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Corporate Risk Dashboard

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For: **Review**

Summary for Review

The Executive Board is invited to review the IFAD Corporate Risk Dashboard and discuss the top risks identified by Management. While a new version of the dashboard is expected to be presented by the end of 2020, Management and risk owners are reviewing the current format and key risk indicators to further enable risk discussions and make the CRD more informative.

1. The IFAD Corporate Risk Dashboard (CRD) was developed together with the Audit Committee to enhance risk reporting to IFAD's governing bodies. Its objective is to enable risk dialogue between Management and governing bodies by providing concise and comprehensive information on IFAD's top risks within a given period of time.
2. The CRD was further modified after the identification by Marsh Risk Consulting (MRC) of areas for improvement. These included: (i) better measurement of risk severity; (ii) clearer targets and thresholds for each risk indicator; (iii) fewer indicators; (iv) better visuals, perhaps using a traffic light system; and (v) greater distinction between performance and key risk indicators. In addition, MRC recommended that effective risk reporting should include more succinct and objective information on trends and risk status.
3. The revised CRD follows the format last presented to the Executive Board. The traffic light system has been removed and will be re-introduced once the underlying methodology has been developed and implemented. The new colours follow the colour of the taxonomy presented to this Executive Board session in the document Enhancing IFAD's Enterprise Risk Management Framework - Update.¹
4. Management is currently leading an extensive set of actions to enhance IFAD's Enterprise Risk Management Framework (ERMF). These include (i) completing IFAD's risk taxonomy down to level 3; (ii) developing qualitative risk appetite statements, quantitative statements when applicable, and key risk indicators (KRIs); and (iii) reviewing the ERM Policy.² Once these actions are finalized, it will be possible to review the CRD and propose significant changes in order to align the format accordingly.
5. In the meantime, taking into account the feedback provided by the Audit Committee and the Executive Board on the need for further information (such as a brief description of each risk and related mitigation measures), all of the current KRIs are being discussed and reviewed with risk owners. Upon completion of said review, Management expects to propose changes at the next session of the Executive Board that will further enable risk discussions and provide Management and governing bodies with more substance and information.

¹ Presented jointly with this document.

² IFAD's Enterprise Risk Management Policy was approved by the Executive Board in 2008 (EB 2008/94/R.4).

IFAD Corporate Risk Dashboard

I. STRATEGIC RISKS

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)						
Key Risk Indicator	Risk Tolerance Level	2018 Q4	2019 Q1	2019 Q2	2019 Q3	Trend	
1.1 Percentage of IFAD11 pledges received	To be defined (TBD)	78%	82%	83%	84%	n/a	
1.2 US\$ million secured in borrowing for use in IFAD11 PoLG (cumulative)	TBD	77 USD million	134 USD million	134 USD million	134 USD million	n/a	
Risk 2: Failure to meet outcome targets due to implementation challenges							
Risk Owner	Programme Management Department (PMD)						
Key Risk Indicator	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%	9%	n/a	
Risk 3: Difficulty in recruiting and retaining qualified staff to match the changing needs of the organization							
Risk Owner	Corporate Services Department (CSD)						
Key Risk Indicator	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%	12.86%	n/a	
3.2 Retention rate (staff)	TBD (3-year average: 97%)	96.3%	95.7%	96.0%	96.2%	n/a	

II. PROGRAMME DELIVERY RISKS

Risk 4: Failure to ensure quality project design							
Risk owner	PMD and Strategy and Knowledge Department (SKD)						
Key Risk Indicator	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	TBD	6.6	7.5	8.7	n/a ³	n/a	
Risk 5: Failure of project implementation to deliver results							
Risk Owner	PMD						
Key Risk Indicator	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	14.1	n/a	
5.2 Percentage of projects rated moderately unsatisfactory or lower for implementation performance	TBD	11.0	11.2	12.6	13	n/a	
Risk 6: Failure to ensure that funds are used for intended purpose							
Risk owner	PMD and Financial Operations Department (FOD)						
Key Risk Indicator	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	29.7	n/a	
6.2 Percentage of projects assessed high risk for financial management	TBD	25	23	24	22	n/a	
Risk 7: Failure to effectively apply social and environmental safeguards							
Risk Owner	PMD						
Key Risk Indicator	Risk Tolerance level	2018 Q4	2019 Q1	2019 Q2	2019 Q3	Trend	
7.1 Percentage of project supervision reports with moderately unsatisfactory or lower Social, Environmental and Climate Assessment Procedures (SECAP) rating	TBD	11.5	11.8	10.4	11.7	n/a	

³ Percentage for Q3 is to be determined once ratings of relevant projects are completed.

III. FINANCIAL RISKS

Leverage and Capitalization Risks							
Risk 8: Maintain the amount of capital required in relation to balance sheet risk							
Risk owner	FOD						
Key Risk Indicator	Risk Tolerance Level	2018 Q4	2019 Q1	2019 Q2	2019 Q3	Trend	
8.1 Debt to equity	35%	6.3%	6.2%	7.2%	7.6%	n/a	
8.2 Deployable available capital	TBD	n/a	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						
Key Risk Indicator	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%	11.6%	n/a	
9.2 Minimum liquidity ratio	60%	202%	207%	219%	205%	n/a	
Credit Risk							
Risk 10: Potential losses due to a country not meeting its contractual obligations							
Risk Owner	FOD						
Key Risk Indicator	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	2.7	n/a	

IV. OPERATIONAL RISKS

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)					
Key Risk Indicator	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	9	n/a
11.2 Number of referrals to the Office of Audit and Oversight (AUO) for investigation after ETH prior review	TBD	1	0	3	4	n/a
Risk 12: Major event or crisis seriously impacting staff safety and security						
Risk Owner	CSD					
Key Risk Indicator	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	1	n/a
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	38	n/a

V. APPENDIX

This appendix 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	<ul style="list-style-type: none"> Results pillar 1 "country programme delivery" 	Percentile of the total number of projects approved by the Executive Board on a 24-month average basis were rated 3 or below under the Overall quality of Project design category
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 and internal control environment of the project 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 Government and co-

Key Risk Indicator	Most Direct Link to Objectives in Strategic Framework	Definition of KRI
		financiers) should be readily identifiable and traceable in the accounting system and 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 moderately unsatisfactory or lower Social, Environmental and Climate Assessment Procedures (SECAP) rating	<ul style="list-style-type: none"> Strategic objective 3 (resilience) 	A ratings-based indicator that measures how SECAP requirements identified during the project design and subsequent loan negotiations are being applied during project implementation and the extent to which the investment has benefited from SECAP in enhancing social, environmental and climate opportunities and reducing any potential adverse impacts on local communities. The rating does not depend on the project categorization but rather on progress made on implementing SECAP measures established for this project. This rating is mandatory and must be done on an annual basis.
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 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.