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Investing in rural people

Corporate Risk Dashboard

Addendum

Note to Executive Board representatives

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For: **Information**

I. Comments from the United Kingdom

1. **We welcome the continued improvement in the risk dashboard.**
 - (a) **We would, however, avoid having a risk tolerance of zero. Even a low risk appetite allows for some risk. To achieve a zero-rating, IFAD would have to stop all activities. Risk tolerances should be realistic and usable to support decision making.**
 - (b) **Risk appetites as well as risk tolerances need to be added to the dashboard; without them the two can easily be confused.**
2. **We look forward to continued discussion in the Board on risk and levels of appetite in all areas of the Organisation's work, with a holistic overview and systematic, corporate approach to monitoring, elevating, and managing. We will also be interested in hearing how Management is using the dashboard to help it take risk in a carefully managed way.**

Response

3. Response to **(a)**: Management agrees with the United Kingdom's remarks. Zero appetite or tolerance will be used in very limited circumstances for the reasons mentioned by the United Kingdom — that in most areas, there is always some residual risk, even after mitigating controls have been applied. Management is working with the risk teams and considering how to best state IFAD's "zero tolerance" approach to align with IFAD's relevant policies in certain qualitative risk statements — for example, for fraud and corruption,¹ and sexual exploitation and abuse.² The intention is to clearly signal that although the appetite is not zero, Management has no tolerance for fraud and corruption, and when such issues arise, they will be addressed immediately, appropriate action will be taken, and lessons learned will be captured so as to inform necessary changes in controls, workforce training and other relevant areas.
4. Response to **(b)**: The current version of the Corporate Risk Dashboard (CRD) was developed with valuable contributions from the Audit Committee and Marsh Risk Consulting. The aim was 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.
5. Having said that, Management fully intends to update the CRD in the second half of 2020. Management is currently working with cross-departmental teams to identify relevant key risk indicators (KRIs) for each of the four IFAD major risk domains: strategic, financial, operational and programme delivery. This will allow us to align our KRIs with the recently developed IFAD enterprise risk taxonomy. As Management finalizes the selection of these KRIs, it will prioritize the risk domains that should be routinely included in the updated CRD. As Management redesigns the CRD, it expects to add trend data and, wherever and whenever relevant, align them with level 2 risk appetite thresholds. Management expects to have an enhanced CRD ready by the end of this year.

II. Comment from China

6. **China appreciates Management's efforts in strengthening the Enterprise Risk Management (ERM) and developing the Corporate Risk Dashboard (CRD) and KRIs, which could help IFAD to better monitor and evaluate relevant risks.**
7. **We principally agree with the top risks identified in the document, including leverage and sustainability risk, talent capability, etc. However, the KRIs under strategic risks only mentioned how to mobilize resources and leverage**

¹ Since 2005, IFAD has adopted a zero tolerance policy towards fraud and corruption in IFAD-financed and/or IFAD-managed activities and operations (EB 2018/125/R.6).

² IFAD's Policy to Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse (SEA) was released on 11 April 2018. IFAD has no tolerance towards acts of sexual harassment or SEA, takes action to prevent sexual harassment and SEA from occurring, and ensures a prompt and effective response to allegations.

borrowings, but not mentioned how to use appropriately the resources to keep stable reflows (the balanced proportion of resources allocated via grant, highly concessional terms and normal terms to the total yearly commitment), which is also very important to maintain the sustainability. So we suggest Management to improve the KRIs further, particularly to develop a relevant indicator to ensure that the key risks concerning the allocation of resources be appropriately mentioned and addressed.

Response

8. Management agrees with China's remarks. It is currently in the process of identifying a broad set of KRIs across the recently developed IFAD enterprise risk taxonomy.
9. A major area of focus is on strategic risks, many of which relate to the issues identified by China. Strategic risks constitute a particularly complex area, where there are very few comparators available. In addition, as China notes, this is an area where the nature and magnitude of risks is changing as we move towards the Twelfth Replenishment of IFADs Resources.
10. Management has established five cross-departmental strategic risk working groups at managerial level, including more than half of the directors and managers in IFAD. As members of these groups, the Director, Global Engagement Partnership and Resource Mobilization Division; the Director and Treasurer, Treasury Services Division; the Chief Controller, Financial Operations Department (FOD); and the Chief Risk Officer, FOD are supporting the identification of KRIs on resource mobilization, borrowing and financial sustainability. As Management finalizes the selection of these KRIs, it will prioritize those that should be routinely included in the updated CRD.
11. It is worth noting that Management remains sharply focused on talent-related risks and is closely collaborating with Human Resources in that respect. The current CRD includes talent-related KRIs in its strategic risk section. To align with the IFAD enterprise risk taxonomy, talent-related risks are now shown in the operational risk domain. Management's intent is to include some of those talent-related KRIs in the revised CRD, so that the Executive Board and Management can maintain focus on these important risks.

III. Comment from Italy

12. **Italy thanks the Management for the update and appreciates the efforts to constantly improve IFAD's Corporate Risk Dashboard (CRD). In its definitive and stable configuration, the CRD is expected to be one of the fundamental tools that will support the strategic discussion and decision making process of the Executive Board.**
13. **We appreciate the effort underway in aligning risk metrics to Key Risk Indicators (KRI), and understand that this process may include some indicators' exits as well as new entries, according to the refinement of KRI, the establishment of risk tolerances, and the increase in computation capability as well as in data quality.**
14. **We appreciate the clarity and the explanatory value of the appendix. Our suggestion, based on the preliminary version currently supplied, is that once all indicators will have been adequately calibrated, the document periodically presented to the Executive Board will contain also a brief comment by Management, pinpointing the most relevant metrics for Board consideration to facilitate the discussion.**

Response

15. Management agrees with Italy's remarks. As noted above, Management's intent is to revise the CRD to align with IFAD's enterprise risk taxonomy, and to share the revised CRD with the Executive Board on a routine basis. The aim will be to focus on the most important risks across the strategic, financial, operational and programme-delivery risk domains, and to identify the top risks among them.