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Annual Report on
Enterprise Risk Management Activities
in IFAD

Executive Board — Ninety-ninth Session
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For: **Information**

Note to Executive Board members

This document is submitted for the information of the Executive Board.

To make the best use of time available at Audit Committee meetings, representatives are invited to contact the following focal point with any technical questions about this document before the session:

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Annual Report on Enterprise Risk Management Activities in IFAD

I. Introduction

1. In line with the IFAD Policy on Enterprise Risk Management (EB 2008/94/R.4, reviewed by the Audit Committee and the Executive Board in September 2008), the purpose of this report is to provide IFAD's governing bodies with an annual overview of enterprise risk management (ERM) activities carried out in IFAD. This is the second such report.

II. Background

2. During the Consultation on the Seventh Replenishment of IFAD's Resources, Management committed to implementing ERM, gradually and in a structured manner, within IFAD's decision-making processes, building on existing resources, tools and practices rather than creating new and separate organizational units and positions. Implementation of ERM aims to ensure that risks that may impede IFAD's ability to carry out its mission and achieve its objectives are managed better and mitigated earlier to the extent practicable. It also brings IFAD's processes into line with good business practice.

3. Many key elements of risk management and internal control – such as results-based strategic planning, investment management (market, currency and credit risks) – had already been put in place during the Seventh Replenishment period and/or were under development in IFAD. However, in 2008, the establishment of the ERM Committee (ERMC) acted as a catalyst in this process of mainstreaming risk management in IFAD, and in particular resulted in a more formal and systematic approach to ERM. The first of the underlying ERM framework documents, the ERM policy, was formalized in 2008, and reviewed by the Audit Committee and the Executive Board in September of that year. The first annual report of the ERMC was also submitted to the Audit Committee and the Executive Board in April 2009. This second annual report sets out what was achieved in 2009.

III. ERM Committee

4. The ERMC is composed of two members of Senior Management – the Vice-President as IFAD's risk champion and the Chief Finance and Administration Officer – and senior representatives of each department. The Director of the Office of Audit and Oversight and the General Counsel participate as observers. Other directors and officers are invited to participate to provide additional clarification or assistance to the Committee on specific agenda items. The Committee's role is to establish and guide the development of ERM in IFAD, coordinating the implementation thereof, and reviewing and monitoring ERM processes and outputs on a regular basis.

5. The Committee met seven times in 2009 (five times in 2008) in order to facilitate the implementation of the framework documents and introduction of the revised corporate risk profile. It has a rolling workplan detailing activities to be carried out during the year and a forward programme up to 2012.

IV. ERM activities in 2009

6. The workplan in 2009 was characterized by the development of ERM framework documents and related processes such as the corporate risk profile, in addition to awareness raising and knowledge sharing.

7. The principal framework documents include the ERM framework (which makes reference to internal controls), the accountability framework and the financial disclosure programme (code of conduct). Of these documents, the ERM framework

document has been issued and the other two documents are in the final phases of approval by Senior Management.

8. IFAD's ERM framework is based on the internationally recognized risk and control standard of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and articulates risk management in relation to the way IFAD is managed, directed and controlled. It covers the internal risk and control environment, risk identification and assessment, control activities and risk mitigation, information and communication, and monitoring and assurance. The framework breaks down these components into attributes that should be in place in order to ensure the achievement of IFAD's objectives and proposes a set of good practices linked to each attribute. The framework is supplemented by a more detailed checklist for each area that facilitates the assessment of the effectiveness of the risk management processes in place.

9. The high-level accountability framework is being developed to provide a clear and well-defined delineation of responsibilities and accountabilities at the various levels of IFAD's governance, including the Governing Council, the Executive Board and its committees, the President, the senior officers of the organization, and the staff. Subsequently, a more detailed accountability framework for various functional areas of the organization will also be developed. For example, through the human resources (HR) reform, a framework for accountability in relation to people management will become the basis for setting out responsibilities of managers. The framework will also provide managers with a clear set of rules, procedures and guidelines for managing their staff, and specify the corresponding mechanisms through which their accountability for such management is secured. The financial disclosure programme will require senior managers and certain staff members with key roles in finance, investments, procurement and external resource management to provide, on an annual basis, confidential certification confirming compliance with the basic principles of the code of conduct. While Management has full confidence in the integrity of staff, it attaches the utmost importance to ensuring – and being able to demonstrate – that IFAD has in place internal control measures and is in line with best practices already followed in international financial institutions, most United Nations organizations and other public organizations.

10. ERMC activities completed in 2009 included the following:

- Issuance of the ERM policy as a President's Bulletin;

- Issuance of the ERM framework, including internal control measures;

- Biannual review of the corporate and departmental risk registers. This involved a review of practices with respect to: risk rating and escalation; formulation of appropriate mitigating actions and associated responsibilities for implementation; and risk monitoring;

- Piloting by the Financial Services Division of an internal control framework for financial reporting, expected to be rolled out to other divisions with significant responsibilities for financial reporting in 2010;

- The establishment of IFAD's corporate risk profile, corporate risk register and assessment thereof. A "top-down" approach is now adopted to supplement the data that are already in the corporate risk register and have been derived using the "bottom-up" approach that is embedded in the quarterly reviews ("performance conversations") conducted as part of each division's annual workplan. The top-down approach involved participation initially from Audit Committee members in 2008, as well as discussion with and input from all senior and middle management and many other staff members during a series of workshops held in 2009 to identify the principal threats to and opportunities for the achievement of corporate objectives;

- Training and knowledge management activities to roll out ERM in IFAD. These included a workshop on ERM that was open to all IFAD staff in March 2009, and a further training course with ERM certification for divisional focal points in December 2009. A separate workshop was also held specifically for staff in the operations department in May 2009. An ERM library has been established, containing various risk publications and materials. The ERM intranet site has been updated to include new corporate documents and links to staff with specific ERM responsibilities in IFAD.

11. Regarding the corporate risk profile, in November 2009, the IFAD Management Team (IMT) discussed and prioritized the risks considered to be of greatest importance to the organization. This was the outcome of a process that evolved through the identification of risks in cluster workshops using a bottom-up approach. The risks identified through these workshops were subsequently reviewed by the ERMC and streamlined to 14 risks (see annex) that were then presented to the IMT. Using IFAD's voting tool, the IMT selected five priority risks, identified the risk owners and set out strategies to mitigate these risks.

12. The five priority risks in IFAD's corporate risk profile on which Management agreed to focus are summarized in the table below. Each risk has been assigned to a senior manager as risk owner to oversee the mitigation actions:

Rank	Risk	Risk area	Mitigating strategies
1	**If** strategic workforce planning is not approached from a corporate perspective and aligned with the corporate medium-term plan, and appropriate tools and measures to implement it are not developed, **there is a risk that** recruitment, deployment, development and release phases may be misguided and very challenging to implement, **hindering** IFAD's ability to marshal the appropriate workforce to achieve its ambitious programme of work.	Resource planning and management (HR and financial)	1. Coordination and alignment in the development of the corporate medium-term plan and the strategic workforce plan. 2. Greater engagement by directors and Senior Management and not simply do strategic workforce as a paper exercise.
2	**If** IFAD does not take a strategic approach or have a strong corporate culture of administrative efficiency, **there is a risk that** short-term cuts may be made at the expense of the quality and effectiveness of business processes and of the achievement of real efficiency gains in the longer term.	Resource planning and management (HR and financial)	1. Establish a corporate culture and programme for efficiency that: (a) clearly defines and prioritizes corporate process to be reviewed; and (b) includes an appropriate HR framework and tools to support staff redeployment/release should the need for such action arise. 2. Review the process for allocation of the capital budget. 3. Business cases for IT systems need to be preceded by comprehensive yet timely process reviews to ascertain the need and utility of the process as currently implemented (failure to implement project charters approved by the Information Technology Governance Committee. 4. Greater participation by staff in such review and analysis of business cases for process streamlining/improvement and better engagement by supervisors and directors in arriving at solutions. 5. Enhance skills in project management (PRINCE 2), and change management.
3	**If** the process for defining IFAD's new staff rules is not appropriately designed and managed, **there is a risk that** such rules may take much longer than planned to finalize and represent only a marginal improvement over previous rules, **resulting** in limited strengthening of IFAD's capabilities to manage its workforce.	Resource planning and management (HR and financial)	1. There is immediate general agreement on the main principles of human resource management that are to be set out in the staff rules. 2. Consultation with managers, staff and other stakeholders needs to be broad, more frequent and face to face. Timely circulation of well-written drafts to enable adequate preparation for effective discussions and consultations.

Rank	Risk	Risk area	Mitigating strategies
			3. Adequate timeline for completion needs to be specified in a very transparent manner.
4	**Because** of unclear and inconsistent guidance and practice with respect to setting up and operation of country presence offices, **there is a risk that** country presence offices may take longer to set up properly than planned, have higher administrative set-up/running costs than planned, **resulting** in expected benefits from the establishment of country presence not being fully achieved.	Country programme	1. Establishment of country presence coordination group with clear deliverables and timelines to ensure decentralization is implemented within a coherent corporate management system. 2. Preparation of country presence handbook. 3. Prompt signing of host country, country office, and framework agreements with head office of hosting agencies. 4. Prompt accreditation of staff with its corresponding benefits regarding immunities and privileges.
5	**Because** of IFAD's relatively limited experience with direct supervision, poor business process definitions, leading to unclear division of labour and duplication of processes for conducting it, **there is the risk that** supervision of fulfilment of fiduciary requirements and loan administration may not be carried out efficiently, effectively and in a timely manner, thus **delaying** project implementation and achievement of development objectives.	Country programme	1. Clarify division of roles and responsibilities between Programme Management Department (PMD) and Financial Services Division (FC). 2. Review and development of improved and modernized IFAD business processes for direct supervision and country portfolio management. 3. Improved IT systems for direct supervision (including use of electronic signatures). 4. Fully exploit country presence to strengthen performance of ongoing portfolio.

13. The summary of the five prioritized risks shows that the three highest risks faced by IFAD from a corporate perspective relate to resource planning and management, while the risks rated fourth and fifth relate to country presence and programmes. In particular, the highest risks relate to the need to adopt an approach to strategic workforce planning that is aligned with the corporate medium-term plan, using appropriate tools and measures that will lead to benefits over the medium term. Further refinement of the related controls and a review of mitigating actions and responsibilities of the risks, including the additional nine risks presented to the IMT, will continue in 2010.

14. It should be noted that the information included in the summary represents work in progress and is not complete. In fact, some of the mitigating actions are already ongoing, while others are potential new measures under consideration by Management. It may also be relevant to note that the corporate risk register is in continual evolution, and reflects the priority risks net of the effect of mitigating strategies already in place. Consequently, IFAD fully expects that the risk ratings will change and evolve, both as further mitigating actions are put into place and as new and emerging issues arise.

15. As a direct response to the high prioritization of resource management issues, IFAD Management has reinforced the mitigating strategies already put in place in recent months, such as the setting up of an ad hoc task force on strategic workforce planning and the engagement of a consultant to assist in the drafting of a handbook that will replace the human resource procedures manual. These strategies also include addressing the concerns recently raised by the Executive Board on the issue of human resources. In this respect, it should be underlined that IFAD's governing bodies play a fundamental role both in identifying emerging risks and in supporting risk mitigation. This is especially true in resource management, as they have an essential part to play in approving the overall budgetary resources available to IFAD and forecast deployment thereof. It also applies to the matter of country presence – the Executive Board played a fundamental role in requiring IFAD to take on direct supervision of its loan and grant portfolio, thereby determining the need for IFAD to expand its presence in country and to develop more advanced fiduciary skills and capacities. In addition, the Board continues to take an active part in determining the strategies to be

employed for mitigating these risks. IFAD Management appreciates the interventions of its governing bodies in this respect, with the intention of allowing IFAD to carry out its mandate more efficiently and effectively.

16. As reported to the Consultation on the Seventh Replenishment of IFAD's Resources, Management has adopted a gradual and structured approach in rolling out ERM activities, without creating new permanent structures and positions, outside of the ERM Committee. Staff who dedicate time to ERM activities do this in addition to their normal roles and responsibilities. In 2009, costs amounting to approximately US$50,000 (US$100,000 in 2008) were incurred for external consultancy services related to the development and delivery of generic training to which all IFAD staff were invited, tailored training for staff in PMD and a specific certification course in ERM for divisional focal points.

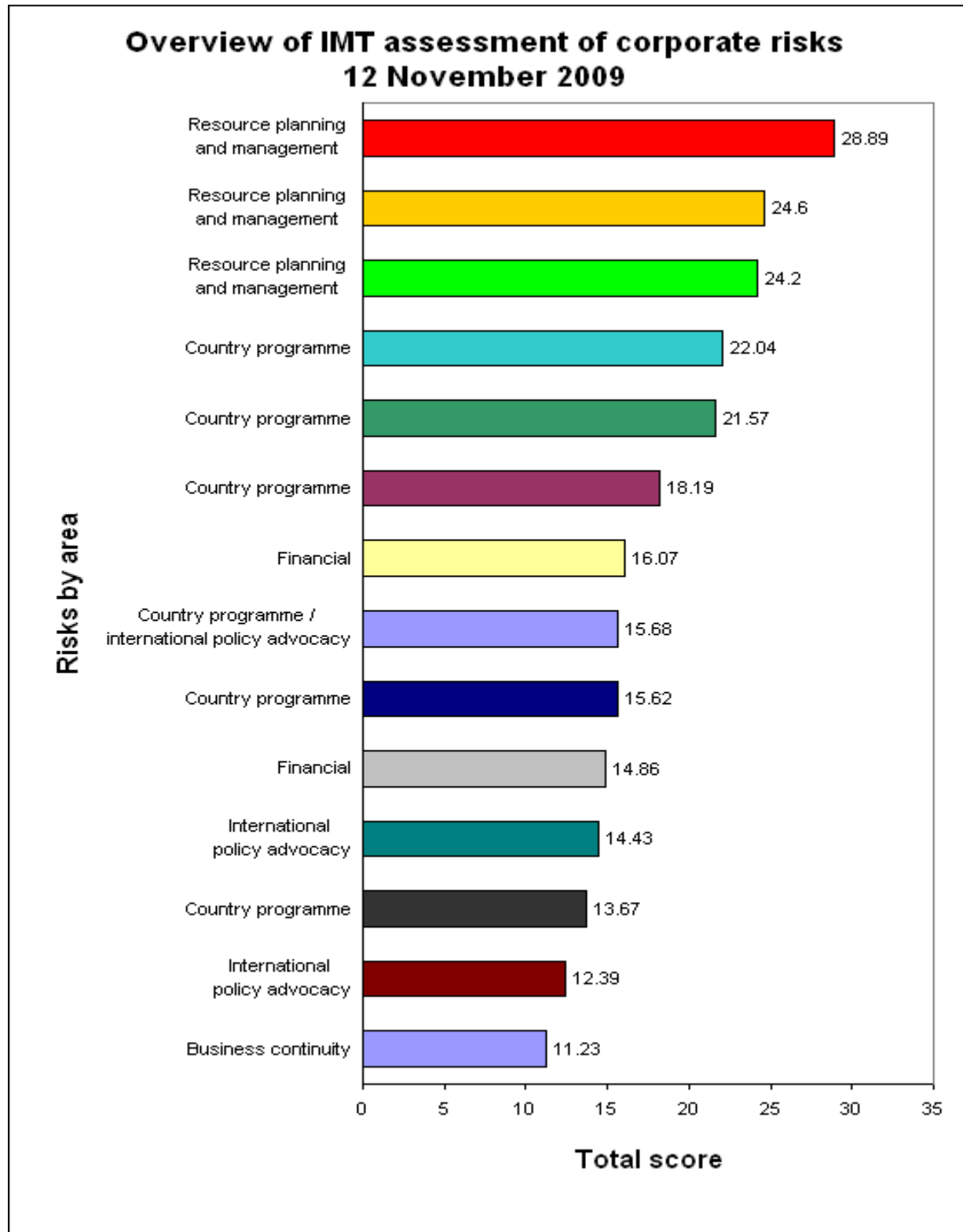## V. Workplan for 2010 and forward programme

17. As part of its terms of reference, from 2010 onwards, the ERMC will begin to shift its focus to monitoring and review of ERM procedures. The ERM Committee's workplan for 2010 includes finalizing certain activities begun in 2009, such as:

- Completion and final issuance of the accountability and financial disclosure frameworks;
- Training and communications activities;
- Finalizing the corporate risk register, which will be monitored and fully reassessed at least annually.

VI. Issues emerging

18. Activities started in 2009 on piloting an internal control framework for financial reporting by the Financial Services Division. A first map of all main controls pertaining to financial reporting has already been completed, including a preliminary identification of key controls and control gaps. A summary of the process and results will be submitted to the Audit Committee in April, including a first statement on the effectiveness of financial reporting controls already in place. It is envisaged that a formal assertion from Management on the effectiveness of financial reporting controls in place, and an external audit attestation on the assertion from Management, will form part of the 2011 financial statements. This new external audit requirement is timed to coincide with the selection process for a new external auditor.

19. In 2010, subsequent to assertions from Management and on behalf of Management, the Office of Audit and Oversight will conduct testing to ascertain the reliability of internal controls over preparation of the 2010 financial statements.

20. One of the main benefits of introducing formal reporting on internal controls through the issuance of an annual assertion letter, and eventual attestation letter, is that it provides stronger assurance to stakeholders (including governing bodies, audit committees and donors) that fiduciary responsibilities are properly discharged.

IFAD Corporate risk profile

IFAD Management Team (IMT) assessment of corporate risks[1]

Overview of IMT assessment of corporate risks
12 November 2009

Risks by area

Risk area	Total score
Resource planning and management	28.89
Resource planning and management	24.6
Resource planning and management	24.2
Country programme	22.04
Country programme	21.57
Country programme	18.19
Financial	16.07
Country programme / international policy advocacy	15.68
Country programme	15.62
Financial	14.86
International policy advocacy	14.43
Country programme	13.67
International policy advocacy	12.39
Business continuity	11.23

Total score

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[1] The total score (representing the mean score) is the outcome of IMT voting on the impact and probability of the risks that were under discussion, using a six by six matrix. Impact ratings: scale of 1 – 6, where a score of 1 is 'negligible' and a score of 6 is 'catastrophic'. Probability ratings: scale of 1 – 6, where a score of 1 is 'virtually impossible' and a score of 6 is 'virtually certain to occur in the time frame'.

Corporate risk profile – Summary of risks 6 – 14

Rank	Risk	Risk area	Mitigating strategies
6	**Given** the greater complexities involved in managing larger programmes (and noting that the number of larger programmes may increase as a result of the expanded programme of work (POW)), **there is a risk that** government, IFAD and partner capacities to effectively support their management may be inadequate, **hindering** full achievement of development objectives.	Country programme	1. Place greater emphasis on identifying in-country capacity requirements and provision of support to capacity development of implementing partners, possibly through use of grant resources. 2. Country presence. 3. Strengthen mainstreaming of country programme approach (for example through improved knowledge management (KM) and review of IFAD's instruments).
7	**Due to** increased POW, debt sustainability framework, new general conditions (which lead to faster disbursement schedules) and the expected increased role of IFAD in addressing food security and climate change, **there is a risk that** there may be a mismatch between resource inflows, outflows and liquidity requirements, **causing** increased financial volatility and overdependence on replenishment.	Financial	1. Working group tasked with preparation of a revised liquidity policy is operational. Focus is on ensuring that reviews of investments and liquidity policies are conducted effectively as a basis for making changes in light of the financial crisis. 2. Review of financial management strategy linked to IFAD's medium- and long-term business (FC/Treasury Division/PMD proposal submitted to Operations Management Committee/ERMC). 3. Rethink IFAD's resourcing model (primarily based on replenishment) and explore other sources, such as possible amendment to the basic agreement, if necessary. 4. Strengthen the resource mobilization strategy task force.
8	**If** concrete guidance on KM practice and appropriate incentives/accountability are not defined, **there is a risk that** KM may not be effectively mainstreamed into IFAD's business processes, **inhibiting** efforts to become a more effective knowledge-sharing institution.	Country programme/ international policy advocacy	1. Integrate KM more explicitly into IFAD's performance management and budget system (corporate management results, key performance indicators, budget allocations, performance evaluation system).
9	**Because** of volatile security conditions and/or failure to fully and consistently comply with established field security procedures, the lives of IFAD's workforce travelling to or based in Member States **may be at serious risk**, which in addition to the potentially grave consequences for staff, **would limit** IFAD's ability to supervise projects directly and to actively engage with country-level stakeholders.	Country programme	1. Ensure compliance with United Nations security procedures by IFAD's workforce. 2. Carry out security risk assessments before opening IFAD country offices.
10	**There is a risk that** IFAD may not fully exploit the	Financial	1. Special Adviser for Arab OPEC members has been recruited.

Rank	Risk	Risk area	Mitigating strategies
	resource mobilization potential of non-OECD [Organisation for Economic Cooperation and Development] countries for the Ninth Replenishment.		2. IFAD will seek to increase participation of Arab OPEC members in the Ninth Replenishment and continue to increase cooperation with specialized agencies in the Gulf region. 3. Open a liaison office in the Arab region.
11	**If** IFAD's processes for assessment and selection of policy priorities, and planning for international policy engagement are not adequately designed or managed, **there is a risk that** its international policy engagement may be improvised and reactive, **with the result that it is** of limited strategic value.	International policy advocacy	1. Provide staff training on policymaking, analysis, dialogue, advocacy and communication. 2. Develop advocacy strategy to bring clearer sense of results IFAD wants to achieve through its policy advocacy work to guide the level of effort, division of labour and resources that should be dedicated to it. 3. Develop a light system to assess/define IFAD's priorities for international engagement linked with the annual planning and budgeting cycle. 4. Improve articulation across departments (in both informal and formal ways), e.g. identify policy or communication focal points in PMD.
12	**Because** of poor governance and/or anticorruption measures by governments, **there is a risk that** fiduciary covenants of loans and grants may not be complied with, **hindering** full achievement of development objectives.	Country programme	1. Strengthen assessments of government capacity for procurement, and for addressing corruption issues, and carry out such assessments earlier, e.g. during development of country strategic opportunities programme or projects. 2. Monitor quality of procurement and financial management more closely during programme implementation. 3. Increase level of IFAD Senior Management support if investigations need to be carried out.
13	**Because** IFAD does not have well-developed and systematic programme-to-policy knowledge linkages, **there is a risk** that IFAD may have limited policy models or best practices to offer or share with policymakers, **potentially** undermining the strategic value of its engagement in policy advocacy.	Country programme/ international policy advocacy	1. Strengthen programme-to-policy knowledge linkages as a means of improving the quality of IFAD's inputs into policy dialogue.
14	**There is a risk that** major unforeseen events or crises may cause serious disruption to IFAD's operations.	Business continuity	1. Finalize and issue the President's Bulletin on the business continuity plan. 2. Test the existing plans. 3. Complete divisional plans. 4. Resolve legal issue regarding the delegation of authority from the President in crisis situations.