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IFAD Corporate Risk Dashboard

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Abbreviations and acronyms

AUO	Office of Audit and Oversight
CSD	Corporate Services Department
ETH	Ethics Office
FOD	Financial Operations Department
ICO	IFAD Country Office
IFAD11	Eleventh Replenishment of IFAD's Resources
KRI	key risk indicator
PMD	Programme Management Department
PoLG	programme of loans and grants
SECAP	Social, Environmental and Climate Assessment Procedures

IFAD Corporate Risk Dashboard

I. Overview

1. The IFAD Corporate Risk Dashboard provides a succinct overview of the main risks faced by IFAD, along with measurable key performance indicators and information on risk status and trends. The dashboard is a living document and will be further enhanced in the context of IFAD's ambition to adopt a modern and enhanced enterprise risk management (ERM) framework. In the course of 2019, IFAD is seeking to strengthen its risk management practices and respond to evolving changes in the financial architecture and programme operations within a decentralized structure. This process will take into account best industry practices and the practices in other international financial institutions (IFIs) and United Nations agencies, which will be customized to IFAD's needs as appropriate.
2. The current version of the dashboard builds on previous iterations as well as comments received at the 153rd meeting of the Audit Committee. In particular, it seeks to address the request to provide a "snapshot" narrative on the main trends, directions and challenges across the key risk indicators (see section II below). As requested, the key risk indicator on detected fraud cases was removed, pending identification of a more suitable forward-looking indicator. The dashboard will continue to evolve as further progress is made in strengthening ERM, for example through the development of a risk appetite statement.
3. The risk dashboard is grouped into four risk categories: strategic risks, financial risks, operational risks and risks in operations. The latter category pertains directly to achieving results from IFAD-financed country programmes and projects, and global/regional grant programmes.

II. Snapshot of main trends across risk categories

- (a) Strategic risks. IFAD has received pledges amounting to 83 per cent of the Eleventh Replenishment of IFAD's Resources (IFAD11) target; additional pledges are expected during 2019, 2020 and 2021. Should the official target of US\$1.2 billion not be met, IFAD's borrowing requirements to fund the programme of loans and grants (PoLG) for IFAD11 would increase accordingly, as indicated to the Executive Board in May 2019. An area of improvement within the strategic risk category is the vacancy rate, which now stands at 13 per cent compared to 17 per cent in the last quarter. Management expects this rate to fall further, potentially below historical averages. This will positively address IFAD's need to recruit and retain qualified staff to match the changing needs of the organization. As requested, a better indicator to measure human resources risk will be proposed in future iterations of the dashboard.
- (b) Financial risks. Financial ratios have remained stable over the last quarters within established thresholds. The stable trend of non-performing loans reflects the overall adequate credit quality of the portfolio. At the same time, liquidity and leverage ratios are stable within thresholds.
- (c) Operational risks. The set of key risk indicators for operational risks is currently under review to better reflect IFAD's risk exposure in the areas of fraud, disruption to business continuity, process execution and management, compliance and ICT. In terms of risks related to potential misconduct committed by staff in breach of the IFAD Code of Conduct (such as abuse of authority, sexual harassment, sexual exploitation and abuse), projections for 2019 may see an increase as a result of the awareness-raising campaign undertaken by IFAD. Mitigation actions are in place and include monitoring of compliance with mandatory requirements and targeted training sessions at headquarters and in all regions where IFAD has operations.

- (d) Risks in operations. The risk management approach, parameters and indicators for this risk category are currently under review, drawing on IFI best practices. Meanwhile, improvements in risks related to overall implementation progress have been achieved compared to the second quarter of 2018 thanks to closer attention to projects at risk. Benefits of measures recently put in place to strengthen project procurement (e.g. increasing the number of procurement specialist staff from two to six, and introduction of a risk-based approach to procurement oversight) are expected to materialize within the coming 6-12 months.

IFAD Corporate Risk Dashboard: Risk categories

I. STRATEGIC RISKS

Strategic risks are defined as risks that have an impact on the organization's ability to achieve its mission, execute its strategies and meet its objectives and whose materialization might affect IFAD's positioning in the development landscape.

The following table highlights the main strategic risks that were identified in the 2019 risk assessment and for which key risk indicator (KRI) data are available on a quarterly basis. The "trend arrow" indicates the direction of change for each KRI by comparing the current quarterly result with the result in the fourth quarter (Q4) of 2018. If the colour of the arrow is green, the trend is considered positive as the measured risk is decreasing. If the arrow is red or orange, the risk is increasing.

Risk 1: Received replenishment contributions and sovereign borrowing are insufficient for the planned programme of loans and grants (PoLG)							
Risk owner	External Relations and Governance Department (ERG)						Green Yellow Orange Red
Key risk indicators	Risk tolerance level	2018 Q4	2019 Q1	2019 Q2	2019 Q3	Trend	
1.1 Percentage of IFAD11 pledges received	To be decided (TBD)	78	82	83			
1.2 US\$ million secured in borrowing for use in IFAD11 PoLG (cumulative)	TBD	77	134	134			
Risk 2: Failure to meet outcome targets due to implementation challenges							
Risk owner	Programme Management Department (PMD)						Green Yellow Orange Red
Key risk indicators	Risk tolerance level	2018 Q4	2019 Q1	2019 Q2	2019 Q3	Trend	
2.1 Percentage of projects rated moderately unsatisfactory or lower for likelihood of achieving development objective	TBD	9.9	8.2	8.9			
Risk 3: Difficulty in recruiting and retaining qualified staff to match the changing needs of the organization							
Risk owner	Corporate Services Department (CSD)						Green Yellow Orange Red
Key risk indicators	Risk tolerance level	2018 Q4	2019 Q1	2019 Q2	2019 Q3	Trend	
3.1 Vacancy rate (positions)	TBD (3-year average: 13%)	16.5%	17.3%	13.3%			
3.2 Retention rate (staff)	TBD (3-year average: 97%)	96.3%	95.7%	96.0%			

II. RISKS IN OPERATIONS

The following table highlights risks in operations for which KRI data are available on a quarterly basis. Risks in operations cover risks that pertain directly to achieving results from IFAD's development assistance activities delivered through IFAD-financed country programmes and projects (including global/regional grant programmes).

Each risk has one-to-two KRIs that provide information about the risk status and trend. The "trend arrow" indicates the direction of change for each KRI by comparing the current quarterly result with the result in 2018 Q4. If the colour of the arrow is green, the trend is considered positive as the measured risk is decreasing. If the arrow is red or orange, the risk is increasing.

Risk 4: Failure to ensure quality project design							
Risk owner	PMD and Strategy and Knowledge Department (SKD)					Green Yellow Orange Red	
Key risk indicators	Risk tolerance level	2018 Q4	2019 Q1	2019 Q2	2019 Q3	Trend	
4.1 Percentage of projects rated moderately unsatisfactory or lower for overall quality of project design [KPI source TBD]	TBD	Not available (n/a)	n/a	n/a		n/a	
Risk 5: Failure of project implementation to deliver results							
Risk owner	PMD					Green Yellow Orange Red	
Key risk indicators	Risk tolerance level	2018 Q4	2019 Q1	2019 Q2	2019 Q3	Trend	
5.1 Percentage of IFAD financing invested in projects at risk	TBD	14.1	13	15.1		↓	
5.2 Percentage of projects rated moderately unsatisfactory or lower for implementation performance	TBD	11.0	11.2	12.6		↑	
Risk 6: Failure to ensure that funds are used for intended purpose							
Risk owner	PMD and Financial Operations Department (FOD)					Green Yellow Orange Red	
Key risk indicators	Risk tolerance level	2018 Q4	2019 Q1	2019 Q2	2019 Q3	Trend	
6.1 Percentage of projects rated with moderately unsatisfactory or lower compliance with procurement guidelines	TBD	24.2	29.3	31.9		↑	
6.2 Percentage of projects assessed high risk for financial management	TBD	25	23*	24		↓	
Risk 7: Failure to effectively apply social and environmental safeguards							
Risk owner	PMD					Green Yellow Orange Red	
Key risk indicators	Risk tolerance level	2018 Q4	2019 Q1	2019 Q2	2019 Q3	Trend	
7.1 Percentage of project supervision reports with a moderately unsatisfactory or lower rating for Social, Environmental and Climate Assessment Procedures (SECAP)	TBD	11.5	11.8	10.4		↓	

















* This is the corrected number for 2019 Q1.

III. FINANCIAL RISKS

Key financial risks with relevant indicators are highlighted in the table below. As IFAD progresses on its trajectory of reforming its financial architecture, the type of risks and indicators will be reassessed on a continuous basis.

Each risk has one-to-two KRIs that provide information about the risk status and trend. As IFAD is currently drafting policies that will provide new key metrics, notably the Capital Adequacy Framework and the Liquidity Policy, a full assessment of financial risks is premature. However, levels of tolerance can already be provided based on currently applicable policies and standards.

The "trend arrow" indicates the direction of change for each KRI by comparing the current quarterly result with the result in 2018 Q4. If the colour of the arrow is green, the trend is considered positive as the measured risk is decreasing. If the arrow is red or orange, the risk is increasing.

Leverage and capitalization risks							
Risk 8: Maintain the amount of capital required in relation to balance sheet risk							
Risk owner	FOD					Green Yelloww Orange Red	   
Key risk indicators	Risk tolerance level	2018 Q4	2019 Q1	2019 Q2	2019 Q3	Trend	
8.1 Debt to equity	35%	6.3%	6.2%	7.2%			
8.2 Deployable available capital	TBD	n/a	n/a	n/a		n/a	
Liquidity risk							
Risk 9: Risk of inability to meet contractual financial obligations maturing in the short and medium term							
Risk owner	FOD					Green Yelloww Orange Red	   
Key risk indicators	Risk tolerance level	2018 Q4	2019 Q1	2019 Q2	2019 Q3	Trend	
9.1 Liquidity ratio as per Sovereign Borrowing Framework	5%	11.2%	12.1%	12.1%			
9.2 Minimum liquidity ratio	60%	202%	207%	219%			
Credit risk							
Risk 10: Potential losses due to a country not meeting its contractual obligations							
Risk owner	FOD					Green Yelloww Orange Red	   
Key risk indicators	Risk tolerance level	2018 Q4	2019 Q1	2019 Q2	2019 Q3	Trend	
10.1 Percentage of non-performing loans	5	2.8	2.8	2.8			

IV. OPERATIONAL RISKS

The following table highlights a set of operational risks for which KRI data is available on a quarterly basis. Operational risks are defined as risks of loss resulting from inadequate or failed internal processes, people and systems or from external events. As IFAD is currently reviewing its internal control framework and integrity due diligence policy, the type of risks and KRIs shown below will be amended in future iterations of the dashboard.

Each risk has one-to-two KRIs which provide information about the risk status and trend. The "trend arrow" indicates the direction of change for each KRI by comparing the current quarterly result with the result in 2018 Q4. If the colour of the arrow is green, the trend is considered positive as the measured risk is decreasing. If the arrow is red or orange, the risk is increasing.

Risk 11: Potential misconduct committed by staff in breach of the IFAD Code of Conduct (abuse of authority, sexual harassment, sexual exploitation and abuse)						
Risk owner	Ethics Office (ETH)					Green Yellow Orange Red
Key risk indicators	Risk tolerance level	2018 Q4	2019 Q1	2019 Q2	2019 Q3	Trend
11.1 Number of allegations of misconduct concerning a staff member or consultant received by ETH (quarterly)	n/a	13	8	11		
11.2 Number of referrals to the Office of Audit and Oversight (AUO) for investigation after ETH prior review	TBD	1	0	3		
Risk 12: Major event or crisis seriously impacting staff safety and security						
Risk owner	CSD					Green Yellow Orange Red
Key risk indicators	Risk tolerance level	2018 Q4	2019 Q1	2019 Q2	2019 Q3	Trend
12.1 Number of reported security incidents involving staff or consultants (quarterly)	TBD	n/a	1	1		
12.2 Percentage of IFAD Country Offices (ICOs) in locations with reported United Nations Department of Safety and Security (UNDSS) security levels =>3 (moderate)	n/a	38	38	38		

V. KRIs: Definitions and linkages with the IFAD Strategic Framework

This section provides definitions for each KRI, together with linkages to relevant objectives in the IFAD Strategic Framework 2016-2025.

Key risk indicator	Most direct link to objectives in Strategic Framework	Definition of KRI
Risk 1 1.1 Percentage of IFAD11 pledges received	<ul style="list-style-type: none"> Results pillar 1 "country programme delivery" Results pillar 3 "financial capacity and instruments" 	The value of pledges received divided by the target for IFAD11.
Risk 1 1.2 US\$ million secured in borrowing for use in IFAD11 PoLG (cumulative)	<ul style="list-style-type: none"> Results pillar 1 "country programme delivery" Results pillar 3 "financial capacity and instruments" 	The US\$ value secured in sovereign borrowing and concessional partner loans received for use in IFAD11 PoLG.
Risk 2 2.1 Percentage of projects rated moderately unsatisfactory or lower for likelihood of achieving development objective	<ul style="list-style-type: none"> Results pillar 1 "country programme delivery" 	This rating is an aggregation derived from individual ratings for effectiveness, developmental focus, sustainability and scaling up.
Risk 3 3.1 Vacancy rate (positions)	<ul style="list-style-type: none"> Results pillar 4 "institutional functions, services and systems" 	A vacancy is defined as a regular budgeted position in all categories and locations that is newly created, unfilled or filled by short-term staff or consultants (regular positions and administrative budget only). The vacancy rate is the number of vacancies expressed as a percentage of the sum of the total number of regular fixed-term positions filled by fixed-term staff in all categories and locations and the number of vacancies. It is reported as at the end of each quarter.
Risk 3 3.2 Retention rate (staff)	<ul style="list-style-type: none"> Results pillar 4 "institutional functions, services and systems" 	Total number of staff minus separations (excluding retirements, mutually agreed separations, voluntary separations, terminations and deaths) for staff on fixed-term and indefinite appointments over average number of staff on fixed-term and indefinite appointments (rolling 12-month period).
Risk 4 4.1 Percentage of projects rated moderately unsatisfactory or lower for overall quality of project design [KPI source TBD]	<ul style="list-style-type: none"> Results pillar 1 "country programme delivery" 	TBD
Risk 5 5.1 Percentage of IFAD financing invested in projects at risk	<ul style="list-style-type: none"> Results pillar 1 "country programme delivery" 	The US\$ value of IFAD financing currently invested in projects at risk divided by total IFAD financing in the current portfolio.
Risk 5 5.2 Percentage of projects rated moderately unsatisfactory or lower for implementation performance	<ul style="list-style-type: none"> Results pillar 1 "country programme delivery" 	This rating is an aggregation derived from individual ratings from project management and financial management.
Risk 6 6.1 Percentage of projects rated with moderately unsatisfactory or lower compliance with procurement guidelines	<ul style="list-style-type: none"> Results pillar 1 "country programme delivery" 	A ratings-based indicator that draws on an informed assessment of the borrower/implementing agency's performance in carrying out procurement processes in terms of compliance with relevant policies, procedures and the procurement plan, efficiency, transparency, quality of documentation, and number and severity of substantiated complaints. The indicator is assessed annually during supervision.
Risk 6 6.2 Percentage of projects assessed high risk for financial management	<ul style="list-style-type: none"> Results pillar 1 "country programme delivery" 	This rating refers to the risk associated with financial management systems used by the project and the project's internal control environment that provide assurance that funds are used for intended purposes. Expenditures from the IFAD loan/grant proceeds as well as those of other financiers (including the Government and cofinanciers) should be readily identifiable and traceable in the accounting system and

Key risk indicator	Most direct link to objectives in Strategic Framework	Definition of KRI
		reported periodically. The findings of (most recent) annual audits, interim financial reporting, disbursement experience and results of financial management reviews during supervision missions are taken into account, as is the inherent risk associated with the country environment (corruption, capacity of accounting profession, country systems) and implementing agency.
Risk 7 7.1 Percentage of project supervision reports with a moderately unsatisfactory or lower rating for Social, Environmental and Climate Assessment Procedures (SECAP)	<ul style="list-style-type: none"> Strategic objective 3 (resilience) 	A ratings-based indicator that measures how SECAP requirements identified during the project design and subsequent loan negotiations are being applied during project implementation and the extent to which the investment has benefited from SECAP in enhancing social, environmental and climate opportunities and reducing any potential adverse impacts on local communities. The rating does not depend on the project categorization but rather on progress made on implementing SECAP measures established for each project. This rating is mandatory and must be done on an annual basis.
Risk 8 8.1 Debt to equity	<ul style="list-style-type: none"> Results pillar 3 "financial capacity and instruments" 	Percentage of outstanding debt to equity. Leverage above the threshold could result in an increase in financial risk.
Risk 8 8.2 Deployable available capital	<ul style="list-style-type: none"> Results pillar 3 "financial capacity and instruments" 	Equity available to support operations based on the risk profile. Exceeding the threshold could result in the need to adjust the PoLG and/or an increase in financial risk.
Risk 9 9.1 Liquidity ratio as per Sovereign Borrowing Framework	<ul style="list-style-type: none"> Results pillar 3 "financial capacity and instruments" 	(Cash in hand and in banks + investments)/total assets. A result below the threshold could result in an increase in financial risk.
Risk 9 9.2 Minimum liquidity ratio	<ul style="list-style-type: none"> Results pillar 3 "financial capacity and instruments" 	Minimum liquidity ratio to support operations. A result below the threshold could result in an increase in financial risk.
Risk 10 10.1 Percentage of non-performing loans	<ul style="list-style-type: none"> Results pillar 3 "financial capacity and instruments" 	Percentage of outstanding non-performing loans to total loans. A high level will lead to higher provisions and erosion of equity.
Risk 11 11.1 Number of allegations of misconduct concerning a staff member or consultant received by ETH (quarterly)	<ul style="list-style-type: none"> Results pillar 4 "institutional functions, services and systems" 	Number of allegations of misconduct concerning a staff member or consultant who violates the Code of Conduct received by ETH through its reporting channels. The number is reported on a quarterly basis (not cumulative).
Risk 11 11.2 Number of referrals to Office of Audit and Oversight (AUO) for investigation after ETH prior review	<ul style="list-style-type: none"> Results pillar 4 "institutional functions, services and systems" 	As per applicable procedures, ETH conducts a prior review of the allegations and refers the matter to AUO if it determines that there are prima facie elements in support of the allegations. Reaching the investigation threshold increases the potential reputational risks for the organization.
Risk 12 12.1 Number of reported security incidents involving staff or consultants (quarterly)	<ul style="list-style-type: none"> Results pillar 4 "institutional functions, services and systems" 	Number of security incidents reported involving staff or consultants and reported in the Safety and Security Incident Recording System platform.
Risk 12 12.2 Percentage of IFAD Country Offices (ICOs) in locations with reported United Nations Department of Safety and Security (UNDSS) security levels =>3 (moderate)	<ul style="list-style-type: none"> Results pillar 4 "institutional functions, services and systems" 	This external indicator quantifies the exposure of IFAD personnel to security threats in field duty stations/ICOs. A target or threshold is not applicable.