>	
<b>Pros</b>	<b>Cons</b>
<ul style="list-style-type: none"> <li>• A comprehensive view of Non-Financial risks is still ensured</li> <li>• No changes in the Financial Risk management structure</li> <li>• Function led by sufficient seniority to ensure that effective practices regarding Non-Financial risk management are promoted within the Organization</li> <li>• Potentially lower implementation efforts (time and costs) with respect to Alternative 1 in the short term</li> </ul>	<ul style="list-style-type: none"> <li>• Non holistic approach</li> <li>• Potential difficulties in coordination and information sharing between financial and Non-Financial risk management</li> <li>• Different functional reporting levels</li> <li>• Additional costs required to fill the position (unless existing staff is redirected to existing function)</li> <li>• Possible challenges in integrating Financial and Non-Financial risk management structures in the medium term</li> </ul>

### **Conclusions on Risk Management Function**

In the context of the path to be pursued through the changing business model, it is key for IFAD to ensure that Enterprise Risk Management is an integral part in this process. The increasing relevance of both Financial and Non-Financial risks strengthens the need to ensure that a holistic approach is pursued. This consideration is also supported by provided benchmarks, where selected entities adopt risk governance structures in line with this principle. Therefore, the Integrated Risk Management function is the alternative that allows IFAD to reach a major coordination between Financial and Non-Financial risk specialists and pursue its objectives in terms of risk management.

## **3 Strategy and Objective Setting**

### *3.1 Introduction*

Integrating Enterprise Risk Management with strategy setting is of foremost importance for IFAD. It allows the identification of the internal and external factors that might undermine the achievement of strategy and business objectives and helps to eventually adapt strategies to the evolving environment.

According to the reference standard and best practices, the following elements will be analyzed for IFAD:

- Link between **risk management and strategy** to support the fulfilment of strategic objectives and embedding risk discussion in the definition and review of strategic initiatives;
- Definition and formalization of **Risk Appetite**, which is the amount of risk that IFAD is willing to take in pursuing its strategic objectives and mission.

### *3.2 Current State Assessment*

With regard to Strategy and Objective Setting, IFAD has formalized two main documents that will guide the Fund's operations in the coming years and that clearly states the Fund's objectives in the long, medium and short term:

- **IFAD's fifth Strategic Framework** presents the overarching goals, principles of engagement, strategic objectives, outcomes and pillars of results delivery that will guide IFAD's operations over the 2016-2025 period. It situates IFAD in the evolving global context and articulates its contribution to the 2030 Agenda for Sustainable Development (Agenda 2030<sup>30</sup>).
- **IFAD Business Model (Enhancing IFAD11 business model to deliver impact at scale)** presents the main drivers underpinning IFAD's evolution during the 11<sup>th</sup> Replenishment period<sup>31</sup>.

For what concerns Risk Appetite, no document that formalizes the Organization's attitude towards Risk Appetite has been developed.

### *3.3 Benchmarking with other International Organizations*

The present paragraph briefly reports on the approaches adopted by selected entities that might be considered relevant to IFAD in defining its risk appetite<sup>32</sup>.

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<sup>30</sup> IFAD Strategic Framework 2016-2025

<sup>31</sup> "Enhancing IFAD11 business model to deliver impact at scale", June 2017 (IFAD 11/2/R.3)

Area	Strategic and Objectives Setting: Benchmark				
	WFP	AIIB	AfDB	DFID <sup>33</sup>	USAID
<b>Risk Appetite Governance</b>	<p>Approved by Board as part of the ERM policy</p> <p>Single Risk Appetite statements are formulated by Senior Management</p>	<p>Risk Appetite is formulated by the Risk Management Department and approved by the Board</p>	<p>Risk Appetite Statement defined by Management and approved by the Board</p>	<p>Risk Appetite statement was produced by the Management Board</p>	<p>Risk Appetite statement is reviewed and updated annually by the Leadership</p>
<b>Risk Appetite Statement</b>	<p>Risk Appetite Statement formally adopted</p> <p>A series of qualitative statements regarding different risk categories (strategic, operational, financial and fiduciary) are detailed, as well as respective sub-categories</p>	<p>Risk Appetite Statement adopted and divided in three categories, for the risks falling in the low/ medium/ high appetite area</p> <p>Monitored through KRIs across the various categories and consists of both qualitative and quantitative metrics</p>	<p>Overall statement related to the possible effects on the bank rating and capital management.</p> <p>Defined risk tolerance and limits for specific financial and Non-Financial categories (market, credit, operational, reputational)</p> <p>The statement is broken down in different limits for private and public sector</p>	<p>A qualitative statement to provide direction on Risk Appetite, differentiated by risk category (e.g. research opportunities, staff safety and security)</p>	<p>Overall Risk Appetite Statement adopted</p> <p>Defined qualitative Risk Appetite Statements for seven different risk categories (e.g. programmatic, fiduciary, reputational, legal, security, human capital, information technology)</p>



Given the above, the following elements should be considered by IFAD when developing the Risk Appetite Statement:

- A comprehensive risk appetite statement should be defined taking account the main macro risk categories (strategic, financial and operational risks);
- Sub-statements can be further detailed for lower level of risk categories to reflect IFAD's risk appetite for single risks;
- Additional enhancements can be foreseen to capture quantitative metrics, where applicable.



<sup>32</sup> Further details regarding specific statements are provided, for illustrative purposes, in the Annex I - Selected examples of Risk Appetite Statements




<sup>33</sup> The Risk Appetite Statement and structure refer to the 2011 version

### 3.4 Gap Analysis

Area	Gap Description	Criticality
<b>Risks to the Strategy</b>	<ol style="list-style-type: none"> <li>1. Risks that might hinder the achievement of the planned strategic objectives are only scarcely mentioned within strategic documents thus suggesting possible improvements in risk analysis during the strategic planning process.</li> <li>2. The main document strategic document referring to the IFAD 11 is the Business Model, no additional documents that further detail single objectives and ownership were observed, as foreseen for IFAD 10 through the Medium term plan (2016-2018).</li> </ol>	 <b>(Medium)</b>
<b>Risk Appetite</b>	<ol style="list-style-type: none"> <li>1. The Risk Appetite has not yet been defined and formalized.</li> </ol>	 <b>(High)</b>

### 3.5 Recommendations


Strategy and Objective Setting			
Area	ID Rec	Detailed Recommendations	Timeline
<b>Risk to Strategy</b>	18	Facilitate the identification of risks to the achievement of objectives (e.g. through documents that at Organization level specify objectives at Department/Division level either on an annual or a three year basis).	 <b>(Medium term – Within 2021)</b>
	19	Ensure that the Risk Appetite definition/review process is aligned with the timeline of definition of business models/medium-term plans (if foreseen).	
	20	Foresee the involvement of the Risk Management Function in the definition of the strategic initiatives in order to capture the risks related to the main strategy pillars (e.g. Business Model, short-term and medium-term plans (if foreseen), strategic initiatives, Strategic Framework).	
	21	Foresee a process aligned with the Strategic Framework review timelines, aimed at identifying the risks which might impact the delivery of the long term strategy.	
<b>Risk Appetite</b>	22	<b>Risk Appetite responsibilities:</b> assign responsibilities for leading the process to the Chair of the ERM C leveraging the efforts that are currently undergoing within the organization.	 <b>(Short term - Within 2019)</b>

Strategy and Objective Setting			
Area	ID Rec	Detailed Recommendations	Timeline
	23	<p><b>Risk Appetite Statement adoption:</b> adopt a Risk Appetite Statement, leveraging the characteristics of an IFI and UN agency, embedding both qualitative and quantitative statements, which reflect the nature of different types of risks.</p> <p>The ability to strike the correct balance between IFAD's changing nature and its original form is essential. Given the changes to the business model and the steady transformation into a financial institution, it is predictable that financial risks will play an increasing role and will as such weigh on the Corporate Risk Appetite Statement. Nonetheless, IFAD is, as per its Strategic Framework, an International Organization involved in the development of some of the poorest rural areas, with all the ensuing risks.</p> <p>Consequently, it might be envisaged to develop a Risk Appetite Statement, capturing the characteristics of different risks (strategic, financial, operational) to ensure on the one hand a correct reflection of IFAD's role as a financing institution, and on the other hand, the high risk attitude is captured for working in fragile and vulnerable areas. In addition, as already captured in existing policies<sup>34</sup>, zero tolerance attitude has to be reflected for certain operational risks (e.g. fraud and corruption risk, risks related to sexual harassment and sexual exploitation and abuse).</p>	 <b>(Short term - Within 2019)</b>
	24	<p><b>Risk Appetite update:</b> consider updating the Risk Appetite Statement according to replenishment cycles (when major changes might occur with respect to the risks faced by the organization).</p>	 <b>(Medium term – Within 2021)</b>
	25	<p><b>Synergies between Financial and Non-Financial Risk:</b> leverage the collaboration between Financial and Non-Financial risk management specialists in refining the risk assessment criteria to facilitate quantification of risks, where applicable (e.g. financial consequence dimension)<sup>35</sup>.</p>	 <b>(Medium term – Within 2021)</b>

<sup>34</sup> Revised IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations” (EB 2018/125/R.6);

“IFAD policy to preventing and responding to sexual harassment, sexual exploitation and abuse and reporting mechanisms for sexual harassment and SEA”, August 2018

<sup>35</sup> Since the Organization is currently reviewing and enhancing its financial risk management, this activity should be considered once this reviewing process is completed.

Strategy and Objective Setting			
Area	ID Rec	Detailed Recommendations	Timeline
	26	<b>Risk Appetite Framework (RAF):</b> consider developing a comprehensive RAF built upon a qualitative and quantitative thresholds for risk categories, a comprehensive definition of roles and responsibilities in the update of the Framework, as well as appropriate escalation mechanisms across various levels of Organization in case the defined thresholds are breached.	 <b>(Medium term – Within 2021)</b>

## 4 Performance

### 4.1 Introduction

The performance pillar of the COSO entails the identification and assessment of risks that might affect the achievement of strategy and business objectives, the prioritization of risks according to their severity and the definition of risk responses to mitigate those risks that fall outside acceptable levels for the Organization. These elements combined constitute the different phases of the Risk Assessment process, which are analyzed for IFAD. They are defined as follows:



Figure 8 - Risk Assessment Process

- 1. Risk identification:** represents the starting point of each risk assessment and aims at providing a complete picture of risks. To this extent new, emerging and changing risks have to be comprehensively identified and linked to strategic and business objectives;
- 2. Risk evaluation:** the phase entails the assessment of the impact and likelihood for each risk identified and should be based on appropriate evaluation criteria. Moreover, in order to have a clear representation of risks, also existing controls should be evaluated so as to allow management to have a clear representation of both inherent risk<sup>36</sup> and residual risk<sup>37</sup>.
- 3. Risk prioritization:** is meant to be the basis for selecting responses to risks. During this phase, risks are comprehensively viewed and consistency analysis is performed so as to inform the identification of top risks and subsequently define appropriate risk responses.
- 4. Risk response:** entails the identification and deployment of appropriate countermeasures to mitigate those risks that fall outside acceptable levels.

<sup>36</sup> Inherent risk is defined as the amount of risk in the absence of any direct or focused actions by management to mitigate its impact and likelihood

<sup>37</sup> Residual risk is defined as the amount of risk which remains after taking into consideration the controls put in place by the Organization for its mitigation.



## 4.2 Current State Assessment

The existing approach for each phase adopted by IFAD at Corporate level is described below:

### 1) Risk Identification

IFAD's comprehensive risk assessment process takes place once every three years and is aligned with replenishment cycles, when new risks are identified. The corporate risk identification process was carried out by the ERMC through a review of existing corporate risks (those defined for the previous replenishment cycle) as well as of new corporate risks emerging in the context of the development of IFAD's Medium-term Plan 2016-2018. The top 10 risks are recorded in a Corporate Risk Register and are classified into risks related to "Strategy and Policy", "Internal Capacity and Processes" and "Financial Management" (level 1 risk categories). In addition to risk descriptions, risk drivers (or root causes) are identified.

### 2) Risk Evaluation

The risks identified by the ERMC are then assessed by the OMC members. This assessment is carried out taking into account the existing control measures (residual risk level), using predefined impact and likelihood criteria on a scale of six levels. As a result of the evaluation, risks are also positioned on a dedicated heat map used to highlight their relative severity.

### 3) Risk Prioritization

The Corporate Risk Register includes the Top 10 risks for the Organization, which are ranked according to the overall combined score that was obtained through the above mentioned evaluation system<sup>38</sup>.





### 4) Risk Response

Following the initial assessment, Risk Champions are required to define mitigation plans for the Top 10 identified risks.

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<sup>38</sup> Ratings calculated based on the arithmetic mean of product of impact and likelihood.

## 4.3 Gap Analysis

Area	Gap Description	Criticality
<p><b>Risk Identification</b></p>	<ol style="list-style-type: none"> <li>1. The current timeline according to which risks are comprehensively identified (once every three years, in accordance with replenishment cycle) is not able to capture the evolution of IFAD's risk profile and possible emergence of new risks during the cycle.</li> <li>2. Unlike what is observed in comparable organizations, IFAD lacks a dedicated and more granular (e.g. level 2) risk taxonomy to guide staff in the risk identification process, possibly leading to incompleteness in capturing the comprehensive risk profile.</li> </ol>	 <b>(Medium)</b>
<p><b>Risk Evaluation</b></p>	<ol style="list-style-type: none"> <li>1. The impact and likelihood risk assessment criteria used by the Fund in the phase of risk evaluation are too broad, and there is no clear description of each rating. Additionally, the current tools and analysis do not offer a clear and comprehensive picture on the distinction between the inherent risk and the residual risk, making it difficult to assess the effectiveness of the existing controls.</li> </ol>	 <b>(Medium)</b>
<p><b>Risk Prioritization</b></p>	<ol style="list-style-type: none"> <li>1. No evidence of a process or set of guidelines to identify the top risks within the Corporate Risk Register has been observed.</li> </ol>	 <b>(Medium)</b>
<p><b>Risk Response</b></p>	<ol style="list-style-type: none"> <li>1. No clear distinction between existing and new mitigation actions is observed, with the latter lacking defined timelines of implementation. Additionally, no clear definition of roles and responsibilities is available with respect to action plans' monitoring.</li> </ol>	 <b>(Medium)</b>

## 4.4 Recommendations

Performance			
Area	ID Rec	Detailed Recommendations	Timeline
Risk Identification	27	It is suggested to increase the <b>frequency</b> of the <b>comprehensive risk assessment</b> from once in three years to an annual basis. Moreover, it is also recommended to align it with the budget cycle to ensure the correct allocation of resources to mitigate the identified top risks (e.g. annual risk assessment to be performed in Q2-Q3). This way, the process should capture the evolution of the risk profile driven by both the external context and the internal organizational changes as well as help IFAD strengthen risk culture across the various levels in the Organization.	● (Short term - Within 2019)
	28	A more <b>granular</b> risk assessment should be introduced to ensure coverage of all potential risks. More in detail, each Division/Department should be held accountable for identifying the risks applicable to its business processes. In this context, consider detailing an <b>additional level of risk taxonomy</b> to facilitate the risk identification process for Risk Owners. Such taxonomy can be periodically reviewed to capture the lessons learnt from periodic risk assessment cycles and is meant to provide a comprehensive risk identification <sup>39</sup> .	
Risk Evaluation	29	<b>Risk assessment criteria</b> <sup>40</sup> (likelihood and impact) should be further enriched by providing for more granular distinctions for the various values of each scale. For the likelihood scale, the descriptions should be detailed by adding a parameter which captures the "Frequency of the event". For the impact scale, identification of relevant impact dimensions, linked also to main types of <b>risk consequences</b> (e.g. reputational, financial, health & safety, business continuity) should be included and illustrative descriptions provided.	● (Short term - Within 2019)

<sup>39</sup> The proposed risk taxonomy is provided in Annex II – Risk Taxonomies

<sup>40</sup> The proposed risk assessment criteria is provided in the Annex III – Risk Assessment Criteria

Performance			
Area	ID Rec	Detailed Recommendations	Timeline
	30	<b>Inherent risk</b> evaluation should be introduced. Risk Owners should assess for each risk the <b>controls in place</b> to mitigate its occurrence based on specific control assessment criteria <sup>41</sup> , which can be either preventive (reduce the likelihood of occurrence) or corrective (reduce the impact of the risk once the event occurred). Furthermore, in order to facilitate the information flows both inbound and outbound between Risk Management Function and AUO, it is recommended to align the control evaluation scale to those used by AUO for its own activities.	
<b>Risk Prioritization</b>	31	It is recommended to define a risk <b>profile coherency check process</b> at the end of the assessment to be performed by the Risk Management Function in order to ensure a consistent risk prioritization at Organizational level.	● <b>(Short term - Within 2019)</b>
<b>Risk Response</b>	32	It is suggested to clearly distinguish between existing mitigation actions (those already evaluated as controls mentioned above) and <b>additional action plans</b> . Their implementation timeline should be defined according to the severity of the risk and its position vis-à-vis the defined appetite. These timelines should take into account the level of the residual risk (e.g. severe, high, medium or low), where for severe levels of risks, corrective actions should be started immediately. The <b>monitoring</b> and <b>structured periodic reporting</b> on the update status of the implementation of action plans should be performed by Risk Owners through the guidance and oversight of the Risk Management Function.	● <b>(Short term - Within 2019)</b>

## 5 Review and Revision

### 5.1 Introduction

The Review and Revision pillar highlights the need for ERM, supported by Risk Management Function, to constantly review and adapt the Risk Management Framework, also in the light of the possible changes that might affect strategy and business objectives. More in detail, effective review and revision activities are based on the following principles:

- **The assessment of substantial changes** in the external and internal environment of IFAD is of primary importance to eventually identify new or changed risks and update the current risk profile;


<sup>41</sup> A proposed control assessment criteria scale is provided in the Annex III – Risk Assessment Criteria

- **A review of the risks and the performance** entails the analysis of an entity's performance with respect to expectations and the consideration of risks that might have affected it;
- **Pursuing the improvement of Enterprise Risk Management** implies the continuous assessment of risk management practices' efficiency and effectiveness and is directed towards the strengthening of the ERM framework.



## 5.2 Current State Assessment

As per the its terms of reference, the ERM C should time the comprehensive assessment to coincide with the conclusion of IFAD's replenishment phase, to better represent the risks facing the newly established corporate objectives. With respect to updates of the ERM Policy, aside from the 2016 Bulletin, no comprehensive updates to the Policy have been performed since its 2008 inception. Nevertheless, it has been specified during the phase of interviews that some updates of the risk management process have been performed to align the practices to the needs of the Organization (e.g. adjustments to risk assessment criteria, risk assessment process in terms of involvement of internal stakeholders).

## 5.3 Gap Analysis

Area	Gap Description	Criticality
<b>Review &amp; Revision</b>	While a formal review of the Enterprise Risk Management process is foreseen in the ERM Policy, no defined timeline has been suggested and enforced. On the basis of the analysis of best practices, although no clear indication is provided on the timeline of revision, organizations are generally committed to deliver continuous improvement and build resilience in managing risk while progressively aligning their risk profile with a defined Risk Appetite. Major revisions are foreseen in case of significant changes in the internal and external contexts.	 <b>(Medium)</b>

## 5.4 Recommendations

Review and Revision			
Area	ID Rec	Detailed Recommendations	Timeline
<b>Review and Revision</b>	33	<b>Timeline for review:</b> Set a timeline and a process for reviewing the effectiveness of the ERM framework (e.g. before each replenishment cycle or when major organizational changes are expected).	 <b>(Short term - Within 2019)</b>
	34	<b>Continuous improvement:</b> adjustments to risk management practices should also be driven by the lessons learnt emerging from annual risk assessment cycles.	 <b>(Medium term – Within 2021)</b>

## 6 Information, Communication and Reporting

### 6.1 Introduction

Having at disposal relevant and timely information on risks is of foremost importance when developing effective risk management practices and is needed in order to understand current and evolving risk profile. The Information, Communication and Reporting Pillar of the COSO framework suggests the need of delivering the appropriate level of risk information across the organization. To this extent, the following elements are analyzed in the current section:

- **Risk Information Communication**, more precisely the various layers of risk communication foreseen in IFAD and how they are interconnected;
- **Risk Management tools**, intended as support instruments developed by IFAD to ensure that risks are effectively monitored and reported across the Organization.

### 6.2 Current State Assessment

IFAD has implemented a set of mechanisms to strengthen the existing communication flows across the Organization as follows:

1. **Risk Information Communication**, with the following layers of risk information:

- From the Division/Department level to the Enterprise Risk Management Committee, which is recorded in the Corporate Risk Register;
- From the ERMC to the OMC, through summaries regarding risks, mitigation strategies and relevant information on Enterprise Risk Management actions are prepared;
- Information on risks delivered to the Audit Committee and the Executive Board in the form of the Corporate Risk Dashboard<sup>42</sup>.

Moreover risks are evaluated at Department/ Division level through specific risk assessment with no formalized structured flow to the ERMC.

2. **Risk Management tools**:




- **The Corporate Risk Register (CRR)**, ensures a main information flow from Departments/Divisions to the ERMC on the top 10 corporate risks. The risk reporting section includes an overview of the overall risk status as well as a summary of the implementation status of risk mitigation plans. It is updated by the Risk Champion identified at Division/ Department level on a quarterly basis, which are then provided to the ERMC.
- **The Corporate Risk Dashboard (CRD)** is the tool through which risks are reported to the Executive Board and the Audit Committee. In more detail, this tool is intended to allow the Executive Board to exercise effective risk oversight and facilitate a structured dialogue around risk at high corporate level. It covers the four corporate risk areas identified in IFAD: (i) strategic risks; (ii) financial risks; (iii) operational risks; and (iv) programme delivery risks. The CRD presents a set of indicators for each risk along with the respective information on Risk Owners, data on indicator performance and targets, ranges or thresholds where applicable. The CRD is managed and updated by the ERMC Secretary.

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<sup>42</sup> IFAD Risk Dashboard (EB 2018/124/R.33/Rev.2)

Additionally, as mentioned in previous sections, efforts were made or are still underway to ensure that risks are traced at Division level, where specific risk analysis is required. As indicated throughout the current document, tools deployed for the assessment of risks in Programme Delivery are addressed in the Chapter 3 “Assessment of the Risk Management Framework in Programme Delivery”.

### 6.3 Gap Analysis

Area	Gap Description	Criticality
<p><b>Risk Information Communication</b></p>	<ol style="list-style-type: none"> <li>1. Risk information flows from Divisions/Departments to ERMC are insufficiently structured (e.g. update on the same risks during a 3 year period, not all Divisions are involved, no clearly defined escalation mechanisms).</li> <li>2. No direct information flow on risks to the EMC are foreseen (as described in the Governance &amp; Culture section).</li> <li>3. Risk information flows with Executive Board are not formalized yet in specific document.</li> <li>4. There is no clear formalized linked between CRR and CRD (e.g. types of risks, key risk indicators).</li> </ol>	 <b>(Medium)</b>
<p><b>Risk Management tools (Corporate Risk Register)</b></p>	<ol style="list-style-type: none"> <li>1. The comprehensiveness of the CRR vs risk profile is not ensured.</li> <li>2. No consistent compilation of the section on the status of mitigation strategies as well as of the section on key risk indicators and their evolution.</li> <li>3. The current format does not allow for the standardization of inputs which might be further used in risk analysis (e.g. such as root cause analysis for operational risks).</li> </ol>	 <b>(Medium)</b>
<p><b>Risk Management tools (Corporate Risk Dashboard)</b></p>	<ol style="list-style-type: none"> <li>1. No evidence on the level of severity of the risk.</li> <li>2. No clear-cut distinction between performance and key risk indicators.</li> <li>3. The quantity of indicators may be reduced, as well as their effectiveness to be improved to facilitate the monitoring of the status of the risk.</li> <li>4. Target/threshold levels are not always provided (e.g. Programme Delivery risks).</li> <li>5. No immediate and facilitated graphical representation of key elements (e.g. status of indicators).</li> </ol>	 <b>(High)</b>

## 6.4 Recommendations

Information, Communication and Reporting			
Area	ID Rec	Detailed Recommendations	Timeline
Risk Information Communication	35	Structure appropriate information flows on risks from Division/Department level to the ERMC to support the proposed new risk assessment process, guided by the risk management function.	 (Short term - Within 2019)
	36	Define a direct risk information flow from ERMC to the EMC (as described in the Governance & Culture section).	
	37	Foresee a link between the existing risk assessment outputs (the CRR) and what is reported to the Executive Board and the Audit Committee (the CRD).	
Risk Management Tools (Corporate Risk Register)	38	Extend the comprehensiveness of the CRR by ensuring the Top risks are the result of an overall analysis at Organization level (as described in the "Performance" section).	 (Short term - Within 2019)
	49	Ensure that quality checks during the compilation of the Risk Register are performed by the risk management function.	
	40	Develop standardized templates to facilitate the risk analysis.	 (Medium term – Within 2021)
	41	Consider adopting a software/system to facilitate the risk assessment activity that can be either self-developed or acquired externally (e.g. GRC).	
Risk Management Tools (Corporate Risk Dashboard)	42	Ensure the CRD captures both measurable top residual risks (beyond risk appetite levels) and top inherent, but mitigated risks (e.g. top 10), to provide a comprehensive view on risks.	 (Short term - Within 2019)
	43	Enrich the current CRD with information on severity of risk target/thresholds (where not provided) and ensure the dashboard to be more efficient in its scope, limited only to those indicators relevant to measuring the risk effectively. Consider also adding a short overview of action plans or mitigation strategies <sup>43</sup> .	
	44	It is recommended to foresee a periodic review of the CRD to ensure a continuous improvement of the effectiveness of risk communication to the Audit Committee and the Executive Board.	 (Medium term – Within 2021)

<sup>43</sup> For further details about the template proposed for the CRD see Annex IV – Corporate Risk Dashboard: Illustrative Template



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## ASSESSMENT OF THE RISK MANAGEMENT FRAMEWORK IN PROGRAMME DELIVERY

### 1 Introduction

Projects financed by IFAD face a variety of risks, including the risk of receiving limited political support after a change in government, the risk of fraud, risk related to climate and extreme weather events, and the risk of high turnover in project management. Given the nature of risk management in Programme Delivery, this section will not include a detailed identification or analysis of mitigation strategies related to specific project-level risks. Instead, the assessment of risk management in Programme Delivery will focus on:

- The scope and comprehensiveness of the risk management framework, including risk governance and culture;
- The risk assessment process and methodology at programme and country level.

These two areas are presented in the following, starting with a short description of the current state followed by benchmarks with comparable practices (where relevant), a gap analysis, and recommendations<sup>44</sup>.

### 2 Risk Management Framework and Governance

IFAD's Risk Management Framework for Programme Delivery is built around policies, procedures and guidelines that govern the management of risks in IFAD-financed programmes and projects, starting from design, over implementation, to completion. These policies also touch upon IFAD's risk governance by describing roles and responsibilities for risk management in Programme Delivery, including risk reporting and escalation mechanisms for top risks and risks with a high reputational impact. As no comprehensive and overarching framework for risk management and governance in Programme Delivery exists so far, the description of the current state below is in fact a high-level overview of elements that are usually part of such framework.

#### 2.1 Current State Assessment

The anchor documents for risk management of IFAD-supported programmes are **Country Strategic Opportunities Programme (COSOP) or Country Strategy Notes (CSN)** which are developed by IFAD in close collaboration with governments.<sup>45</sup> Most recently, following the IFAD11 commitment, IFAD has updated its procedures for country strategies in the document "Revised Guidelines and Procedures for Results-based Country Strategic Opportunities Programmes", effective as of January 1, 2019. In line with a Theory of Change approach, COSOPs identify strategic objectives and potential development results, as well as connected

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<sup>44</sup> The applied methodology for defining the criticality of gaps and timeline of recommendations refers to the one described in Chapter 2 "Assessment of IFAD's ERM Framework"

<sup>45</sup> Country Strategy Notes are aimed at meeting particular country circumstances (e.g. limited engagement in the country, country experiencing uncertainty, smaller performance based allocations) and are structured around the objectives that IFAD expects to achieve in the short to medium term (up to 2 years).

risks. In terms of risk analysis, the documents include overviews of the main macroeconomic and political factors, climate change and related weather events as well as institutional capacity and fiduciary risks associated with the engagement in a given country (see for details risk assessment section below). COSOPs are reviewed at the mid-point of their cycle with the engagement of national stakeholders, but also through lighter reviews as part of the portfolio review process taking place on an annual basis.

**At project level**, the project design document is key for stipulating main dimensions of risk management in Programme Delivery. Most recently, IFAD has reviewed the underlying project design process, as defined in the President's Bulletin (PB/2018/04) "Recalibrating the IFAD project design process", effective from July 1, 2018. By adopting a three-track approach, IFAD responded to an earlier internal audit recommendation to introduce a risk-based approach to project design with criteria for a fast-track or differentiated quality review.<sup>46</sup> Following the review of a Project Concept note by the Operational Strategy and Policy Guidance Committee (OSC), and based on the applicable project design review track, a full Project Design Report (PDR) is drafted. The PDR contains a risk analysis section and an Integrated Risk Framework approach, which is further described in the section on risk assessment below. During the implementation of investment projects, supervision missions are foreseen aiming at ensuring that project objectives are met and that factors which might undermine their achievement are identified. The 2007 Guidelines on supervision and implementation – which are currently under review with the aim to ensure a more coherent approach and focus on risk management during implementation<sup>47</sup> – also foresee a regular risk analysis (see below section on risk assessment).

Beyond the stipulation of risk management in relevant documents for design and review/supervision of programmes and projects, there are also mechanisms and procedures that consider the management of **risks associated with single events**. The most important policies and procedures in this regard are:

- The IFAD Complaints Procedure for Alleged non-compliance with its social and environmental policies and mandatory aspects of its Social, Environmental and Climate Assessment Procedures (**SECAP**);
- The IFAD policy to preventing and responding to sexual harassment, sexual exploitation and abuse and reporting mechanisms for sexual harassment and **SEA** to the Ethics Office and to the Office of Audit and Oversight;
- The Revised IFAD Policy on Preventing **Fraud and Corruption** in its Activities and Operations, where also reporting channels are foreseen for allegations of prohibited practices.

In terms of **risk governance**, the most important actors for managing risks at programme and project level are staff members from the Programme Management Department (PMD), including:

- The Associate Vice-President, PMD, who is ultimately responsible for endorsing programmes and projects at design stage before submitting the relevant documents for

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<sup>46</sup> The review process for each financing is categorized into the following review tracks: Track 1 (Operations requiring high corporate attention); Track 2 (Regular operations); Track 3 (Fast track operations such as additional financing). The categorization of tracks is based on "country context, project type, project complexity and innovation, overall project cost and co-financing structure, as well as corporate exposure and reputational risks".

<sup>47</sup> Policy "Supervision and implementation support", 2007; "Guidance Note for Supervision Aide-Memoire", "Guidance for performance scores"

approval to the Executive Board through the President;

- The Regional Directors who are responsible for the successful delivery of the project, having oversight responsibilities of all project aspects also during implementation;
- The Director of the Operational Policy and Results Division (OPR) who is responsible for project categorization at design stage and who certifies compliance with the Fund's corporate policies and commitments, including SECAP and project procurement, and for establishing the taxonomy for managing environment, climate, social and project procurement risks;
- The Country Directors and Country Programme Managers who are responsible for the design and effective supervision of projects and who are ultimately responsible for identifying risks from COSOP to Project level in collaboration with the other corporate actors.

Apart from PMD, the Financial Management Services Division (FMD), the Environment, Climate, Gender and Social Inclusion Division (ECG), the Office of the General Counsel (LEG), and the Quality Assurance Group (QAG) play an important role in risk management for IFAD-financed operations: FMD provides the assessment of project fiduciary risks at design and monitors them during project implementation on the basis of a defined Risk Assurance Framework; ECG is responsible for conducting the analysis of climate and social risks at COSOP and project level based on the SECAP (Social, Environmental and Climate Assessment Procedures); LEG provides legal clearance of project design documents and financing agreements and supports the design and supervision of projects as needed, particularly in cases of potential legal and reputational risks; and QAG, on behalf of the Office of the President and Vice-President (OPV), provides an arms-length review of project design documents and ensures that risk ratings meet the quality standards set by IFAD.

## 2.2 *Benchmarking with other International Organizations*

When looking at comparable organizations that can be considered as a benchmark for an holistic approach to risk management in Programme Delivery, the **World Bank Group's "Framework for Management of Risks in Operations"** stands out. The Framework is applied to country partnership frameworks and bank supported operations and is based on three pillars: Systems & Tools, Organization & Structures, and Culture. Despite the different sizes of World Bank Institutions and IFAD, the nature of risk assessment activities and the applicability of the principles of the framework are clearly given also for IFAD-financed operations.

The section "Organization & Structures" defines **roles and responsibilities** for different levels of risk, applying the Bank's Accountability and Decision Making Framework. Furthermore, Risk Focal points are appointed at region level, based on their experience and knowledge of the respective region, to advise on risk ratings. They are also responsible for providing risk reports. To support the risk aggregation and analysis activity, the World Bank has also instituted a Risk Advisory Group at operations level to provide general advice on risk management, ensure consistency of ratings and support the regular monitoring of the risk profile. Finally, the section "culture" is meant to incentivize staff in risk management activities and proposes activities to increase overall risk awareness and capacities among staff. Typical activities include customized training for country managers, peer learning and technical training for risk specialists (e.g. project procurement).

Another possible benchmark from a bilateral institution that can be considered a leader in risk management is the "Smart Rules – Better Programme Delivery" approach developed by DFID. This approach includes a comprehensive set of principles, rules and qualities, governance,






programme design and delivery standards and portfolio development standards. In such context risk management is embedded across the specified dimensions, where references are made with respect to how risks should be identified, assessed, mitigated and monitored, as well as the role of various internal stakeholders in the process.

### 2.3 Gap Analysis

While IFAD has the most relevant procedures and guidelines in place when it comes to risk management at different entry points for Programme Delivery, it needs to be noted that the relevant documents are in different stages of revision and update. Most importantly, however, there is **no comprehensive framework** that brings different elements of risk management together in an holistic way. There exists **no formalization** of the risk assessment process, nor a formalization of roles and responsibilities for risk management across the **COSOP and project cycle**.

In terms of risk assessment and reporting at project level, a further gap was observed since no formalized process has been put in place for assessing risks in project **implementation** that have been identified at design. In addition, no escalation mechanisms are foreseen in the project implementation phase to ensure high risks are discussed at Senior Management level. This is partly due to: (i) the fact that no dedicated risk management coordinator at PMD level is foreseen to support the risk analysis (including coherence checks of ratings and aggregating risks); and (ii) no dedicated training has been established with respect to risk analysis in Programme Delivery.

The below table summarizes the main gaps and their criticality at a glance:

Area	Gap description	Criticality
<b>Risk Management Framework and Governance</b>	1. Absence of a comprehensive risk management framework.	 <b>(Medium)</b>
	2. Unclear definition of roles and responsibilities for risk management across the project cycle.	 <b>(Medium)</b>
	3. Lack of escalation mechanisms for risks during project implementation.	 <b>(High)</b>
	4. No dedicated risk management champion/coordinator at PMD level.	 <b>(Medium)</b>
	5. No dedicated risk management training	 <b>(High)</b>

### 2.3 Recommendations




The fact that IFAD Management is currently fine-tuning its framework for managing risk in Programme Delivery is an opportune moment to address a number of the gaps identified above. First, given the nature of risk analysis to be performed at project and country level and the relevance of such activity for IFAD's operations and the broader context of IFAD's Enterprise Risk Management Framework, it is suggested to formalize a **comprehensive Risk Management Framework for Programme Delivery (including escalation mechanisms)**, in line with practices established in the World Bank and DFID. This will ensure that IFAD is better positioned to identify, capture and manage risks at project-level in a systematic manner, and that it is coherently monitored and acted upon at programme and portfolio level. The framework should also include guidelines for **roles and responsibilities** in the risk analysis process to ensure that risk analysis is consistently performed across regions, and that risk profiles are monitored and risk mitigation measures appropriately followed-up on during **implementation phase**. In this regard, the framework should define **escalation mechanisms** based on the overall risk ratings. While low and medium risk projects should be discussed and managed at CD/CPM level (with information to Regional Director and OPR or AVP/PMD, as appropriate), high-risk projects should be discussed at AVP/PMD and OPR level to ensure that CD/CPMs and Regional Directors receive the appropriate guidance on risk mitigation strategies, and that information is provided to the President and/or Vice-President, as appropriate. Finally, the risk management framework needs to **enforce escalation mechanisms for events with possible reputational impact**. This applies mainly to single events under the cluster of social, environmental and fiduciary (financial and procurement) risks, which require additional escalation mechanisms to Senior Management level. Dedicated monitoring and reporting of SEA allegations, fraud allegations, as well as alleged non-compliance with SECAP claims should be further consolidated and reported by dedicated functions to enhance monitoring and reporting of complaints and allegations. Of note is that initiatives are already underway in this regard.

Separate from the necessity to design a comprehensive risk management framework, it is recommended to **appoint a PMD Risk Coordinator** to support the development and deployment of the revised framework for risk management in Programme Delivery and to support ERM at corporate level. This type of specialist could be identified/trained either internally or acquired externally, appointed within the OPR Division to ensure cross-divisional consistency. Among his/her tasks, the PMD Risk Coordinator should be responsible for supporting CPMs through training and guidance in the risk assessment activity thus ensuring the overall consistency of the risk assessment process at Department level. In addition, in order to enhance the risk information base and its use in decision making processes, the Risk Coordinator should follow the risk aggregation process once the systems are put in place and perform further coherence checks and analysis of risks at aggregated level. In order to perform this task, he/she should receive reports on risks and risk mitigation actions from Regional Directors, aggregate results and provide the AVP/PMD with a comprehensive view of the riskiest projects, related risk mitigation actions and major risk categories at both aggregated and regional level. PMD Risk Champions at regional level (to be chosen among staff in the respective regional teams at HQ) should be held responsible for promoting an adequate information flow.

The third key recommendation refers to the need to **establish dedicated risk training and awareness initiatives** which could be managed by the PMD Risk Coordinator, in collaboration with regional teams. The training material could be provided through the Operations Academy, both in formal room sessions or in online format. The content of this training material should include: (i) relevance of the risk analysis activity in both country strategy development and

projects; (ii) description of roles and responsibilities of all relevant stakeholders in the risk analysis process; (iii) methodological guidance regarding risk identification and evaluation for single risks and identification of relevant mitigation strategies; (iv) follow-up on risk analysis in mid-term COSOP reviews and in project implementation through supervision missions and importance of the coherence between risk analysis in design and implementation phases; (v) guidelines for inputting the risk analysis results in ORMS; (vi) importance of risk reporting and escalation of top risks due to the potential relevance of risks from a reputational point of view for the organization; and (vii) case studies drawn from past projects to illustrate possible risks and response strategies.

The below table summarizes the recommendations at a glance:

Area	ID Rec	Recommendations	Timeline
<b>Risk Management Framework and Governance</b>	45	Develop a comprehensive framework for risk management, including roles and responsibilities and risk escalation mechanisms across the whole project cycle.	 <b>(Medium term – Within 2021)</b>
	46	Appoint a PMD Risk Coordinator.	 <b>(Short term - Within 2019)</b>
	47	Establish dedicated risk training and awareness initiatives.	 <b>(Short term - Within 2019)</b>

### 3 Risk Assessment Process and Methodology

This section describes in more detail how risks are categorized and analyzed at programme and project level, and whether risk mitigation strategies are defined and implemented. This includes a consideration of tools and mechanisms that support the aggregation of risks at portfolio level.

#### 3.1 Current State Assessment

As mentioned above, the risk analysis in Programme Delivery is foreseen at two different levels: at the level of country strategies (COSOP) and at the project-level. IFAD has recently introduced risk taxonomies for both levels, which are provided in the two below tables.

Risk categories	Risk ratings (High, Substantial, Medium, Low)	Mitigation Measures
Political/Governance		
Macroeconomic		
Sector strategies and		
Institutional capacity		
Portfolio		
Fiduciary		
Environment and climate		
Social		
Other COSOP-specific risks		
<i>Overall</i>		

Risk Categories	Risk Probability (H, M, L)	Risk Impact (H, M, L)	Mitigation
Political and Governance			
Macroeconomic			
Sector strategies and			
Institutional capacity for implementation and			
Technical aspects of project or program			
Financial			
Procurement			
Stakeholders			
Environmental and Social			
<i>Overall</i>			

For the above **COSOP risk categories**, the assessors assign risk ratings for each category and provide an overall risk rating on a 4 scale basis (High, Substantial, Medium, Low). In addition, a SECAP preparatory study is conducted to identify environment, social and climate change issues that might affect IFAD’s strategy in a given country. Along with the assignment of ratings, risk mitigation measures are defined and followed up on during the COSOP review phase.

For the above **project risk categories**, the assessors assign risk ratings for each category for both probability and impact on a 3 level scale (High, Medium, Low), including narratives as necessary. Impact refers to two levels, namely impact on country programme and reputation, and impact on project outcomes, and can be expressed either in rating scales or in narratives. Assessors are encouraged to use external sources (e.g. Economist Intelligence Unit) to support the assessment for political, governance and macroeconomic risks.

All projects that enter the pipeline are subject to **SECAP screening**<sup>48</sup> and are assigned a risk category for **environment and social** standards (A, B, C) and for climate vulnerability (high, moderate, low). Based on the assigned rating, further analysis is conducted. Environmental and social risks are assessed during supervision missions and reported in corporate systems (Operational Results Management System, ORMS). Particular attention is paid to category "A" and climate risk "high" projects, as well as those that belong to category B.

For each project, **financial/fiduciary risks** are assessed on the basis of a **risk-based assurance framework** aimed at aligning the disbursement arrangements to the level of fiduciary risks. A project's fiduciary risk rating is categorized as low, medium or high based on the combination of inherent/country risk and project risk. The inherent/country risk reflects the fiduciary risk associated with the environment where IFAD operates while project level fiduciary risk takes into account the type of implementing arrangements as well as the control risks on financial management associated with each project. During implementation the fiduciary risk rating of each project is re-assessed annually on the basis of supervision mission findings. The project's fiduciary risk rating might also be re-assessed immediately if FMD has relevant information at hand.

In addition to assessment of the risk at project level, it should be mentioned that the Programme Management Department is monitoring problem projects within its performance monitoring processes. They are divided into three risk categories: actual problem projects, potential problem projects or projects not at risk, based on assigned ratings. To identify actual problem projects, indicators as the likelihood of achieving development objectives and assessment of the overall performance are considered. Similarly, potential problem projects are measured against risk flags<sup>49</sup>. These measures are not linked with assessment of risk categories mentioned above.

### *3.2 Benchmarking with other International Organizations*

All in all, IFAD's recently revised risk assessment process is broadly in line with best practices and comparable benchmarks when it comes to the formal process and underlying methodologies. In particular, the new risk assessment process is relatively similar to the World Bank's "systematic operations risk rating tool (SORT)" which was identified as most relevant benchmark. SORT captures risk ratings into the banks' systems and serves as a screening tool to draw Management's attention on highest risks in operations and on relevant mitigation plans.

### *3.3 Gap Analysis*

While IFAD's revised risk assessment process has allowed the Organization to make several steps forward, there are still a few gaps that make the Fund fall behind a fully comprehensive risk assessment methodology. The first gap relates to a **misalignment of risk categories and risk ratings between COSOP and project level**. For example, for projects the category "environmental and social risks" exists, while at country level these categories are distinct. In addition, COSOP risks are assessed on a 4-scale basis, while project risks are assessed for both probability and impact on a 3 level scale. This can lead to potential difficulties in aggregating project level risks to the country level and to the overall portfolio level.

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<sup>48</sup> Social, Environmental and Climate Assessment Procedures, 2017 Edition

<sup>49</sup> Targeting and outreach, gender equality & women's participation, quality of beneficiary participation, responsiveness of service providers, quality of project management, performance of M&E systems, acceptable disbursement rate, quality of financial management, counterpart funds, compliance of loan covenants, procurement







Another gap exists as a result of **loose risk mitigation strategies**. While mandatory to report, no indication is provided to country teams whether underlying risks should be assessed on an inherent or residual basis. Similarly, it is not clear whether the mitigation strategies themselves should refer to existing or new measures. In addition, no timeline for implementing indicated mitigation strategies is foreseen, leading to a potential lack of risk accountability.

While a comprehensive approach to risk analysis for fiduciary and social, environmental and climate risks has been put in place, the **overall re-assessment of risks is not systematically enforced during supervision missions**. This became evident from interviews with key actors as well as from consulted examples. In addition, no indication was provided in terms of how risk assessment results cascade from COSOP to project level, and how risk assessments at project level feed into mid-term COSOP reviews. This is linked to the currently unstructured process for risk analysis in the project implementation phase, an issue which is currently addressed in the revision of the supervision mission guidelines.

Lastly, a gap exists in relation to **inability to aggregate risks at portfolio level**. While IFAD has introduced an integrated Operational Results Measurement System (ORMS)<sup>50</sup>, it is not yet used for aggregating and monitoring risks comprehensively. In addition, risk analysis ratings are not inputted in the system yet. During performed interviews it was pointed out that the input of risk ratings into the system will be put in place during the first half of 2019. Yet, whether the same process will be applied for risk analysis at COSOP and project level remains to be seen. In addition, IFAD has not yet defined criteria for describing how portfolio risk profiles will be built in the future (e.g. through attribution of weights for certain projects based on size, relevance, etc.).

The below table summarizes the main gaps and their criticality at a glance.

Area	Gaps Description	Criticality
<b>Risk Assessment Process and Methodology</b>	1. Misalignment of risk categories and rating scales between COSOP and project level.	 <b>(Medium)</b>
	2. Loose risk mitigation strategies.	 <b>(High)</b>
	3. Re-assessment of risks is not systematically enforced.	 <b>(High)</b>
	4. Inability to aggregate risks at portfolio level.	 <b>(Medium)</b>

### 3.4 Recommendations

For IFAD to address remaining gaps in the area of risk assessment process and methodology, this report puts forward three main recommendations. First, IFAD should further **align COSOP and project level risk analysis**. This includes: (i) risk categories that can be collapsed from





<sup>50</sup> ORMS is a “full-fledged online system that builds on interconnected template for the online presentation, analysis, reporting, and approval of project design, supervision and completion documents”. Source: Taking IFAD's Results and Impact Management System (RIMS) to the Next Level (10 April 2017)

## ASSESSMENT OF THE RISK MANAGEMENT FRAMEWORK IN PROGRAMME DELIVERY

project level into COSOP level; (ii) similar risk rating criteria (e.g. in terms of scale and evaluation of probability and impact); and (iii) mandatory compilation of impact ratings scales and possibly a separate assessment for the reputational risk dimension in terms of local, national or international impact.

To support a more proactive approach to managing risks at programme and project level, it is suggested to **enforce targeted and timed risk mitigation strategies during project implementation**. This includes better guidance on how effective risk mitigation strategies are formulated, measured and acted upon, including indicative timelines for follow-ups either during the first supervision mission or during the following ones, depending on the stage of the project. To ensure continuity in risk analysis throughout the project cycle, it is recommended to foresee a systematic re-assessment of risks in the context of supervision missions.

Lastly, following the implementation of the module that foresees the input of risk ratings into ORMS, it is suggested to **define criteria that facilitate building aggregated risk profiles** at country/region level. Given the high level of variability between projects, it is not recommended to assign weights to single risk categories in order to determine the overall rating, but to consider assigning weights on factors such as project size, PBAS allocation or number of rural poor people affected.

Area	ID Rec	Recommendations	Timeline
<b>Risk Assessment Process and Methodology</b>	48	Further align COSOP and project level risk analysis.	 <b>(Short term - Within 2019)</b>
	59	Enforce targeted and timed risk mitigation strategies during project implementation.	 <b>(Short term - Within 2019)</b>
	50	Foresee a systematic re-assessment of risks in the context of supervision missions.	 <b>(Short term - Within 2019)</b>
	51	Define criteria that facilitate building aggregated risk profiles at country/region level.	 <b>(Short term - Within 2019)</b>

## 4

## STRATEGIC AND OPERATIONAL RISK ASSESSMENT

### 1 Introduction

This section illustrates the main highlights of the risk assessment that has been carried out with respect to IFAD's strategic and operational risks. The results that are presented stem from the application of a revised risk assessment methodology, which was developed in order to further enhance the existing risk assessment approach.

More in detail, this section is developed around the overview of IFAD's risk profile and presents the methodological approach adopted to carry out the risk assessment. This approach is based on the recommendations provided in Chapter 2 "Assessment of IFAD's ERM Framework" , section Performance.

### 2 Strategic and Operational Risk Assessment Process

The risk assessment process foresees the identification and assessment of risks that might affect the achievement of strategy and business objectives, the prioritization of risks according to their severity and the definition of risk responses to mitigate those risks that fall outside acceptable levels. The risks were assessed with respect to the 11<sup>th</sup> Replenishment, taking into account the characteristics of the new business model proposed for next three years (2019-2021), but also considering their relevance in the shorter timeframe due to proposed annual assessments. The performed activities and main methodological highlights are described following the Risk Assessment phases: risk identification, risk evaluation, risk prioritization and risk response. Following the completion of the four phases, the assessed risks were traced in a dedicated Risk Register.

#### 2.1. Risk Identification

*"The Organization identifies new, emerging and changing risks to the achievement of the entity's strategies and business objectives"<sup>51</sup>*

- 1) The first activity of the methodology foresaw the identification of **Risk Owners**, defined as the individuals who are ultimately accountable for ensuring the appropriate management of the risk. They were identified either at Division or at Department level.
- 2) Subsequently, the main **macro-processes**<sup>52</sup> were defined in order to facilitate the identification of risks and ensure that the relevant risks are covered.
- 3) Once Risk Owners and macro-process were identified, **dedicated interviews** were performed with involved Risk Owners in order to identify, validate and assess risks, root causes and potential consequences associated with each Division/Department. These activities were aimed at providing a complete risk narrative and support Risk Owners in the

<sup>51</sup> Committee of Sponsoring Organizations of the Treadway Commission, Enterprise Risk Management – Performance – 2017

<sup>52</sup> While the process is defined as a series of actions, changes, or functions bringing about a result, a macro-process is an aggregate of processes at the macro level

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evaluation of their risks.

*Focus on Risk Taxonomy*

As of today, IFAD has been using a high-level Risk Taxonomy (level 1) to identify and categorize risks. To facilitate risk identification and add completeness to reporting, the level 1 risk taxonomy was reinforced by **second level risk categories** (level 2 categories) for Strategic and Operational risks, which are shown below:

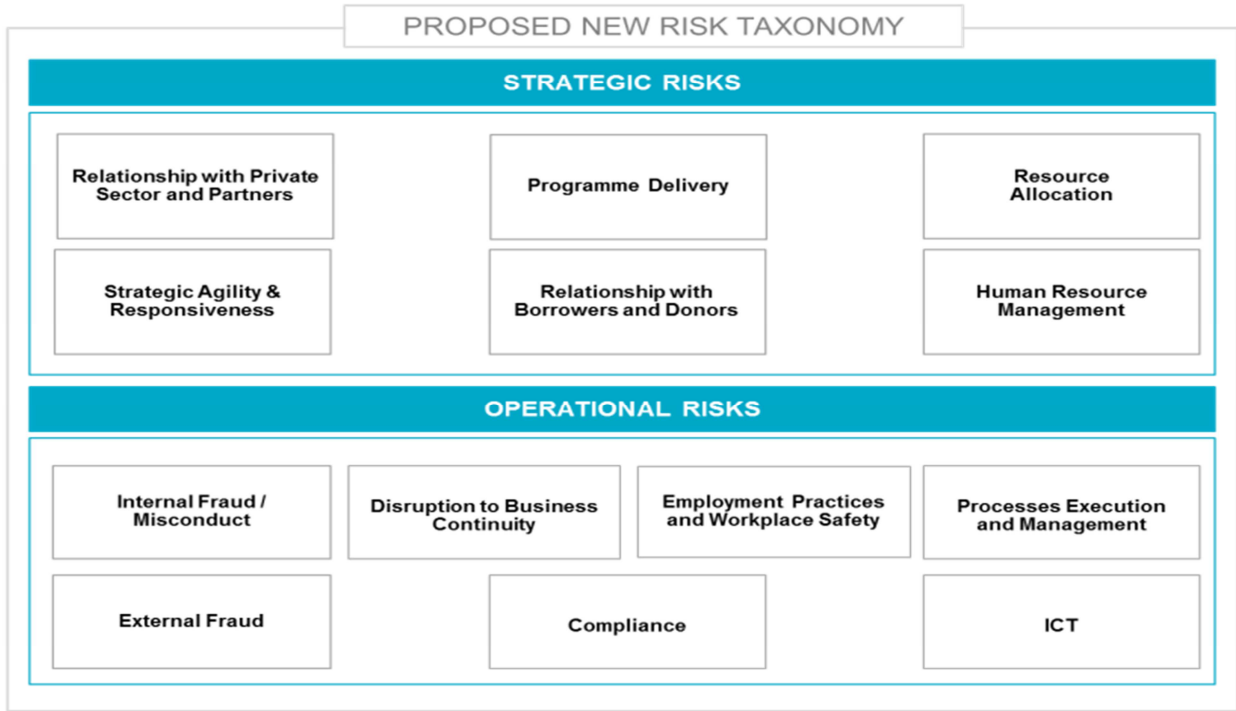


Figure 9 – Overview of the Proposed Risk Taxonomy

As mentioned in paragraph 1.2 *Scope of the Assessment*, **Strategic Risks** are defined as those risks having 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, while **Operational Risks** are defined as risks of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Brief descriptions of the categories are provided in the following table together with some examples of risks identified for each of the level 2 categories defined in the proposed risk taxonomy:

STRATEGIC AND OPERATIONAL RISK ASSESSMENT

ID	Risk Category Level 1	Risk Category Level 2	Description	Examples of risk identified
1	Strategic	Strategic Agility & Responsiveness	Risks deriving from insufficient agility and responsiveness related to changes in the global environment.	<i>Decreasing trust towards multilateral institutions resulting in lower political relevance of IFAD's vision within the global environment</i>
2	Strategic	Relationship with Borrowers and Donors	Risks deriving from managing expectations and relationships with Borrowers. The category also includes the risks deriving from managing the relationship with donors potentially leading to difficulties in achieving the planned objectives.	<i>Failure to address borrowers' demands in terms of lending and non-lending products and pricing</i>
3	Strategic	Relationship with Private Sector and Partners	Risks deriving from the Fund's collaboration with private or public partners who influence IFAD's reputational exposure (either directly or indirectly).	<i>Reputational exposure arising from unsustainable practices by corporate private partners</i>
4	Strategic	Programme Delivery	Risks connected to poor quality design and implementation of projects, as well as the Organization's ability to demonstrate results from work in its operations.	<i>Failure to meet outcome targets due to implementation challenges</i>
5	Strategic	Resource Allocation	Risks regarding the ability of the Organization to effectively allocate both financial and human resources in order to meet its defined objectives.	<i>Failure to effectively allocate resources in order to meet the ambitious IFAD 11 Agenda</i>

STRATEGIC AND OPERATIONAL RISK ASSESSMENT

ID	Risk Category Level 1	Risk Category Level 2	Description	Examples of risk identified
6	Strategic	Human Resource Management	Risks related to the management of human resources, more precisely to the Organization's capability to retain and attract staff.	<i>Difficulty in retaining key resources in view of the new decentralized business model</i>
7	Operational	Internal Fraud/Misconduct	Risks deriving from any action perpetrated by internal staff and aimed at obtaining an illicit gain at the expense of the Organization. The category also includes risks deriving from internal staff behaving in a way not aligned with the Fund's ethical standards, policies and procedures.	<i>Potential misconduct committed by an IFAD staff in breach of IFAD's Code of Conduct (abuse of authority, sexual harassment/exploitation)</i>  <i>Potential conflicts of interest arising from staff personal activities (business activities)</i>
8	Operational	External Fraud	Risks deriving from third parties' malicious acts. The risks in the category are also connected to corrupt, fraudulent, collusive or coercive practices committed by third parties in project activities.	<i>Fraudulent disbursement/payment request from third parties</i>  <i>High profile fraud cases resulting from diversion and misuse of IFAD financing</i>
9	Operational	Compliance	Risks deriving as a consequence of violation(s) of laws, regulations and/or internal procedures.	<i>Under-reporting on SECAP safeguard risks</i>

ID	Risk Category Level 1	Risk Category Level 2	Description	Examples of risk identified
10	Operational	<b>Employment Practices and Workplace Safety</b>	Risks deriving from employment practices that might lead to disputes with staff. In addition, risks that are related to workplace safety are also considered.	<i>Service incurred injuries and health conditions</i>
11	Operational	<b>Disruption to Business Continuity</b>	Risks deriving from natural events, accidental events from either internal or external causes as well as other extreme events (e.g. social unrest) that might lead to damages to the organization's physical assets and/or interruption of its activities/processes.	<i>Major event or crisis at ICO level as a result of extreme events (e.g. natural disasters, violent social or political events)</i>
12	Operational	<b>Processes Execution and Management</b>	Risks deriving from failure to properly execute internal process activities leading to a potential financial loss or reputational damages for the Organization.	<i>Errors and omissions in payments/ disbursements/ processing of contributions/ payroll processes</i>
13	Operational	<b>ICT</b>	Risks related to systems' availability, security and data integrity of the Organization.	<i>Cyber attack on users (e.g. social engineering, ransomware etc.)</i>

At the end of the risk identification phase, a risk universe was defined, consisting in the list of risks and risk categories (level 1 and 2)<sup>53</sup>.

## 2.2. Risk Evaluation

*"Risks identified and included in an entity's risk inventory are assessed in order to understand the severity of each to the achievement of an entity's strategy and business objectives"*<sup>54</sup>

<sup>53</sup> The list of identified risks is provided in Annex V – Risk Universe

### 1) **Impact and Likelihood Metrics definition**

Following the conclusion of the interviews an definition of the risk universe, the risk evaluation was performed through the combination of the two components:

- **Impact:** the result or effects of a risk;
- **Likelihood:** the possibility of a risk occurring.

Each variable was determined on the basis of risk assessment criteria additionally detailed<sup>55</sup> that are meant to further guide the Risk Owner during the assessment. In more detail, they were evaluated on a scale of 1 to 6 (1=Negligible; 2=Low; 3=Moderate; 4=Significant; 5=Major; 6=Catastrophic), associating to each of them specific **impact dimensions** as described below:

- **Financial:** estimated value of the possible financial losses generated by the occurrence of the event;
- **Member States Contributions:** impact that the occurrence of the event could generate on one or more key Contributors;
- **Reputational:** impact that the event could have on IFAD's relationship with key stakeholders;
- **Programme Delivery:** impact that the occurrence of the event could generate on one or more key projects of the portfolio;
- **Health and Safety:** possible effects of events on health and safety of staff;
- **Business Continuity:** impact that the occurrence of the event can have on the interruption of IFAD's activities;
- **Fraud Conduct:** impact that a fraud/corruption/conduct event by staff could generate on IFAD activities.

Similar to the impact criteria, a **likelihood dimension** was also evaluated on a scale of 1 to 6 (1=Event virtually certain; 2=Event highly likely; 3=Event likely; 4=Event possible; 5=Event unlikely; 6=Event virtually impossible).

### 2) **Inherent risk evaluation**

During the Inherent risk evaluation the Risk Owner assessed risks without taking into account existing controls, through the combination of the impact and likelihood variables.

### 3) **Evaluation of existing controls**

Following the assessment of the inherent risk, the Risk Owner evaluated the **Preventive Controls** (existing measures, such as policies/procedures and/or established practices in place that reduce the likelihood of occurrence of the described risk) and the **Corrective Controls** (existing measures in place that reduce the impact of the described risk) currently in place to mitigate the risk.

Controls were evaluated on a four levels scale following the application of a specific **control dimensions**<sup>56</sup> based on general aspects currently in place:

- **People & Organizational** (e.g. Segregation of Duties – SoD, Training on Conduct Risks as

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<sup>54</sup> Committee of Sponsoring Organizations of the Treadway Commission, Enterprise Risk Management – Performance – 2017

<sup>55</sup> A description of impact and likelihood criteria is available in the Annex III: Risk Assessment Criteria

<sup>56</sup> Control Scale is available in the annex III – Risk Assessment Criteria



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Sexual Harassment/Exploitation, Abuse, Conflict of Interests, Cyber awareness training etc.);

- **Policies & Procedures** (e.g. Fraud and Corruption Policy, Corporate procurement Guidelines, Social, Environmental and Climate Assessment Procedures (SECAP) etc.);
- **Information System Tools** (e.g. Financial management, Fraud detection, 24/7 Cyber Security Operation centre, Targeted software check, Secure remote access, Strong authentication and non-repudiation mechanism etc.);
- **Processes and Monitoring** (e.g. Investigations & Sanctioning processes, Monitoring with Security Authorities and UNDSS etc.).

4) **Residual risk evaluation**

After the assessment of the levels of inherent risk (likelihood and impact) and the value of the existing controls, the level of residual risk was determined.

The combination of impact and probability at an inherent and residual level made it possible to represent the risks on two risk maps:

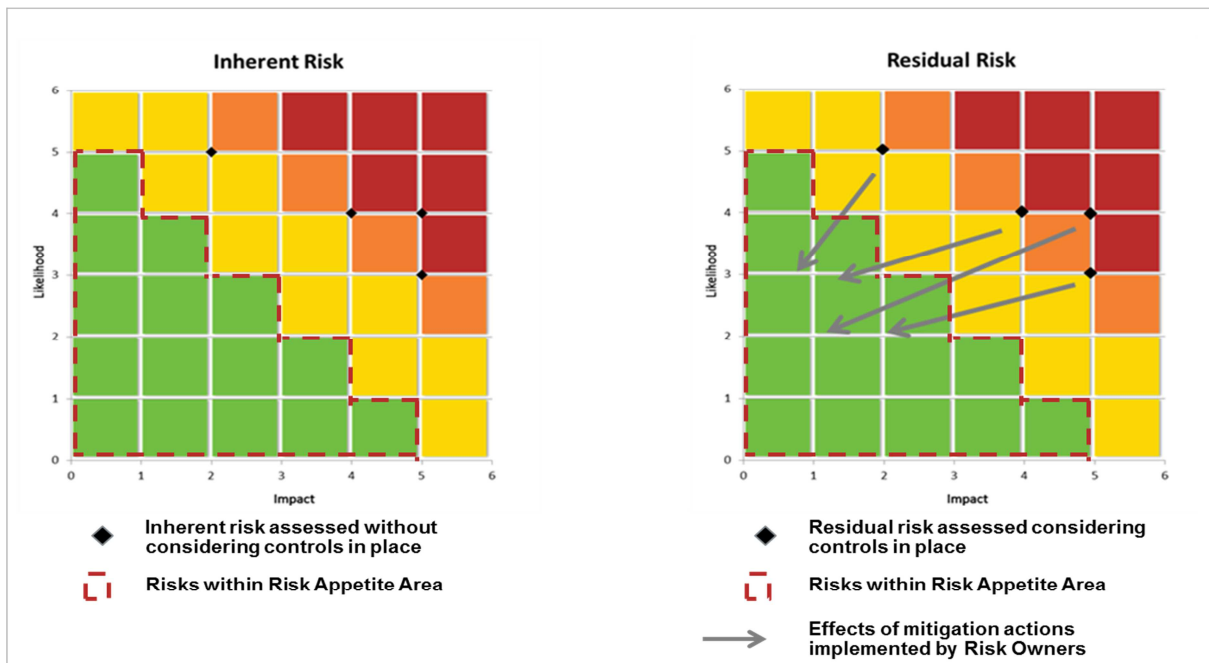


Figure 10 – Inherent and Residual Risk Maps

5) **Risk Validation:** The risk evaluation performed was validated by Risk Owners with the aim of defining an overall assessment of each risk falling within his/her responsibility.

2.3. Risk Prioritization

Once each Risk Owner had validated its applicable risks and the respective evaluations, the risks were aggregated into a dedicated Risk Register in order to:

- Understand the overall inherent Risk Profile of the Organization and the positioning of each risk within the Inherent Risk Map;
- Understand how the risk profile changes in light of the effectiveness of implemented controls and the positioning of each risk within the Residual Risk Map;

## STRATEGIC AND OPERATIONAL RISK ASSESSMENT

- Identify and prioritize the assessed risks in order to identify the top residual risks positioned beyond the Risk Appetite area<sup>57</sup>, as proposed in Figure 10 – Inherent and Residual Risk Maps;

Following the aggregation and prioritization the results were further fine-tuned by the ERM.

### 2.4. Risk Response

*“For all risks identified, management selects and deploys risk response considering the severity and prioritization of the risk as well as the business context and associated business objectives”<sup>58</sup>*

When considering risk responses, Management should analyze the potential risks and benefits associated to them, which will generally depend on the severity and priority of the risk. To enhance effectiveness, Action Plans should be conceived with a timeline of implementation in mind to better monitor their effectiveness. This activity was performed for risks that are positioned above the Risk Appetite area.

These risks will then be periodically reported to the ERM in order to monitor the status of the implementation of the defined actions.

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<sup>57</sup> To be fine-tuned following the definition of risk appetite by IFAD.

<sup>58</sup> Committee of Sponsoring Organizations of the Treadway Commission, Enterprise Risk Management – Performance – 2017

## Annex I – Selected examples of Risk Appetite Statements

Selected Organization	Corporate Risk Appetite Statement
WFP	<p>For <b>strategic</b> risks, WFP may be characterized as <b>‘risk hungry’</b>: WFP designs and implements its programmes in difficult contexts. It is voluntarily funded and needs to actively manage its external relationships with donors, host governments and partners. It must continually adapt its business model to changing needs and operating environments. For <b>operational and financial</b> risks, WFP is <b>‘risk averse’</b>, continually seeking to improve its internal controls and mitigate risks within the constraints of cost and efficiency. For <b>fiduciary</b> risks, WFP is <b>‘highly risk averse’</b>: whilst it accepts that it remains exposed to these risks, WFP recognizes its duty of care to staff, its obligations to stakeholders, and commits to take prompt and effective action on matters of internal conduct.”</p>
DFID <sup>59</sup>	<p>DFID has a <b>high Risk Appetite</b> when it comes to taking <b>risks to achieve our key targets</b>. The Management Board states:</p> <p>DFID has a <b>high Risk Appetite</b> to <b>invest in research opportunities</b> which support the creation of new evidence where these have the potential to have practical use at an operational level.</p> <p>But a <b>lower Risk Appetite</b> in relation to <b>staff safety and security and fiduciary risk</b>. The Management Board states:</p> <p>DFID is not willing to intentionally risk the security of its personnel and assets or accept weak financial management.</p>
AIIB	<p>AIIB has determined <b>three different levels of Risk Appetite</b> based on (i) the impact individual risk events are likely to have on the capital position of the bank and (ii) the probability of such risk events occurring:</p> <ul style="list-style-type: none"> <li>• <b>Low appetite</b> :The occurrence of individual risk events in this category have the <b>potential to substantially damage the Bank</b>, jeopardizing its ability to fulfill its mission.</li> <li>• <b>Medium appetite</b>: The occurrence of these individual risk events <b>will be significant but will not threaten the Bank in isolation</b>. These risks are typically incurred during usual business activities – but which are not part of its strategy and goals. Such risks will be managed and minimized wherever possible.</li> <li>• <b>High appetite</b>: The occurrence of these risk events is <b>accepted, but closely managed</b>. These are incurred due to the Bank’s pursuit of its strategic goals and processes.</li> </ul>
AfDB	<p>The risks taken to pursue AfDB’s development mandate should <b>neither harm the AAA rating</b> of the Bank <b>nor put it in the position to call for callable capital</b> or ask for further general capital increases before 2020 from regional member countries (RMCs) and non-regional member countries (NRMCs).</p> <p>The statement takes into account: portfolio threshold ratings, single counterparty and concentration and capital utilization limits</p>

<sup>59</sup> The Risk Appetite Statement and structure refer to the 2011 version

## Annex II – Risk Taxonomies

### Strategic Risks

Strategic Risks	
Risk Category Level 2	Definition
Strategic Agility and Responsiveness	Risks deriving from insufficient agility and responsiveness related to changes in the global environment.
Programme Delivery	Risks connected to poor quality design and implementation of projects, as well as the Organization's ability to demonstrate results from work in its operations.
Relationship with Borrowers and Donors	Risks deriving from managing expectations and relationships with Borrowers taking into account possible shift in their policy priorities, needs in terms of lending and non-lending solutions. Similarly, the category also includes the risks deriving from managing the relationship with donors potentially leading to difficulties in achieving the planned objectives.
Relationship with Private Sectors and Partners	Risks deriving from the Fund's collaboration with private or public partners who influence IFAD's reputational exposure either directly, through actions related to the defined partnership with the Organization, or indirectly through their own activities.
Human Resource Management	Risks related to the management of human resources, more precisely to the Organization's capability to retain and attract talented staff in order to ensure the achievement of its corporate objectives.
Resource allocation	Risks regarding the ability of the organization to effectively allocate both financial and human resources in order to meet its defined objectives.

## Operational Risks

Operational Risks	
Risk Category Level 2	Definition
Internal Fraud/Misconduct	<p>Risks deriving from any action perpetrated by internal staff and aimed at obtaining an illicit gain at the expense of the Organization or cause damage to the Fund, therefore exposing the organization to both financial losses and reputational damage.</p> <p>The category also includes risks deriving from internal staff behaving in a way not compliant with the Fund's ethical standards, policies and procedures (e.g. conflicts of interest, sexual harassment, sexual exploitation and abuse) which leads to reputational damage.</p>
External Fraud	<p>Risks deriving from third parties' malicious acts (e.g. theft, intentional damage of company assets, misappropriation of funds) that might imply financial losses or additional crisis management costs for the Organization.</p> <p>The risks in the category are also connected to corrupt, fraudulent, collusive or coercive practices committed by third parties in project activities, potentially causing reputational damage to the organization.</p>
Compliance	<p>Risks deriving as a consequence of violation(s) of laws, regulations and/or internal procedures (examples include money laundering, terrorism financing, non-compliance with financial regulations, non-compliance with SECAP).</p>
Employment practices and Workplace Safety	<p>Risks deriving from employment practices that might lead to disputes with staff (e.g. retaliation, performance disputes) as well as risks deriving from service related accidents/health issues of staff (e.g. injuries or other health issues).</p>
Disruption to Business Continuity	<p>Risks deriving from natural events (e.g. earthquakes, floods), accidental events from either internal or external causes (e.g. fire), as well as other extreme events (e.g. terrorist attacks) that might lead to damages to the organization's physical assets and/or interruption of its activities/processes. Risks related to failure of suppliers that might lead to interruption or slowdown of the Organization's activities are also included in this category.</p>
Processes execution and management	<p>Risks deriving from failure to properly execute internal process activities leading to a potential financial loss or reputational damages for the organization (e.g. errors and omissions in executing daily activities, inadequate use of resources).</p>
ICT	<p>Risks related to systems' availability, security and data integrity of the Organization.</p>

## Annex III – Risk Assessment Criteria

### Impact Scale

Revised Impact Categories							
Rating	Financial	Members States Contributions	Reputational	Programme Delivery	Health & Safety	Business Continuity	Fraud/Conduct
6 Catastrophic	Huge Financial Loss	Withdrawal of the membership of more than one key contributor (e.g. more than 1 of the top 5 contributors)	Media outcry at an international level/social media reviews with a lasting impact on the relationships with main stakeholders	Suspension of a key project portfolio/exit from significantly sized recipient country/or group of countries	1 fatal accident in the course of a year during a mission	Loss of many physical assets or complete interruption of activities for an extended period of time	A fraud/corruption/conduct event involving internal staff and/or consultants
5 Major	Major Financial Loss	Withdrawal of the membership of one of top contributors (e.g. 1 of the top 5 contributors)	Negative press at international level/social media reviews with significant but short term impact on relationships with main stakeholders	Significant delays vs planned timeline/increases in implementation cost/quality issues, for either a key project portfolio and/or a major number of projects	Serious health issues/injuries causing a permanent disability	Very severe damage to assets or interruption of critical processes for an extended period of time	Major allegations regarding a fraud/corruption/conduct case involving internal staff and/or consultants
4 Significant	Material Financial Loss	Withdrawal of several medium sized contributors	Negative press at regional level/social media reviews with moderate impact on relationships with key stakeholders	Some delays vs planned timeline/increases in implementation costs/quality issues for either key project portfolio and/or significant number of projects	Health issues/Injuries causing absence from work higher than 30 days but not causing permanent disability	Severe damage to key assets or interruption of critical processes for a prolonged amount of time	Allegations regarding a fraud/corruption/conduct case involving internal staff and/or consultants

Revised Impact Categories							
Rating	Financial	Members States Contributions	Reputational	Programme Delivery	Health & Safety	Business Continuity	Fraud/Conduct
3 Moderate	Moderate Financial Loss	Withdrawal of one medium size contributors/several small size contributors	Negative media attention restricted to hub/country level (e.g. publication of news on national press)	Some issues with respect to timeliness, costs and quality for either medium sized project portfolios and/or moderate number of projects	Minor health issues/injuries during the year (e.g. absence from work of less than 30 days)	Moderate damage to key assets with significant but short-term impact on activities, or with extended but low impact on activities	-
2 Low	Low Financial Loss	Withdrawal of a few small size contributors	Minor negative media attention restricted to hub/country level (e.g. publication of news on local press)	Some issues with respect to timeliness, costs and quality in small sized project portfolios	Minor health issues/injuries during the year (absence of work is limited to the day of the event)	Limited damage to assets and impact on activities (e.g. restricted hub/country level)	-
1 Insignificant	Negligible Financial Loss	-	No impact or negligible impact on reputation	No impact or negligible impact on Programme Delivery	-	Negligible damage to assets and impact on activities	-

## Likelihood Scale

Rating	Assessment	Description	Parameter
6	Virtually Certain	The event will almost certainly take place in the timeframe	More than once a year
5	Highly Likely	The event is highly likely to take place in the timeframe	At least once a year
4	Likely	The event is likely to occur in the timeframe; some precedents	Once every 3 years
3	Possible	The event is unlikely to happen in the timeframe, but not unprecedented	Once every 5 years
2	Unlikely	The event is unlikely to happen in the timeframe, without precedent	Once every 10 years
1	Virtually Impossible	The event is virtually impossible (extremely unlikely)	Less than once in 10 years

## Control Scale

Rating	Description	Criteria
4	Satisfactory	Internal controls evaluated are adequate, appropriate, and effective. Some minor improvement actions may be recommended.
3	Some Improvement Needed	Internal controls evaluated are generally adequate, appropriate, and effective but some improvement actions are needed.
2	Major Improvement Needed	Internal controls evaluated are generally not adequate, appropriate, nor effective and some major improvement actions are needed.
1	Unsatisfactory	Internal controls evaluated are not adequate, appropriate or effective and several urgent and critical actions are required.



## Annex IV – Corporate Risk Dashboard: Illustrative Template

RISK	Risk Owner	Risk Category	Residual Severity of Risks				Green Area	Yellow Area	Orange Area	Red Area
							<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
RISK MONITORING		Threshold	2019 Q1	2019 Q2	2019 Q3	2019 Q4	STATUS			
	KRI 1						↑			
	KRI 2						↑			
RISK RESPONSE STRATEGIES	Action Plan 1		Timeframe		Progress of Activities					
	Action Plan 2		Timeframe		Progress of Activities					

<span style="color: green;">●</span> low	<span style="color: yellow;">●</span> medium	<span style="color: orange;">●</span> high	<span style="color: red;">●</span> severe	
Deteriorating	Stable	Improving		
Not Started (0%)	Ongoing (25%)	Ongoing (50%)	Ongoing (75%)	Complete (100%)

## Annex V – Risk Universe: for internal use only

ID	Risk Category level 1	Risk Category level 2	Risk
1	Strategic	Strategic Agility & Responsiveness	Decreasing trust towards multilateral institutions resulting in lower political relevance of IFAD's vision within the global environment
2	Strategic	Strategic Agility & Responsiveness	Failure to effectively position IFAD as a catalyst in the development landscape to achieve the goals of Agenda 2030
3	Strategic	Strategic Agility & Responsiveness	Mission drift as an unintended consequence of implementing the new business model
4	Strategic	Relationship with Borrowers and Donors	Failure to secure monetary resources (incl. replenishment contributions and borrowing) to achieve the planned IFAD11 PoLG and POW
5	Strategic	Relationship with Borrowers and Donors	Failure to effectively perform the role of assembler of development finance resulting in lower than expected expansion of IFAD's programme of work
6	Strategic	Relationship with Borrowers and Donors	Shifting balance of Member States contributions towards earmarked funds
7	Strategic	Relationship with Borrowers and Donors	Failure to address borrowers' demands in terms of lending and non-lending products and pricing
8	Strategic	Relationship with Borrowers and Donors	Reduced prioritization of sustainable, inclusive rural transformation in national policies or programmes
9	Strategic	Relationship with Borrowers and Donors	Deterioration of macroeconomic conditions in borrowing countries
10	Strategic	Relationship with Private Sector and Partners	Reputational exposure arising from negative actions by private partners
11	Strategic	Relationship with Private Sector and Partners	Failure to achieve Corporate Cofinancing target
12	Strategic	Relationship with Private Sector and Partners	Reputational exposure connected to domestic private contributions and implementing partners (e.g. unsustainable practices, political scandals)
13	Strategic	Programme Delivery	Failure to ensure quality project design in light of existing time and resource constraints
14	Strategic	Programme Delivery	Inability to credibly measure the impact linked to strategic objectives
15	Strategic	Programme Delivery	Failure to meet outcome targets due to implementation challenges
16	Strategic	Resource Allocation	Failure to effectively allocate human resources in the context of the decentralized business model

ID	Risk Category level 1	Risk Category level 2	Risk
17	Strategic	Resource Allocation	Failure to effectively allocate resources in order to meet the ambitious IFAD 11 Agenda
18	Strategic	Human Resource Management	Difficulty in recruiting qualified staff to match the changing needs of the Organization
19	Strategic	Human Resource Management	Difficulty in retaining key resources in view of the new decentralized business model
20	Operational	Compliance	Failure to comply with financial regulations
21	Operational	Compliance	Acceptance of funds and/or execution of payments from/to sanctioned counterparts (vendors, contributors, recipients) accused of bribery, terrorism or money laundering
22	Operational	Compliance	Under-reporting on SECAP safeguard risks
23	Operational	Compliance	Project mis-procurement results in misuse of IFAD financing
24	Operational	Disruption to Business Continuity	Total or partial interruption of the supply of utilities
25	Operational	Disruption to Business Continuity	Major event or crisis at the HQ related to natural events
26	Operational	Disruption to Business Continuity	Major events or crisis at the HQ related to political and social events
27	Operational	Disruption to Business Continuity	Major event or crisis at ICO office related to natural events
28	Operational	Disruption to Business Continuity	Major event or crisis at ICO office related to political and social events
29	Operational	Disruption to Business Continuity	Interruption of Treasury activities
30	Operational	Workplace Safety and Employment Practices	Disputes/complaints between IFAD and its employees (e.g. labor litigation)
31	Operational	Workplace Safety and Employment Practices	Service incurred injuries and health conditions
32	Operational	Workplace Safety and Employment Practices	Employee travel and visa related risks
33	Operational	External Fraud	Theft or damage (e.g. vandalism) to physical assets by third parties
34	Operational	External Fraud	External fraudulent practices in corporate procurement
35	Operational	External Fraud	Fraudulent disbursement/payment request from third parties
36	Operational	External Fraud	Fraudulent activities by third parties (e.g. Treasury)
37	Operational	External Fraud	High profile fraud cases resulting from diversion and misuse of IFAD financing

ID	Risk Category level 1	Risk Category level 2	Risk
38	Operational	ICT	Hardware/software interruption or failure
39	Operational	ICT	Unavailability of IFAD SWIFT infrastructure
40	Operational	ICT	Cyber attack on users (e.g. social engineering, ransomware etc.)
41	Operational	ICT	Breaches of the IT infrastructure
42	Operational	ICT	Loss of a key IT vendor (e.g. IBM)
43	Operational	Internal Fraud/Misconduct	Potential misconduct committed by an IFAD staff in breach of IFAD's Code of Conduct (abuse of authority, sexual harassment/exploitation)
44	Operational	Internal Fraud/Misconduct	Potential conflicts of interest arising from staff personal activities (business activities)
45	Operational	Internal Fraud/Misconduct	Fraudulent activities by IFAD staff related to Corporate Procurement
46	Operational	Internal Fraud/Misconduct	Abuse of privileges by IFAD staff (e.g. ID Cards, VAT exemption, Car Tax exemptions etc.)
47	Operational	Internal Fraud/Misconduct	Unauthorized approvals of disbursements/payments/payroll
48	Operational	Internal Fraud/Misconduct	Unauthorized transfer of funds
49	Operational	Internal Fraud/Misconduct	Fraud and corruption related to internal staff in ICOs
50	Operational	Processes Execution and Management	Failure of a vendor to provide their goods or services
51	Operational	Processes Execution and Management	Failure to effectively support the decision-making process of governing bodies
52	Operational	Processes Execution and Management	Inability to effectively administer the contracts for the SEC Office
53	Operational	Processes Execution and Management	Failure to effectively engage with Member States and/or support a proper institutional engagement
54	Operational	Processes Execution and Management	Emergence of scandals linked to lack of adherence to IFAD's communication strategy given the increased relevance of social media
55	Operational	Processes Execution and Management	Fragmented, unstrategic communications which diminish the effectiveness of IFAD's efforts to position itself as a results-driven organization, with relevant impacts on perception of IFAD's brand
56	Operational	Processes Execution and Management	Unreliability of accounting information and financial reporting
57	Operational	Processes Execution and Management	Delays in recording loan impairments

<b>ID</b>	<b>Risk Category level 1</b>	<b>Risk Category level 2</b>	<b>Risk</b>
58	Operational	Processes Execution and Management	Errors/omissions in the disbursement process
59	Operational	Processes Execution and Management	Errors/omissions in the pre-payment/payment process
60	Operational	Processes Execution and Management	Errors/omissions in the recording/processing of contributions
61	Operational	Processes Execution and Management	Errors/omissions in the payroll process
62	Operational	Processes Execution and Management	Errors and omissions in the management of the investment portfolio (e.g. incorrect payments, investments not in line with recommendations)
63	Operational	Processes Execution and Management	Errors and omissions in detecting non-compliance of IFAD and IFAD-funded programmes and projects
64	Operational	Processes Execution and Management	Sub-optimal utilization of budgeted resources at country level

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