



## الصندوق الدولي للتنمية الزراعية

المجلس التنفيذي - الدورة الثمانون

روما، 17-18 ديسمبر/كانون الأول 2003

### سلامة الاستثمارات

#### مقدمة

1. أوصت هيئة المشاورات الخاصة بالتجديد السادس لموارد الصندوق في تقريرها المرفوع إلى مجلس المحافظين<sup>1</sup> بأن تجري إدارة الصندوق عام 2003 استعراضاً لسياسة الاستثمار فيما يتعلق، على وجه الخصوص، بسلامة الاستثمارات، وإدارة الأصول والخصوم ورفع التقارير إلى المجلس التنفيذي، بهدف جعلها متماشية مع المعايير والمبادئ المستخدمة في مؤسسات الإقراض الإنمائية الأخرى. ونصت التوصية على أن تضطلع الإدارة ذاتها بالاستعراض وأن ترفعه إلى المجلس التنفيذي في ديسمبر/كانون الأول عام 2003.

2. وتمشياً مع هذه التوصية فقد أجرت الإدارة استعراضاً لاستثمارات الصندوق. وبغية ضمان الموضوعية والاختصاصات الضرورية، فقد قُسمت المهمة إلى ثلاثة ميادين على نحو ما أشار إليه مجلس المحافظين:

(أ) استعراض سلامة الاستثمارات، وهو ما سعى إلى تقييم مدى كفاية نظام الرقابة الداخلية في مجال الاستثمار، مع اهتمام الوثيقة الراهنة بالمخاطر التشغيلية المعنية المرتبطة بالاستثمارات؛

(ب) استعراض إدارة الأصول والخصوم، الذي درس وأقام إطاراً لمتل هذه الإدارة لاستخدامه في إدارة التعرض للمخاطر المالية من خلال الاحتفاظ بالمزيج المناسب من أصول الميزانية الفعلية وخصوم الميزانية الفعلية بغية تحقيق الأهداف المالية للصندوق المتمثلة في الحفاظ على رأسماله وزيادة

<sup>1</sup> تمكين فقراء الريف من التغلب على الفقر: تقرير هيئة المشاورات الخاصة بالتجديد السادس لموارد الصندوق (2004 - 2006) (الوثيقة GC 26/L.4)



عائدات الاستثمار، مع خفض تقلب العائدات وتقليل المخاطر المالية. وتعرض هذه الوثيقة على المجلس باعتبارها الوثيقة EB 2003/80/R.14؛

(ج) التقارير الدورية إلى المجلس التنفيذي (المعرضة في الوثيقة EB 2003/80/R.14).

3. وبغية استخلاص استعراض مستقل شامل لسلامة استثمارات الصندوق فقد اختارت الإدارة بأن توكل هذا الاستعراض إلى خبراء استثمارات مؤهلين خارجيين على معرفة بالأساليب المتلى في القطاعين العام والخاص على حد سواء. واضطلع مكتب المراجعة الداخلية بدور الميسر في هذه المهمة. وقد صدر طلب عروض موجه إلى ست شركات تمتلك المهارات الاستثمارية الضرورية. وتم تقييم العروض وفقاً لإجراءات التوريد المعتادة. وبعد دراسة منأنية قامت بها لجنة العقود في الصندوق تم اختيار شركة Madison Consulting Group (ماديسون) من ولاية نيوجيرسي الأمريكية. وكان لعمل الشركة الأخير مع الصندوق المشترك للمعاشات التقاعدية لموظفي الأمم المتحدة أثره في قرار الاختيار.

4. وسُمح لشركة ماديسون بالإطلاع على جميع وثائق الاستثمار الأساسية والاتصال بكل الموظفين المعنيين. وزار فريق الاستعراض الصندوق لمدة أسبوعين في يوليو/تموز وأصدر مسودة لتقريره في أوائل أغسطس/آب. ثم عادت الشركة إلى الصندوق في أغسطس/آب لمعالجة أمر تعليقات موظفي الصندوق قبل نشر التقرير النهائي في أكتوبر/تشرين الأول.

5. وفيما يلي موجز الاستنتاجات الأساسية لشركة ماديسون كما ظهر تماماً في تقريرها النهائي (مرفق طياً).

### موجز الاستنتاجات

خطى مكتب خزانة الصندوق خطوات واسعة مؤخراً للنهوض بتدابير الرقابة الداخلية وبيئة إدارة المخاطر، عبر تنفيذ توصيات المراجعة، بما في ذلك تحديث كتيب الخزانة، وتنفيذ مؤشرات الأداء الرئيسية، وتغيير عمليات التوريد، وما إلى ذلك. وبالإضافة إلى هذا حدثت مؤخراً بعض التغييرات المتعلقة بالتنظيم وشؤون العاملين. وقد أجريت الدراسة في ظل هذا السياق.

ولدى استعراض بيئة الرقابة الشاملة لميدان الاستثمار، قامت شركة ماديسون بتصنيف استنتاجاتها إلى خمس فئات هي الرقابة التشغيلية، وهيكل القرارات، وتصميم التوظيف/التنظيم، والتوريد، وتخطيط الاستثمارية. وكان أكثر الميادين إثارة للاهتمام ميداني تخطيط الاستثمارية، وتصميم التوظيف/التنظيم. وفي بقية الميادين فإن بيئة الرقابة العامة القائمة تعمل بشكل واف، ولو أن هناك بعض الفرص الأساسية للتحسين. والاستنتاجات والتوصيات الخمس الرئيسية هي التالية:

(1) بالنظر إلى أنه ليس للصندوق من خطة استثمارية رسمية، يوصى بأن يعتمد الصندوق كمنظمة نهجاً رسمياً إزاء تخطيط استثمارية العمليات وذلك بإقامة أو تعيين هيئة رئاسية للإشراف على عملية إدارة استثمارية العمليات. وسنكون لجنة توجيه الإدارة هذه مسؤولة عن



صياغة سياسة الصندوق المتعلقة بإدارة استمرارية العمليات. وينبغي أن تغطي الخطة خطط الاسترداد التشغيلية والتقانية على حد سواء.

2) ينبغي أن تجري الخزانة استعراضاً مفصلاً لمتطلبات مستوى التوظيف بناء على دعم تقني كاف، مع مراعاة تغييرات أسلوب العمل الناجمة عن برنامج التغيير الاستراتيجي. ومن الواجب تحديد مخاطر التوظيف الأساسية والتصدي لها، بما في ذلك اضطلاع موظفين مؤقتين بأدوار هامة، والافتقار إلى دعم تقني واف.

3) تقسيم اللجنة الاستشارية للاستثمار إلى لجنتين هما لجنة لاستراتيجية الاستثمار وتعنى بقرارات السياسات والاستراتيجيات ولجنة لتشغيل الاستثمار وتركز على قرارات التشغيل. وينبغي أن تجتمع لجنة التشغيل بوتيرة أكبر وأن تُمنح المرونة اللازمة لاتخاذ قرارات قصيرة الأجل تستند إلى ظروف الأسواق المتغيرة، مثل قرارات إعادة تخصيص الأصول وتعديل المدة ضمن نطاق محدد حول هدف السياسات.

4) وفي حال عدم دمج النظم والمعالجة الفورية، فإن حماية الصحائف المجدولة المستخدمة حالياً لأغراض الرقابة وحفظ السجلات ينبغي أن تُعزز للحد من المخاطر التشغيلية.

5) ومن المفروض أن يؤدي تطوير قدرات التنبؤ النقدي طويل الأمد إلى تحسين وظائف إدارة السيولة والاستثمارات في الأجل القصير.

وتشمل الاستنتاجات الأساسية الأخرى ما يلي:

#### الضوابط التشغيلية

• ينبغي أن توفر الخزانة موقعاً أكثر أماناً لأجهزة تخديم SWIFT/BCI، مثل غرفة مغلقة مستقلة مع نظام للدخول بالبطاقات. وسيتيح ذلك للصندوق تتبع كل الموظفين القادرين على النفاذ عند دخولهم إلى تلك الغرفة وخروجهم منها. وبالنسبة لنظام الرصد التليفزيوني في الغرفة، فإن بالمستطاع تتبع أي تغييرات مدخلة على أجهزة تخديم SWIFT/BCI من خلال بطاقة هذه الأجهزة الخاصة بالنفاذ إلى الغرفة، وبطاقة هوية النفاذ إلى الغرفة، والتنثيث البصري من الهوية.

• ومن الواجب اشتراط الدمج الإلكتروني الشامل لنظام القروض و المنح مع برنامج PeopleSoft بالنظر إلى أنه لن يستعاض عن نظام القروض والمنح بوحدة قياسية من وحدات PeopleSoft.

• ينبغي استحداث مؤشرات أداء أساسية لأنشطة شعبة إدارة النقدية للمساعدة على إدارة العمل، على غرار المؤشرات التي استحدثت لجهة الإيداع الرئيسية والمدراء الخارجيين.



## هيكل القرارات

- تطبيق المركزية ضمن الخزانة على كل المسؤوليات المتصلة بالانتمان وإضفاء الطابع الرسمي على إنشاء مسؤوليات إدارة الأصول والخصوم. ويجب أن تتضمن أنشطة الانتمان استعراض وإصدار التوصيات المتعلقة بأهلية الطرف النظير لأنشطة الاستثمار الداخلي وحدود انتمان فئة الأدوات. وينبغي أن تكون وظائف الأصول والخصوم مسؤولة عن تحديد متطلبات التدفقات النقدية للصندوق لتيسير التنبؤ النقدي طويل الأمد، وإدارة السيولة، وتخطيط المساهمات، واستراتيجية الاستثمار.
- الحاجة إلى تقديم صورة واضحة إلى كل الجهات المعنية عن الاستراتيجيات والخطوط التوجيهية الأساسية اللازمة لتنفيذ سياسات الاستثمار الخاصة بالصون والنمو على حد سواء، وذلك من خلال استخدام لغة "غير استثمارية".

## تصميم التوظيف/التنظيم

- ينبغي أن تنظر الخزانة في القيام بالعمليات التالية:
  - استعراض مستويات الرتب المخصصة حالياً لكل وظيفة.
  - تحديد متطلبات المهارات لكل وظيفة وإجراء تقدير مفصل لمهارات كل موظف.
  - وضع خطة تدريبية مفصلة تستند إلى تقديرات المهارات.
  - استعراض قضايا قدرات الموظفين واستخدامهم.

## التوريد

- ينبغي أن يتولى مهمة التقييم التقني لتوريد كل الخدمات المرتبطة بالخزانة موظفون لا علاقة لهم بلجنة الموافقة النهائية. وبالإضافة إلى ذلك فإن من الواجب النظر في ضمان ألا يكون أي موظف في فريق التقييم مسؤولاً أمام عضو آخر فيه.
- ينبغي أن تكون مفاوضات العقود النهائية مع الجهة الموردة المختارة برئاسة مشتركة لمستشار التوريد والمستشار القانوني، وذلك بمساهمة ومساندة من مكتب الخزانة.
- ينبغي أن ينظر الصندوق في أمر استعراض السياسة الراهنة لمدونة السلوك الخاصة بالتوريد فيما يتعلق بقبول الهدايا من الجهات الموردة الحالية والمحتملة، وذلك للتخفيف من أي مخاطر ممكنة للشراء المتصور للنفوذ. ومن الواجب أن ينصب التشديد على توضيح تعريف الهدايا.



## رد الإدارة

6. تفهمت شركة ماديسون على نحو جيد أساليب الاستثمار المعتمدة في الصندوق وقدمت مساهمة مفيدة بتحديدتها للأساليب المثلى في هذا المضمار. وتود الإدارة أن تغتنم هذه الفرصة لتعرب للشركة عن تقديرها لذلك وللنهج البناء الذي اتبعته في إجرائها للاستعراض.

7. وقد استعرضت الإدارة التقرير ووافقت بشكل عام على مضمونه وتوصياته. وكانت معظم القضايا التي لاحظتها شركة ماديسون قد أُثيرت بالفعل في تقارير المراجعة الداخلية والخارجية، على نحو ما لاحظت هذه الشركة، وتحقق تقدم ملحوظ في الفترة 2002-2003 من حيث التدابير العلاجية، مثل تعزيز ترتيبات جهة الإيداع وتعيين جهة إيداع جديدة، وتنسيق عملية عقود الاستثمار مع عملية التوريد في الصندوق، وتحديث كتيب الخزنة، وتعزيز تقارير الأداء التي ترفعها الخزنة إلى اللجنة الاستشارية للاستثمار. وسيؤدي تنفيذ توصيات شركة ماديسون إلى مزيد من الدعم لجهود الصندوق الرامية إلى ضمان عمليات خزنة تتسم بالكفاءة، والفعالية، وحسن الضبط. كما تجدر الإشارة إلى أن هناك عدة مبادرات أخرى للإدارة قيد التنفيذ بما سيسهم في توطيد فعالية إدارة الاستثمارات في الصندوق وهي:

(أ) تُجري دائرة الشؤون المالية والإدارية استعراضاً موازياً لإدارة الأصول والخصوم في الصندوق؛

(ب) يعمل برنامج التغيير الاستراتيجي على أتمتة ودمج العديد من عمليات إدارة الأعمال، بما في ذلك إدارة النقدية، وإدارة القروض؛

(ج) من المزمع أن تشرع شعبة الموارد البشرية في استعراض على مستوى الصندوق للمسؤوليات، والرتب، وأعباء العمل، ومتطلبات الموارد المتعلقة بالموظفين، وسيتم تنفيذ بعض الجوانب بالتعاون مع لجنة الخدمة المدنية الدولية التابعة للأمم المتحدة؛ و

(د) تقدمت شعبة نظم معلومات الإدارة قبل فترة وجيزة باقتراح يتعلق باستمرارية العمليات فيما يتصل بميدان تقانة المعلومات، ويقوم مكتب المراجعة الداخلية بإجراء مراجعة للأساليب والإجراءات المتصلة باستمرارية العمليات المؤسسية.

8. وستسفر هذه المبادرات عن تحقيق تحسينات هيكلية وإجرائية هامة، وستوفر منبراً مناسباً وعملياً للعناية بأمر القضايا التي أبرزتها شركة ماديسون. وينبغي أن تربط تدابير التنفيذ مع توقيت تلك المبادرات لضمان التناسق المؤسسي ومراعاة للأسباب العملية. وعلى وجه الخصوص فإن من الواجب السعي لتطبيق التوصيات المتعلقة بهيكل القرارات، وتصميم التوظيف/التنظيم، وتخطيط الاستثمارية شريطة تعديلها حسب الاقتضاء بما يكفل الاتساق مع الهياكل والأطر المؤسسية التي ستقام في ظل المبادرات المذكورة آنفاً. ومن المنتظر أن تُنفذ معظم التوصيات بحلول يونيو/حزيران عام 2004، ولاسيما منها ما يتعلق بالضوابط التشغيلية.



**FINAL**



# **INVESTMENT SECURITY REVIEW**

## **Key Findings**

9-October-2003





**TABLE OF CONTENTS**

INTRODUCTION	1
SUMMARY OF KEY FINDINGS	1
ASSIGNMENT ACTIVITIES	4
FINDINGS/RECOMMENDATIONS	5
I. OPERATIONAL CONTROLS	5
II. DECISION STRUCTURE	13
III. STAFFING / ORGANIZATION DESIGN	18
IV. PROCUREMENT PROCESS	22
V. CONTINUITY PLANNING	25



## INTRODUCTION

Madison Consulting Group was engaged to assist the International Fund for Agricultural Development (IFAD) to evaluate the adequacy of the system of internal controls in the investment area, including those pertaining to credit and custodial risks

The project was designed to focus on:

<b>OBJECTIVES OF REVIEW</b>
<ul style="list-style-type: none"> <li>• Assess the general control environment surrounding the IFAD investment practices. Assess the adequacy of the ethical, policy, procedural, and guidance framework available to staff in performing the assigned tasks, the adequacy of the staffing arrangements and an assessment of the organizational structure and internal assignment of skills and responsibilities with regard to investment related tasks.</li> <li>• Assess the adequacy of the risk management practices and control procedures in place. With regard to externally managed portfolio conduct an assessment of recently revised process for the selection and appointment of providers of outsourced investment services, the process in place for the assessment of performance of such contractors, the controls over the integrity of information submitted by outsourced managers to IFAD and the controls over costs of outsourced services. With regards to the internally managed portfolio this should include an assessment of the controls over the execution of placements and currency conversions.</li> <li>• Assess the adequacy and pertinence of management information produced for the performance of the investment activities. Assess whether pertinent information is identified, captured and communicated in a form and timeframe that enables staff to carry out their responsibilities in this area</li> </ul>

The purpose of this document is to provide IFAD with a set of findings and recommendations related to review objectives listed. In addition, Madison has also offered related industry practices and norms.

## SUMMARY OF KEY FINDINGS

IFAD Treasury Office has made recent strides to improve the internal controls and risk management environment, through the implementation of audit recommendations, including updating the Treasury Manual, implementation of KPIs, procurement changes, etc. In addition, some recent organizational and personnel changes have occurred. It is in this context that this study was conducted.

In reviewing the overall control environment of the investments area, Madison categorized our findings into five categories– Operational Controls, Decision Structure, Staffing/Organization Design, Procurement, and Continuity Planning. The areas of greatest concern were in Continuity Planning and Staffing/Organization Design. In the remaining areas, although there are some key opportunities for improvement, the general control environment in place functions adequately. The top five findings and recommendations are:

**IFAD – INVESTMENT SECURITY REVIEW**

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- 1) Given that IFAD currently does not have a formal continuity plan, it is recommended that IFAD as an organization take a formalized approach to business continuity planning by establishing or appointing a governing body to oversee the Business Continuity Management process. This management steering committee would be responsible for drafting IFAD's BCM Policy. The plan will need to cover both operational and technological recovery plans.
- 2) Treasury should conduct a detailed review of staffing level requirements based on adequate backup support, and taking into consideration SCP process changes. Key staffing risks should be identified and addressed, including temporary staff in critical roles and lack of adequate backup support.
- 3) Separation of the current Investment Advisory Committee in two, with an Investment Strategy Committee (ISC) focused on policy and strategy decisions and an Investment Operating Committee (IOC) focused on operating decisions. The IOC would meet more frequently and be given the flexibility to make short-term decisions based on changing market conditions, such as asset reallocation and duration adjustment decisions within a defined range around the policy target.
- 4) Without integration of systems and straight-through processing, safeguarding of the spreadsheets currently used for control and recordkeeping purposes should be enhanced to reduce operational risks.
- 5) Developing a longer range cash forecasting capability would improve the short term investment and liquidity management functions.

Other key findings include:

Operational Controls

- Treasury should provide a more secure location for the SWIFT/BCI servers, such as separate locked room with card entry system. This would permit IFAD to track all staff with access when they enter and leave the SWIFT/BCI server room. In conjunction with a video monitoring system in the room, any changes made to the SWIFT/BCI servers can be traced by SWIFT/BCI server room access ID, room card access ID, and visual identity verification.
- Full electronic integration of the Loans and Grants System with PeopleSoft should be a requirement, given that LGS will not be replaced by a PeopleSoft module.
- KPIs for the Cash Management Section activities should be developed to assist with the management of the business, similar to the KPIs developed for the custodian and the external managers.

Decision Structure

- Centralize within Treasury all credit responsibilities and formalize the creation of asset-liability management responsibilities. The credit activities would include reviewing and making recommendations regarding counterparty eligibility for internal investment activities and instrument class credit limits. The asset liability functions would be responsible for modeling cash flow requirements of IFAD to assist with longer range cash forecasting, liquidity management, contributions planning, and investment strategy.
- Need to clarify for all constituents, by using "non-investment" language, the core strategies and guidelines to meet the investment policies of both preservation and growth

Staffing/Organization Design

- Treasury should consider performing the following exercises:
  - Review the grade levels currently assigned to each position.
  - Define the skill requirements for each position and conduct a detailed skills assessment for each staff member.
  - Develop a detailed training plan based on the skills assessments.
  - Review staff utilization and capacity issues.

Procurement

- The technical evaluation for the purchase for all Treasury related services should be done by staff that are not part of the final approval committee. In addition, consideration should be given to ensuring that no staff reports to another on the evaluation team.
- Final contract negotiations with the selected provider should be headed jointly by Procurement and legal counsel, with input and support from the Treasury Office.
- IFAD should consider reviewing the current code of conduct policy for procurement with regard to acceptance of gifts from current and potential providers, to mitigate any potential risks of perceived influence peddling. Emphasis should be placed on clarifying the definition of gifts.

## ASSIGNMENT ACTIVITIES

### Activities Performed:

*1) Reviewed key documentation*

- Treasury Manual
- Group of Experts report
- Executive Board reports
- Investment Advisory Committee reports
- External Manager RFP
- External Manager contract agreements and investment policy guidelines
- Internal and External Audit reports
- Custodian Bank service level agreement
- Procurement Guidelines
- Terms of Reference of Audit Committee

*2) Interviewed key personnel*

- Investment Section
- Cash Management Section
- Reporting Section
- Controller's Office
- Internal Audit Office
- Procurement Section
- Management Information Systems
- Human Resources

*Madison Team:*

**1) Bernard Chen**

**2) Joyce Yune**

## FINDINGS/RECOMMENDATIONS

### I. OPERATIONAL CONTROLS

#### A. *Cash Controls*

##### Current Practice

- Outgoing payments handled by payment's area within Cash Management and further separated by different Cashiers that handle domestic and international payments.
- Cash receipts and disbursements are predominately handled through SWIFT/BCI Remote Banking systems.
  - SWIFT and BCI Remote Banking servers maintained in segregated area.
  - SWIFT/BCI applications are accessed through individual workstations by authorized staff in the Cash Management section.
- Cash Management section maintains two sets of procedures for authorizing outgoing payments.
  - SWIFT/BCI require one authorized user to prepare financial messages and a second authorized user to send the messages with no set limits on transaction amounts.
  - Internal cash control procedures require that the accompanying payment documentation be approved (via signature) by two Treasury Officers for any payment over \$100,000.
- All transactions are reconciled daily by bank account against SWIFT/BCI.
- Cash receipts and cash transfers among IFAD contribution and operational bank accounts are handled by a different Cashier.
- Loans and grants recordkeeping is not a module within PeopleSoft and therefore is maintained on a separate system (LGS). Posting to the LGS and PeopleSoft G/L is currently done in two parts by FT (manually) and FC (via a file upload).

##### Industry Practices

- Traditionally, most corporate treasury groups have a proprietary treasury workstation provided by their bank, which allows for terminal initiation of wire transfers and terminal notification of inbound transfers. Recently, corporations were given permission to be a member of SWIFT. At this point, direct SWIFT access is considered industry best practice since it permits single point of entry for all money transfer activities.
- Restricted access to the treasury workstation or SWIFT/BCI servers is a critical component to security, including physical access to the servers.
- Both corporate treasury groups and bank funds transfer operations are subject to frequent regular audits of funds transfer operating procedures, given the financial sensitivity of these activities.

##### Madison Recommendations

- IFAD is rather unique in that it has its own dedicated SWIFT server. This gives IFAD the ability to send and receive authenticated instructions directly to any bank (central

and commercial) from a single source. Most corporate treasury groups currently do not have this capability.

- We found the overall controls surrounding payment execution and authorization to be appropriate; however, we would recommend that Treasury provide a more secure location for the SWIFT/BCI servers – a separate locked room with card entry system would be the most appropriate. A card entry system is superior to a key system because it will allow IFAD to identify and track all staff who have access to the SWIFT/BCI room. In addition, a video monitoring system should also be installed.
- While there is adequate and appropriate segregation of duty within the Cash Management section, IFAD is exposed to additional risk by having a small cash group. Strictly from a control perspective, we suggest a person(s) outside of the Cash Management section receive a copy of (or have access to) the daily closing documents reconciling transaction items against SWIFT/BCI such as the Treasurer or the Controller.
- Currently there is no integration among PeopleSoft, LGS and SWIFT/BCI which necessitates the use of offline spreadsheets and manual reconciliation processes. Of particular concern is the potential for data corruptibility, which if gone undetected will cause users to save and backup the corrupt files. On a short term basis, we recommend that if spreadsheets are used for both control and recordkeeping purposes, that management look to enhance systems/measures to safeguard the integrity of the data and develop the capability to recreate any lost information, manually or otherwise.
- A primary component of IFAD's business is the disbursement and management of loans and grants and as such, the Loans and Grants System (LGS) represents a key application which should be fully integrated into the PeopleSoft system. The file extract, review and upload process used by the Controller's office is not a true interface in that it is performed in an uncontrolled environment - i.e. the file can be manipulated prior to uploading. We recommend developing an interface between LGS and PeopleSoft to automate both Treasury and Controller activities and create a controlled application environment.
- Finally, we recommend that Treasury consider developing and implementing non-performance return related KPIs for its internal cash control operations to track such things as counterparty investment distributions, transaction volumes and failed payment instructions. Madison would also recommend publishing a summary of these KPIs to the IOC for review.

## ***B. Liquidity Management***

### **Current Practice**

- Cash Management area also handles the fund's short-term investments and performs short-term cash forecasting to ensure the availability of liquid funds.
- Forecasting period is short - averaging 2 weeks.
- Short-term forecasting is done through the use of offline excel spreadsheets, the cash books, which track receipts and payments.
- Investments consist of short term time deposits. Banks are selected based on best interest rate offered from 3 quoting banks.
- The list of eligible banks for time deposits and counterparts for FX transaction are reviewed by IAC on an annual basis.



- Replenishment procedures are triggered when cash operating balances dip below a specified level.
- For currency transactions authorized by SDR requirements or operating cash replenishment needs, the process used is similar to that used for time deposit selection (quotes from 3 banks).

### **Industry Practices**

- Traditional cash forecasting techniques follow three broad methodologies:
  - Receipts and disbursements approach is the most common and requires detailed knowledge of all cash inflows and outflows.
  - Statistical techniques (time series methods and regression models) are more complex but very accurate.
  - Balance sheet approach is based on the fundamental accounting principal “assets = liabilities + shareholders’ equity”.
- Typical forecasting period varies based on the needs of the company and the forecasting method used.
- All forecasting methods rely on historical data as key input, require high-quality raw data, and demand a rigorous process of review and assessment through forecast to actual comparisons.
- Short term investment decisions are typically determined by longer range forecasts and flexibility provided by eligibility of short term instrument classes.

### **Madison Recommendations**

- The process of investing in time deposits and in currency transactions is properly controlled, but the eligibility of banks should be more proactively managed. (see under Decision Structure – Delegation of Authority – suggestion on centralization of Credit responsibilities)
- Madison believes that Treasury would benefit from being able to perform longer term forecasting. This would reduce pooling cash and increase short term investments and at the same time may also provide Treasury the opportunity (depending on forecasting period) to consider investing in wider range of short term maturities, and even possibly instruments other than time deposits.
- We would recommend Treasury use the receipts and disbursements approach to cash forecasting. This would involve constructing a timeline depicting known and estimated cash inflows and outflows. This forecasting approach will allow Treasury to project cash balances on a daily basis which will aid the liquidity management process. Ultimately, the goal of forecasting is to provide Treasury with the ability to make better financial decisions with regard to the timing of debt/investments maturities, cash transfers and other cash related activities. (see under Decision Structure – Delegation of Authority – suggestion on creation of Asset-Liability Management responsibilities)
- As part of the function of the cash management area, we recommend developing and implementing KPIs for the internal investment portfolio to track such things as number and amount of investments per bank and interest rates quotes. These might be useful in assessing the attractiveness of eligible banks and assist in the process of choosing which banks to request rate quotes. Madison would also recommend publishing a summary of these KPIs to the IOC for review.

### **C. External Manager Monitoring**

#### **Current Practice**

- Investment Section head monitors the overall external manager relationship:
  - Tracks key indicators of health of relationship.
    - Tracks qualitative indicators and IFAD staff feedback on manager service quality.
    - Monitors investment team turnover, although information is generally not forthcoming directly from managers.
    - Reviews performance and risk indicators for underperformance, risk levels, etc.
    - Monitors quarterly best execution reports on equities managers [Under discussion with new Custodian].
    - Does not currently review internal audit practices of external managers.
    - Does not currently track firm survival risk of managers given that IFAD has a bias toward hiring larger investment firms.
  - Escalates key concerns to the Treasurer for review and possible presentation to the IAC.
  - Periodically reviews with external managers overall relationship health and any key concerns.
  - Provides input during contract and fee negotiations, including insurance agreements, parent guarantees, and most favored nation clause.
- Reporting Section compiles, analyzes, and publishes performance return and risk related Key Performance Indicators for external managers to the IAC and to the Executive Board<sup>1</sup>.
- Investment Section staff responsible for oversight of ongoing operating activities of external managers.
  - On a monthly basis, review and validate manager fee invoices submitted for payment. Submit for signature by head of Investment Section and Treasurer (or Assistant President) to authorize for payment.
  - On a monthly basis, review and validate commission recapture rebates from equity trades.
  - For compliance tracking:
    - Tests are set up by Investment Section staff based on mandate guidelines using the Custodian’s online system (Passport).
    - On a daily basis, review and track any identified violations and work with managers to resolve. All violations are documented and reported to Investment Section head.

#### **Industry Practices**

- Typically, performance returns and risk indicators are the critical performance indicators tracked for each external manager.

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<sup>1</sup> Executive Board receives summary level performance return and risk related KPIs.

- Additional KPIs that are generally monitored include guideline violations, fund manager turnover, best execution controls for equities, and operational controls certification. Some of these are included in the contract agreement as notification or certification requirements.

### **Madison Recommendations**

- Current process is relatively comprehensive and indicates good vigilance in tracking external managers. Nevertheless, there are some specific areas of possible improvement:
  - With regard to tracking the overall relationship health by the Investment Section head, there is very little by way of procedural documentation of what activities should be performed. There is documentation on the KPIs chosen, but nothing regarding any other indicators currently tracked, or red flag types of issues. Although the tracking of many of these indicators are relatively subjective, some form of procedural documentation would be appropriate, especially to define what documentation records should be maintained for tracking each manager relationship.
  - For non-performance return and risk related KPIs such as guidelines violations, it should be made clear and documented that the Investment Section is responsible for compiling the KPIs for each external manager, and what are the data sources to be used. In addition, Madison would recommend publishing a summary of these KPIs and some commentary from the Investment Section to the IOC for review.
  - If it is not included in the current contract agreements, the managers should offer some form of signed assurance or certification attesting to their audit practices and operational risk controls.
  - In the future, if IFAD would consider contracting a boutique investment manager, then a clause in the contract agreement should permit IFAD to review the financial health of the firm. [This could be included in all contracts, and just not exercised with larger firms.]
  - The compliance tests set up by the Investment Section staff should be verified by a colleague prior to “going live”, to ensure that incorrectly defined compliance tests are not being used to monitor a manager.
- Investment Section head has indicated an interest in involving his staff in the higher level manager tracking functions and in the relationship management activities, but staffing constraints have made this not possible. Madison would like to see a staffing review that would determine the staffing levels and skills required to allow this to be implemented. This would ensure backup for all activities performed by the Investment Section head.
- Similarly, a resource requirements review would also determine the staffing levels required to ensure adequate backup for all the activities performed by the Investment Section staff.
- For practical, not control risk, reasons, IFAD should consider moving the verification of manager fees and commission recapture rebates to the Controllers Office, since the verification process for manager fees is already being duplicated by the Controllers Office before release for payment. Authorization must still be performed by both Treasury and Controllers Offices prior to payment, but the verification need only be performed once. With commission recapture rebates, the Investment Section should be responsible for review and analysis of directed trade requirements of the equity managers.

## ***D. Custody Monitoring***

### **Current Practice**

- On a monthly basis, Investment Section staff oversee reconciliation of asset statements between custodian and managers.
- On a monthly basis, Investment Section staff review and validate custody fee invoices submitted for payment. Submits for signature by head of Investment Section and Treasurer (or Assistant President) to authorize for payment.
- On a monthly basis, Investment Section staff review and validate the securities lending income due IFAD.
- Investment Section tracks Key Performance Indicators (KPIs) based on the custodian Service Level Agreement (SLA), which are currently not reported to the IAC but are planned for the future.
- The Investment Section head provides significant input into the Custodian contract, including the SLA, and assists during contract negotiations.

### **Industry Practices**

- Investment data integrity is typically performed by comparing investment manager investment reports with custodial reports. This activity ensures synchronization and accuracy of data between the two parties.
- Industry practice is to define Key Performance Indicators (KPIs) using the service level agreement (SLA) as a guide, and monitor the performance of the custodian. In many cases, the KPIs are documented as part of the SLA with the custodian. Periodic reviews with the custodian are used to discuss areas of concern and define corrective action steps.

### **Madison Recommendations**

- IFAD's current custodial contract requires monthly reconciliation between the managers and the custodian before reports can be released. This brilliant piece of contractual design guarantees timely completion of this activity and transfers the operational burden away from IFAD staff. It also offers assurance to IFAD that the investment reports received are accurate.
- Oversight responsibility for the reconciliation between the custodian and the managers should still reside within the Investment Section, but they must ensure that the contractual requirements in terms of tolerance and time frames are being met each month. These statistics should be added to the custodian KPIs. Other IFAD areas that receive these reports should be notified when issues arise during the reconciliation process.
- Current process is relatively comprehensive and indicates good vigilance in tracking the custodian relationship. The one issue identified is that it should be made clear and documented what custodian KPIs should be tracked by the Investment Section, and what are the data sources to be used. In addition, Madison would recommend publishing a summary of these KPIs and some commentary from the Investment Section to the IOC for review.
- For practical, not control risk, reasons, IFAD should consider moving the verification of custody fees and verification of securities lending income to the Controllers Office, since the verification process for custody fees is already being duplicated by the

Controllers Office before release for payment. Authorization must still be performed by both Treasury and Controllers Offices prior to payment, but the verification need only be performed once. With Securities lending income, the Investments Section will still be responsible for review and analysis of the securities lending income source details.

## ***E. Performance Measurement and Risk Monitoring***

### **Current Practice**

- On a monthly basis, Investment Section staff oversee reconciliation of performance reporting between custodian and managers, which occurs concurrently with the asset statement reconciliations. (See Operational Controls – Custody Monitoring – recommendation on custodian-manager reconciliation oversight)
- Reporting Section compiles, analyzes, and publishes performance return and risk data derived from custodian and manager reports for both IAC and Executive Board review.
  - Manager level performance returns and risk measures are reviewed against the benchmark, other managers with similar mandates, and industry peers.
  - Composite performance analysis is presented at the mandate, asset class, geographic, and total fund levels.
  - Managers are including returns, volatility, and tracking error.
  - Currency composition and exposure analysis is presented
- Benchmark selection for externally managed mandates is included as part of each mandate’s investment guideline definition, and approved by the IAC.
- There is currently no benchmark defined for internally managed cash investments.

### **Industry Practices**

- Industry practice is to track manager performance and risk levels relative to benchmarks and peers. This is the primary means for assessing whether the managers are achieving the objectives set out for them.
- Performance measurement and risk analysis also offers critical information for reviewing investment strategies including asset allocations, entry into new investment classes, liability support, etc.

### **Madison Recommendations**

- Performance and risk reporting compiled by Treasury is comprehensive. The analysis performed is thorough, permitting the organization to evaluate individual manager performance and to use this information in evaluating the overall investment strategy.
- One suggestion to augment the performance and risk reporting is to perform a fund level performance return comparison between actual and target allocation. This would require some additional calculations and analysis by the Reporting Section, but could provide additional input into the review of short and long term fund allocation strategies. [This is planned to be included in 3<sup>rd</sup> quarter 2003 reporting.]
- Current benchmarks chosen are appropriate for each defined external mandate and are typical from an industry practice perspective.

- Unless IFAD chooses to move beyond TD investing and establish a more robust cash management mandate, a short term benchmark would not be relevant. Currently with short term investments, greater emphasis is placed on safety and liquidity than on performance.

## ***F. Documentation***

### **Current Practice**

- Based on recommendations from the Internal Audit group regarding proper documentation, Treasury has recently completed a working draft of a Treasury Manual.
- The current draft of the Treasury Manual describes key activities and processes performed by the Treasury group.
- It appears that documents are archived based largely on lack of the availability of storage space in the IFAD offices.

### **Industry Practice**

- Documentation with respect to operating procedures are typically used for multiple purposes which include:
  - To comply with internal/external audit requirements
  - To be used in the training of staff
  - To be used as part of firm wide contingency and continuity planning
- Generally fully integrated with systems' user manuals
- Archiving standards and requirements vary based on industry specific regulatory requirements. For example, US banks are required by law to keep transaction records and legal documents for a period of 7 years. From a practical standpoint, most firms typically maintain hard copy records that are easily accessible for a period of 1 year. However, the use of digital archiving technology has become the industry best practice and has allowed for increased onsite access to historical data.
- There are interrelationships between archiving policies and Business Continuity Planning since both require offsite storage of documentation and data. This integrated approach allows firms to better understand their own storage, backup and archiving needs. Appendix III provides a high level overview of the primary differences between storage, backup and archiving.

### **Madison Recommendations**

- [While the current Treasury Manual meets minimum audit requirements for process documentation, we believe that this document could be significantly enhanced as an operating procedures manual in order to fulfill staff training and contingency planning requirements.](#)
  - [For illustrative purposes, we are attaching as an Appendix IV \(sent under separate cover\) a sample excerpt from an actual procedures manual.](#)
- [Madison also recommends the addition of specific IFAD policies and guidelines as additional sections to the manual including:](#)
  - Investment management agreement templates
  - Investment guidelines (for externally managed funds)
  - Custodian service level agreement

- o Standing investment policy for IFAD (e.g. target allocations, duration requirements, benchmarks, target rate(s) of return etc.)
- o Standing signing authorities
- o Standing list of eligible counterparties for internal investments and currency conversions
- o Counterparty exposure limits for internal investments
- Madison recommends that Treasury (in conjunction with Internal Audit) review the formalized policies and procedures for archiving and disposal published by the Information Resources Centre. Consideration should be given to performing this in conjunction with the Business Impact Analysis phase of Business Continuity Planning.

## II. DECISION STRUCTURE

### A. *Investment Strategy*

#### **Current Practice**

- As a result of the Group of Experts review, IFAD has modified its investment policy as follows:
  - o Reduction in the allocation to equities to 10%.
  - o Change of minimum credit rating for fixed income assets to AA-.
  - o Target real rate of return has been recently modified from 5% to 3.5% (although not formally documented yet).
- Subsequent changes to the execution of the new investment policy include:
  - o Overall reduction in the number of external manager accounts from 25 to a more manageable size.
  - o Fixed income investment mandates currently limited to: Global Government Bonds, Global Inflation Indexed Bonds, and Diversified Fixed Interest.
  - o Equities investment mandates currently limited to North American and European Equities.

#### **Madison Recommendations**

- The Financial Regulations of IFAD state that: "In investing resources of the Fund, the President shall be guided by the paramount considerations of security and liquidity. Within these constraints the President shall seek the highest possible return in a non-speculative manner."
- IFAD should more clearly define its investment goals and objectives. Its current goals of both capital preservation and a target rate of return objective tries to satisfy the full Financial Regulation statement, but can create conflicting investment strategies and financial risks during uncertain and volatile economic conditions:
  - o Capital preservation typically requires an investment policy that does not put principal capital at risk, and offers "security and liquidity". Possible implementations would include fixed return investments, buy and hold strategies, laddered investments to match cash flow requirements, or other investment strategies that will not create absolute losses. The downside to these investment strategies is during rapid changes to market conditions, they can lock the Fund into investments that produce performance returns below prevailing market yields.

- o Achieving a target rate of return typically requires an investment policy that will need to provide some investment flexibility to permit adjusting risks levels taken during certain market conditions. As long as the target return is reasonable (3.5% real return would be considered reasonable), this could offer “the highest possible returns in a non-speculative manner”. But, taking greater risks in order to try to achieve on average the target return will create greater performance volatility and could from time-to-time produce significant underperformance, including negative returns. These situations would be in direct conflict with the “security and liquidity” requirement.
  - o IFAD may want to consider adding some commentary using “non-investment language” to the current Investment Policies to help clarify to all its constituents, the objectives of both preservation and growth, and the strategy to meet those objectives.
- Assuming that IFAD is comfortable the “security and liquidity” requirements are being met by the investment policy changes recently made as a result of the Group of Experts report, we would offer the following thoughts for consideration:
    - o Analysis should be performed to determine whether actively managed portfolios provide adequate outperformance to justify the additional cost over investing in index funds. It is our belief that active oversight of the external managers can offer relative outperformance against the benchmark to justify the additional cost for active management and oversight. On the other hand, investing in index funds could greatly simplify and reduce the oversight requirements for IFAD.
    - o The following are some suggested adjustments to the current investment guidelines, based on typical industry practices (not limited to IFIs):
      - One method for classifying equity investments is by market capitalization (large, mid, and small) and by country of origin (developed and emerging markets) IFAD’s current investment policy appears to be a more conservative, lower risk investment profile, which should translate to investments limited to large cap equities in developed markets.
        - IFAD should consider including in its investment policies the use of industry standard investment mandates to define the permitted investments for the equities mandates, such as the S&P 500 and MSCI EAFE which are large cap equity benchmarks. [Specific mandates by manager could be more narrowly defined as IFAD sees fit.]
        - In the future, to provide adequate flexibility while retaining the lower risk investment profile, IFAD should consider expanding the equities mandate to include MSCI Pacific assets. As part of the MSCI EAFE index, all assets within the benchmark are part of the large cap investment universe.
        - In the future, should IFAD consider extending their investment risk profile in equities, diversifying into the emerging markets countries, as defined by the MSCI EMF index, could be reconsidered, which are still limited to large cap equities investments.
      - For fixed income investments, mandates are typically classified as investment and non-investment grade, and within investment grade



further classified by government, inflation index, and diversified. For the diversified investment grade mandate, typical industry practices generally permit investments across all publicly traded instruments.

- IFAD should consider limiting the credit rating requirements for all mortgage-backed and asset-backed securities to AAA only. As derivative products, these securities are inherently more difficult to assess from a credit risk perspective.
- In the future, should IFAD consider extending their investment risk profile in fixed income, reducing the minimum credit requirement to A for the purchase of government (and/or corporate) bonds could be considered.
- IFAD may want to verify that the detailed description of its minimum credit rating policy for all fixed income assets are properly synchronized and reflected across all investment related documentation, including all IMAs and the Investment Policy.

## ***B. Delegation of Authority***

### **Current Practices**

- For all decisions related to cash and investments, there appear to be two primary decision making bodies that have been given delegation of authority – the Treasurer and the Investment Advisory Committee (IAC). The Treasurer in turn has given delegation of authority to staff members within the Treasury Office for various operational activities and functions.
- In general, the IAC is charged with making recommendations to the President on all policy and policy execution related decisions. In practice, the IAC, which includes the President, makes the final decisions. In some areas, Executive Board approval is sought prior to final approval. Since 2000, interactions with the Executive Board have been more active. A sample of IAC responsibilities include:
  - Selection and replacement of External Managers, Custodian, Investment Advisor
  - Decision to add or eliminate an investment mandate, and timing of funding of mandates
  - Changes to investment strategy and asset allocation
  - Changes to investment policies and guidelines
  - Counterparty eligibility
- The Treasurer is primarily responsible for implementing the decisions made by the IAC, overseeing the investment of the funds, and the movement of funds, most of which he/she has delegated to the Treasury staff.
- The specifics on the delegation of authority within the Treasury Office are currently being updated. Overall they include:
  - Oversight of External Managers and Custodian
  - Interaction with Investment Advisor
  - Cash receipt and disbursement activities
  - Cash forecasting and funding activities
  - Short term investment activities

- o Investment related reporting activities
- o Control and reconciliation functions associated with all these activities

### **Madison Recommendations**

- The delegation of responsibilities as currently defined appear to be well thought out and, for the most part, appropriate. The terms of reference for each delegated authority is well documented, or are currently being updated to reflect recent changes to responsibilities, signing authorities, etc.
- Taking into consideration the increasing volatility and frequency of market changes, Madison would suggest for IFAD's consideration a modification to the current IAC decision-making model. We would propose that there be two decision-making bodies, with some overlapping participants, whereby the current IAC areas of responsibility would be separated into policy/strategy decisions and operating decisions. The committee responsible for making policy/strategy decisions would meet with similar frequency to the current IAC, and the committee responsible for making operating decisions would meet more frequently, such as monthly. The thought process behind this suggestion is that delegation of authority for more tactical operating decisions should be given to a team composed primarily of operating staff that can respond to changing market conditions in a more timely manner.
  - o The Investment Strategy Committee (ISC) would be responsible for the policy and strategy decisions currently delegated to the IAC.
    - Suggested composition for the ISC committee would include:
      - President
      - Vice President
      - Assistant President, Administrative and Finance Services Dept.
      - Treasurer
      - Controller
      - Chef de Cabinet
    - Suggested areas of responsibility for the ISC would include:
      - Selection and replacement of External Managers, Custodian, Investment Advisor
      - Approval of investment mandates and associated benchmarks
      - Setting of asset class level allocation targets
      - Setting of mandate level allocation targets
      - Range limits around each target that the fund could deviate
      - Investment guidelines related to eligibility of investments, including credit quality, country eligibility, and instrument class eligibility, and to mandate level targets, including duration
  - o The Investment Operating Committee (IOC) would be responsible for investment operating decisions currently delegated to the IAC.
    - Suggested composition of the IOC committee would include:
      - Assistant President, Administrative and Finance Services Dept.
      - Treasurer
      - Investment Section head
      - Cash Management Section head

- Reporting Section head
- Delegate from the Controllers Office
- Suggested areas of responsibility for the IOC would include:
  - Analysis and recommendation to the ISC for the replacement of External Managers, Custodian, Investment Advisor
  - Timing of funding of mandates
  - Rebalancing of the overall fund
  - Short term allocation changes across mandates within each major asset class within a defined range around the target
  - Allocation changes across managers within a mandate within a defined range around the target
  - Short term adjustments to fund and mandate level duration weighting within a defined range around the target
  - Counterparty eligibility
- Clarity of responsibilities for the two committees is critical to ensure accountability and minimize ambiguity.
- For both committees, consideration should be given to getting external opinions on significant decisions. This could be achieved with several different methods, but there are two alternatives that Madison would suggest:
  - Invite external advisors to join each committee.
  - Solicit feedback from external advisors on each significant decision to be made
  - In either case, external advisors could be individuals from:
    - Other IFIs
    - Consultancies with investment expertise
    - Investment management firms ( who are not current providers)
- Madison would suggest for IFAD’s consideration the centralization of all credit responsibilities within Treasury. This consolidation would ensure active management of all credit related matters.
  - It is not envisioned as a full time resource, but rather a set of responsibilities within a resource’s overall responsibility.
  - Make recommendations to the IOC regarding all counterparty eligibility related matters for all internal investment activities (e.g. short term investments, currency conversions). This would include monitoring and assessing current eligible counterparties, identifying and evaluating potentially new counterparties, and reviewing exposure limits.
  - When requested by the ISC, assess and make recommendations regarding eligibility and credit limits of new and existing fixed income instrument classes.
  - Be educated in the credit risks associated with each eligible fixed income instrument class, assist with training of Investment Section staff, and assist Investment Section staff, as needed, with oversight of external manager credit risk exposures.

## IFAD – INVESTMENT SECURITY REVIEW

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- Madison would suggest for IFAD’s consideration the creation of asset-liability responsibilities to be included in Treasury. The primary focus would be on modeling the cash flow requirements of IFAD in order to provide additional input into the investment decision process, both strategic and tactical.
  - It is not envisioned as a full time resource, but could possibly be combined with the credit responsibilities to create a full time role.
  - Develop a long term cash flow model to understand and better anticipate the cash needs of the organization
    - Provides monthly cash forecasting data to Cash Management Section, augmenting their current short term forecasting
    - Offers data to better manage contribution flows, and assist EAD with planning
    - Provides data to Treasury to better understand rate of return requirements and volatility effects, and offer additional inputs into the modeling and analysis of investment strategy decisions
- Madison would recommend that responsibility for securing tax exempt status for IFAD regarding investments be given to the General Counsel, if this has not be done, with input from Treasury regarding priorities.

### III. STAFFING / ORGANIZATION DESIGN

#### A. *Treasury Organization Structure*

##### **Current Practice**

- Treasury is currently composed of three sections
  - Investments – oversees external providers including managers and custodian, and tracks external investments
  - Cash Management – manages short term investments, performs cash receipt and disbursement activities, and performs cash forecast and funding activities
  - Reporting – compiles all key investment related reporting, performs investment related analysis for reporting

##### **Madison Recommendations**

- The Treasury organization performs 4 distinct sets of activities
  - External Investments – oversees external providers including managers and custodian, and tracks external investments
  - Cash Control – performs cash receipt and disbursement activities, performs cash forecast and funding activities, inputs cash activities into the general ledger
  - Internal Short Term Investments – manages short term investments
  - Analytics and Reporting – compiles all key investment related reporting, performs investment related analysis for reporting
- Looking at the organization in this manner helps to illustrate some key functional distinctions
  - Cash Control is an operations area with a heavy emphasis on daily transactional activity. Supervision and oversight of this area focuses on

- timely execution and strong operational controls – signing authorities, separation of duties, daily proofs, and transactional audit trails.
- o All other areas may have some daily execution related responsibilities, but most either have or could have an analytic component to the responsibilities.
    - How is the external investment manager performing? Have they been adhering to guidelines consistently? Should the manager be put on watch for replacement?
    - How are the investments performing? Should we consider other short-term investments to boost yields?
    - What level of risk are the managers taking? What is their risk-adjusted performance? Is the overall fund performing as planned? What is causing performance deviations from target?
  - One implication might be that Treasury should periodically review the organizational design to determine if the prevailing structure makes sense given the functional activities, overall effectiveness and efficiency of the organization structure, and in light of other changes such as SCP implementation.
    - o Size of the organization is an important factor to consider given the administrative overhead required to manage each section, and greater difficulties managing staffing backups and cross training when sections are too small in size.
    - o Synergies must also be considered such as
      - Cash management and cash control
      - External investments and Reporting/Analytics
    - o Madison would counsel the Treasury to move toward fewer sections rather than more, given the relatively small size of the organization.
  - This perspective of Treasury activities also provides additional input for reviewing various staffing related issues – position grade levels, resourcing levels, and staff training.

## ***B. Staffing Grades and Positions***

### **Current Practice**

- Treasury is currently composed of both Professional and General Services staff
- It is difficult to discern the pattern defining grade level with positions

### **Industry Practices**

- In private industry, job content is a primary driver in defining the grade level and compensation. In most cases, analyst positions tend to carry a higher grade than operational positions. In situations where this is not the case, the analyst positions will usually offer higher compensation, or a faster track to promotion.
- In the public sector, compensation and promotion are much more restrictive and cannot be used as easily to distinguish functional positions in lieu of grade level. Therefore, it becomes a more important issue to properly grade positions.

### **Madison Recommendations**

- Madison does not understand the grading structure used in IFAD, or the implications of re-grading positions. Nevertheless, the current grading of positions within Treasury does not meet with our perception of the job content for each position.
- Treasury should consider working with HR to review the grade levels by position. For example
  - The analyst positions within the Investment and Reporting Sections should have a different grade level than the Cash Control operational positions. Madison would consider the analyst positions to be professional level positions. Further detailed analysis of the activities performed within these two sections could warrant the retention of General Services staff positions to handle the non-analytic activities, but the analytic activities should merit a grade change.

### ***C. Staff Training***

#### **Current Practice**

- Treasury has not consistently completed performance appraisals over the past several years.
- In practice, Treasury submits annual training requirements, based on each section manager's identification of key needs of their staff. Most are classes and seminars to meet a tactical need - gain an understanding of an asset class, or usage for a software application, or interpretation of a new reporting requirement.
- Treasury historically has not taken a strategic approach to training and developed a comprehensive training plan for its staff members. Moreover, it does not appear that a systematic analysis is performed to determine the longer term development and training needs of each staff member relative to their current and projected positions and job requirements.

#### **Industry Practices**

- In general, industry best practice is to leverage the performance appraisal process to identify short and long term development needs of each staff members, which takes into consideration their current position as well as their anticipated progression through the organization. This is then used to develop a comprehensive training plan for the next year's annual business plan, and for the multi-year business plan. Each staff member then knows their own training and development needs and goals, and can modify them should their progression through the organization changes.

#### **Madison Recommendations**

- Human Resources should enforce its appraisal policy for Treasury to ensure an annual review is completed for all staff and be used to assist in identifying development needs.
- Treasury should carefully review and refine the skill needs for each job position across each Section. It is important to recognize that different position can carry very different skill requirements. For example, management and supervision of the operational activities within Cash Control is a very different skill from managing analysts within the Investments Section. Skills requirements, and therefore, training requirements will differ substantially for the section leaders.

- Treasury should then conduct a detailed skills assessment of each staff member and map that against the identified skills needs of each of their job positions. This will identify, by staff member, the current development needs, which can then be prioritized and submitted into a comprehensive training plan. Madison's quick assessment is that all of the current staff can support the basic requirements of each of their positions, but in many cases, training would offer additional skills to equip the staff to operate within their positions in an expanded manner.
- Going forward, this process should try to take a more proactive approach to skills enhancement, by preparing staff members for expanded responsibilities within their positions, or new positions, or new investment classes being considered or evaluated.
- Methodology should be developed to assist with the prioritization of training needs. Examples of some current areas of concern include:
  - Recent levels of exposure to mortgage and asset backed securities while within overall mandate limits, may require additional training for both Investment and Reporting Sections in order to permit internal analysis of exposure risks.
  - Recent entry into Inflation Protected Securities, while not requiring detailed understanding to provide manager oversight, may require training for both Investment and Reporting Sections in order to better understand their behavior and effect on the overall fund performance returns and risks.

#### ***D. Staffing Levels***

##### **Current Practice**

- Treasury at its current staffing levels appears to operate quite lean. There does not appear to be much excess capacity amongst the staff, given the current operating practices.
- There are a number of non-permanent staff members in significant positions, combined with the leanness of the organization, could create substantial contingency risks.

##### **Industry Practices**

- Most well run organizations operate with a lean staffing model. The best run organizations manage contingency and backup planning as part of the operation of the organization. Formalized procedures are difficult to maintain, since contingency and backup plans must be fluid with changes to the organization structure and to staff turnover. Nevertheless, most managers will maintain a contingency and backup plan based on their current staff makeup, and use this as input into staff level planning.

##### **Madison Recommendations**

- Treasury Office should consider undertaking a comprehensive review of the staffing level requirements, taking into consideration SCP plans, contingency and backup planning requirements, and permanent and non-permanent staff mix.
- As a result of the review, development of a comprehensive staffing plan could be used as input to budget planning, organizational design, training planning, job position grade level reviews, etc.

- Key current staffing risks should be highlighted as critical items and addressed, including temporary staff in critical roles, and absence of backup training for specific functions.

#### IV. PROCUREMENT PROCESS

##### A. *Process standardization*

###### **Current Practice**

- The procurement process for treasury related procurement has evolved recently to include the Procurement Section. The current process for the decision of treasury related procurement is still an interim solution as the current Investment Advisory Committee has overlapping responsibilities with the Contracts Review Committee.
- Procurement Section assists with management of the process.
- Terms of Reference, evaluation criteria and weightings, are defined by Technical Evaluation Team comprised of Treasury Office personnel, led by Treasurer.
- List of candidates to be included in the RFP process are determined by Technical Evaluation Team.
- Evaluation of RFP responses are performed as follows:
  - Technical review and evaluation performed by Technical Evaluation Team.
  - Financial review and evaluation performed by Financial Evaluation Team, comprised of Procurement Section personnel.
- Procurement and Treasury jointly review and make recommendation to Contracts Review Committee (CRC) and the Investment Advisory Committee (IAC).
- Upon approval, Treasurer with legal counsel assistance, negotiates final contract terms.

###### **Industry Practices**

- Private sector procurement processes, in general, are typically much less rigid than in the public sector. There is no consistency in determining if a formal RFP process is warranted – whether based on size of deal, or functional area, or type of service or project. In general, the decision-making occurs within the business area that will most directly influence the scope of service to be provided. Nevertheless, there are some key distinguishing characteristics common to the private sector, regardless of the differing procurement policies and processes:
  - Practices differ among private sector firms in terms of having formalized code of conduct policies for all staff, but relationship-building activities that stay within legal boundaries are common practice regardless of conduct policies.
  - Prior relationship with a provider generally gets a very high weighting in the decision process.
  - Larger projects must be economically justified in a business case analysis.
  - Key decision-makers are held accountable for the final choice in terms of actual cost and delivery of services delivered by provider.
  - Chosen providers are held accountable for adverse impact to the budget and/or bottom line beyond the original terms of reference and fee negotiations.



- In general, fees are only one of many inputs into the decision. Other inputs include, prior experience with provider, delivery track record validated by references, performance track record (for managers and custodians), etc.
- Public sector procurement processes require much greater transparency for public reputation and perception reasons. Relationship building, which is very common in the private sector, can sometimes be perceived as influence peddling in the public sector. In addition, because public sector entities are funded by the public or by member states for not-for-profit purposes, much greater care must be given to determining the use of funds. Therefore, procurement processes are typically well defined and structured. Key objectives are to:
  - Obtain the best value for services required, and document the efforts taken to demonstrate this.
  - Minimize the reality and perception of affecting the procurement process through influence peddling by service providers.
  - Still provide flexibility to make decisions based on multi-faceted criteria beyond just price, but minimize the reality and perception of predetermination.

### **Madison Recommendations**

- Key Objectives for the Procurement Process:
  - Ensure transparency
  - Reduce perceptual risk of decision influencing
  - Standardize process
- The ongoing evolution of the procurement process, of enlisting greater involvement by the Procurement Section, appears to be moving in the right direction. Full management of the procurement process by the Procurement Section will be appropriate to create consistency for all procurement activities at IFAD.
- The Technical Evaluation Team is correctly comprised of Treasury personnel, but should not include anyone who will provide final approval for the provider chosen. As an additional suggestion, consideration should be given to not include situations where personnel on the team report directly to another team member. Therefore, the Treasurer should not be a part of the evaluation team, since he/she will be on the committee that provides final approval.
- Final approval for the recommendation should be given either to the Investment Strategy Committee (ISC) (see Decision Structure section), or to a joint team comprised of a subset of CRC and ISC. This will ensure that the decision making body has enough investments related knowledge provided by the ISC members to make an informed decision. It should be noted that the President should not be a required member as part of the approval committee, although sign-off by the President for predefined procurement parameters (e.g. by price, by nature of purchase, etc.) might be warranted.
- Final contract negotiations with the selected provider should be headed jointly by Procurement and legal counsel, with input and support from the Treasury Office. It is a common practice in many larger organizations to use a disinterested party such as purchasing and legal counsel to directly negotiate with vendors, keeping the acquiring area removed from this process.
  - Treasury shall be responsible for providing contract agreement terms of reference to the negotiating team, such as investment policies and guidelines, service level agreements, reporting requirements, operating procedures, etc.

- o Where appropriate, Treasury should use outside advisors such as the Investment Advisor with knowledge of manager fee ranges, to provide the negotiating team with key information during negotiations.

## ***B. Acceptance of Gifts***

### **Current Practice**

- While IFAD has an organization-wide formal procurement policy, it is not clear whether persons involved outside of the Procurement Section are fully aware of the policy.
- While there was no evidence of intentional misconduct during the review Treasury personnel have historically accepted, on occasion, invitations to meals and meetings from current and prospective vendors. It appears that there might be some confusion whether these activities are clearly addressed by the current policy as prohibited or objectionable.

### **Industry Practices**

- In the private sector, practices vary widely regarding formal policies on acceptance of gifts from vendors. Generally, firms that have these types of firm-wide policies in place, focus most of their audit attention on areas of highest risk such as purchasing and procurement departments.
- With private sector firms, though, public perception is less of an issue. The primary determinant of supplier decisions is economic – contribution to the profitability of the firm. Obviously a key decision criterion is price, but other contributing factors could include quality and performance measures, response time, etc.
- In the public sector, it is more common to have formal policies on acceptance of gifts from vendors. The definition of what constitutes a gift, though, has traditionally been focused more on tangible gifts, without a clear definition of the current common practices of expensive meals, invitations to major events such as professional sports and concerts. In some cases, these sorts of activities were not considered acceptance of gifts from vendors.

### **Madison Recommendations**

- Although IFAD has communicated the procurement policy to the full staff through a Presidential bulletin, it should reinforce the gravity of the policy to all persons that might be involved in the procurement process.
- Given the unique concerns of public sector entities with regard to perceptions of undue influence on procurement decisions, IFAD should review the current policy with regard to procurement. Typical policy components to review might include:
  - o Monetary limits for acceptance of gifts from any current or potential service provider.
  - o Monetary limits, beyond which formal documentation of gifts received is required of the recipient. This would suggest a related policy regarding limitations on involvement of these staff members during procurement processes that involved these “gift-bearing” providers.
  - o Definition of what constitutes a gift from a current or potential service provider should also be established. Possible gifts to consider include:
    - Paid meals

- Paid business trips to meetings, conferences, etc.
- Invitations to entertainment including sporting events, concerts, etc.
- Paid vacations
- Business gifts such as pens, wine, liquor, cigars, etc.
- Enforcement of these conduct policies are largely based on the assumption of trust and ethics and the integrity of staff, since it may be quite difficult to detect violations if staff members choose not to disclose the acceptance of gifts.

### ***C. Additional Observations***

- IFAD uses a rigorous and comprehensive RFP process to gather vital data with regard to the manager selection process. Some possible suggestions to further enhance the current process:
  - Contact current clients of a manager with no prior experience with IFAD to ask about service quality, responsiveness, and frequency of investment guideline violations.
  - Ask specifically about the planned team to manage IFAD mandate – their tenure with the firm, management experience with similar mandates, and performance history with similar mandates.
  - Keep the RFP as comprehensive as it currently is, but weight the evaluation to concentrate on the following key criteria:
    - Performance history for the requested mandate
    - Associated turnover of investment team planned to manage the IFAD mandate
    - Client base and asset size managed within requested mandate
    - Investment process and research
    - Fees
    - All other response areas are only to be included if there is a significant weakness or strength shown, such as deteriorating financial condition, significant turnover throughout management ranks, etc.

## **V. CONTINUITY PLANNING**

### **Current Practice**

- IFAD as a whole currently does not have a formal business continuity plan nor disaster recovery plan. However, early stage discussions are underway for continuity planning within the IT group.
- Operations:
  - Treasury staff currently relies on data/system back up from the server(s) and has no specific guidelines for data recovery other than contacting the Help Desk.
  - Some Treasury staff independently back up/save their own work locally but this is not widely practiced.
- IT:
  - IFAD buildings 1 and 2 maintain its servers on site and currently rely on tape back ups. IFAD1 back up tapes are stored in IFAD2 and visa versa.

- o There are no back-up servers and therefore IFAD currently has only restore capability and not recovery capability.

### **Industry Practices**

- The last great business continuity planning effort was the Year 2000 threat. However, since 9/11 there has been renewed focus on business continuity planning and management across all industries. Global spending on business continuity/disaster recovery projects surged to reach \$3.5 billion post 9/11.<sup>2</sup>
- Greater importance has been put on Business Continuity Management (BCM) within organizations and now serves as an “umbrella” for enterprise emergency management, security functions, and specialized risks such as health and safety.
- Trend is towards full integration of operations and systems continuity planning.
  - Business continuity is the ability to carry out critical business functions with no significant interruption during a period of unavailability of underlying services or facilities, e.g. failure of information technology, communication links, power supply or outage of a building.
  - Disaster recovery is the ability to resume critical business functions after the loss or failure of a technical and/or operating facility.
- Typical business continuity planning and management life cycle involves 4 phases: policy, strategy, test, and implementation. (See Appendix II)

### **Madison Recommendations**

- Continuity planning requires greater attention from IFAD management and staff. In the current environment, a relatively minor disruption could have more serious consequences due to the absence of an agreed upon continuity plan.
- Although the focus of this report is on Treasury, any business continuity planning within Treasury must be integrated into the overall continuity planning process for IFAD.
- We recommend that IFAD as an organization take a formalized approach to business continuity planning by establishing or appointing a governing body to oversee the BCM process, similar in makeup to our proposed Investment Operating Committee. This management steering committee would be responsible for drafting IFAD’s BCM Policy.
- Key objectives of the BCM steering committee would be to :
  - Establish and implement a structure that will enable IFAD to manage unplanned incidents as well as the mitigation of risk during planned events;
  - Define clear business continuity roles and responsibilities;
  - Establish budgeting guidelines;
  - Increase business continuity awareness and training for all staff; and
  - Ensure the continued maintenance and improvement of IFAD’s business continuity and disaster recovery program.
- A Business Impact Analysis should be performed for each business/functional unit within IFAD. This will identify the operational and financial impacts and exposure of that particular business unit and will capture the structure, functions and the dependencies between business units and external vendors.
- Once the steering committee has approved a BCM policy, its primary role would be to ensure that the BCM policy is implemented and adequately funded. A separate BCM coordinator should be selected to:

<sup>2</sup> TowersGroup – Business Continuity Trends

**IFAD – INVESTMENT SECURITY REVIEW**

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- Develop business continuity guidelines in conjunction with IT and Audit;
- Develop risk metrics and data collection mechanisms; and,  
Maintain a log of plans, track testing, and report on audit points status and perform gap analysis of non-compliance with policy.
- With regard to alternate site selection, IFAD buildings 1 and 2 may be geographically too close for either to be an appropriate alternate site. Recovery within target time during a wide scale disruption generally requires an appropriate level of geographic diversity between primary and back-up sites. As a general rule, back up sites should not rely on the same infrastructure components as the primary location, including transportation, telecommunications, water supply and electric power.

