Brainstorming on risk management

**Purpose:** Raise several principles and policy questions upon which System Council input is sought to assist in the framing of the appropriate risk management framework of the CGIAR System – building on what’s already in place.

**Prepared by:** System Management Office
**Version:** 10 May 2017
Sc4-06B
Background
- Provisions of the Charter and Framework

- **System Council** to approve a *risk management framework of the CGIAR System*, with System-level escalation procedures, based on a proposal from the SMB, [*Framework - Article 6.1(l)*]

- **System Management Board** to approve the TOR and means for fulfilling the *Internal Audit Function* arrangements considering System Council inputs, and the arrangements of Centers, [*Charter, Article 8.1(i)*]

- **Both Council and Board**: Each to form an Audit and Risk Committee (noting that membership criteria and proposed mandates differ), [*Framework - Article 8.2(a), Charter - Article 9.11(a)*]

  - *‘Internal Audit Function’ definition* - means the arrangements agreed between the System Council and SMB to provide independent and objective assurance and advisory services to the System Council and SMB.
  - *No prescription what those “Internal Audit Function’ arrangements are:* Rather, what outcomes they must deliver – namely “provide assurance and advisory services”
Accepting that risk is an every day part of CGIAR System activities, the Board highlighted the following as three guiding principles:

1. **Significant risks should be identified and monitored**, enabling management within the respective entities (and across them for system-wide risks) to take informed decisions and take timely action.

2. **Strategic opportunities should be maximized** (not avoided), based on policies, guidelines and practices that give confidence that risks will be managed/mitigated as required.

3. **Objectives should be achieved**: In the CGIAR context, this means delivering on 3 strategic goals in the 2016–2030 Strategy and Results Framework.
What type of risk management “framework”?

SMB Proposal:

• ‘Framework’ should be **principles** not rules-based

• Setting a **philosophy and process** for deciding who handles which risks and how

• **Build on what already exists at the Centers and Funders too**: do not start new
SMB aspirations for that framework?

1. **Agreed and prioritized risk universe of the ‘top’ risks**
   - Relevant to the ‘extended organization’ nature of CGIAR
   - Including clear risk categories and definitions
   - With agreement on ‘risk appetite’ for each system risk
   - Including assessment of risk drivers & consequences

2. **Clear risk monitoring owners**
   - Risk being owned and managed by right body
   - Proactive risk communications & escalations plan
   - Routine consideration if have the right risks

3. **Centers sharing best practices on risk** – and adopting as seen useful common approaches
1. Agreed prioritized ‘top’ **System-wide** risks?

- Centers started some early brainstorming in Q1 2017
- Highly beneficial to seek System Council’s own impressions
- **Will help to shape:**
  1. Detailed statement of each key risk
  2. Risk overview – the factors that contribute to that risk
  3. Risk owner – who is **best** placed to own and monitor
  4. The appropriate risk response across an agreed spectrum
  5. As relevant – risk mitigation strategic actions
In **one or two words** what are the top System-wide risks?
Which categorization of risks resonates?

**Contextual Risks**
- External to the organization: Political, economic, environmental, state failure, conflict, humanitarian crisis

**Programmatic Risks**
- Relating to programme objectives and interventions: Failure to meet objectives and/or potential harm caused to others through inadequate interventions

**Institutional Risks**
- Internal to the organization: Fiduciary failure, operational security, reputational loss, financial loss through corruption

**Something relatively simple?**
- e.g. WFP (many others use similar concepts)

**Something intermediate?**
- Suggestion from General Assembly
  - Governance
  - Science
  - Security

**Something else?**
- Any funder models that resonate?
Then on to defining tolerance & appetite for ‘top’ risks

Potential if everything goes well

Where could end up if ‘bad’ things happen

Risk ‘universe’

Risk ‘tolerance’

Courtesy of Institute of Risk Management,
Risk Appetite and Tolerance Executive Summary
Thinking of terminology that resonates most

SMB proposal will include thinking on common terminology

<table>
<thead>
<tr>
<th>Categories of Risk Appetite</th>
<th>Types of Risk Response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CGIAR Center example</strong></td>
<td><strong>UN agency example</strong></td>
</tr>
<tr>
<td>Zero</td>
<td>Acceptance</td>
</tr>
<tr>
<td>Low</td>
<td>Control</td>
</tr>
<tr>
<td>Modest</td>
<td>Avoidance</td>
</tr>
<tr>
<td>Moderate</td>
<td>Transfer</td>
</tr>
<tr>
<td>High</td>
<td></td>
</tr>
<tr>
<td><strong>UK Public Sector</strong></td>
<td><strong>Other models</strong></td>
</tr>
<tr>
<td>Averse</td>
<td>Exploit</td>
</tr>
<tr>
<td>Cautious</td>
<td>Accept</td>
</tr>
<tr>
<td>Moderate</td>
<td>Reduce</td>
</tr>
<tr>
<td>Open</td>
<td>Transfer</td>
</tr>
<tr>
<td>Hungry</td>
<td>Ignore</td>
</tr>
<tr>
<td></td>
<td>Avoid</td>
</tr>
</tbody>
</table>
2. Clear risk monitoring owners

SMB working proposition on CGIAR System risks:

- **Of the universe of priority risks**: Some are most relevantly overseen by Center Boards or System Management Board or System Council
- **Others are so important** that many entities will consider the risk, but perhaps from different perspectives

Ownership: Vast majority are/should be responsibility of Center Boards but also a number of common risks
3. Centers thinking on best practices

• **Build already on what works well**
• Rely to the extent possible on existing assurances practices:
  - e.g - all have Internal Audit and External Audit providers
  - all have internal within-Center escalation practices

Two new areas agreed in Q1 2017 Audit Chairs’ meeting to explore to underpin the principles-based risk management framework

1. Testing ‘combined assurance’ as a model to demonstrate existing capacity – and find efficiencies
2. Agree to work towards a shared perception on ‘risk maturity’ and to move to an agreed standard over time
## Focusing on risk maturity

<table>
<thead>
<tr>
<th>Level of Maturity</th>
<th>Framework</th>
<th>Commitment</th>
<th>Ownership</th>
<th>Processes</th>
<th>Communication &amp; Training</th>
<th>Measurement</th>
<th>HR Support</th>
<th>Oversight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ad hoc</td>
<td>No structured approach</td>
<td>Risk management seen as unnecessary expense</td>
<td>No interest in using risk management</td>
<td>No tracking of risk management</td>
<td>No formal risk management training</td>
<td>No risk assessment performed</td>
<td>No HR support</td>
<td>No standard reporting</td>
</tr>
<tr>
<td>Initial</td>
<td>Policy/process defined</td>
<td>Rules-based approach</td>
<td>Partially defined roles</td>
<td>Risk management champion drives implementation</td>
<td>Risk management materials circulated</td>
<td>One-off requirements announced</td>
<td>New staff trained</td>
<td>Monitored by exception</td>
</tr>
<tr>
<td>Repeatabable</td>
<td>Practical guidance provided</td>
<td>Proactive approach</td>
<td>Clearly defined roles</td>
<td>Managers drive implementation</td>
<td>Co-ordinated training provided</td>
<td>Repeat measurements reported</td>
<td>Risk management integrated into all training</td>
<td>Business units monitor own risks</td>
</tr>
<tr>
<td>Managed</td>
<td>Managers confirm compliance</td>
<td>Risk management embedded</td>
<td>Center of excellence model</td>
<td>Business units drive implementation</td>
<td>Business units drive tailored training</td>
<td>Risks measured consistently</td>
<td>Risk management ability impacts hire/promote decisions</td>
<td>Single view of risk across organization</td>
</tr>
<tr>
<td>Excellence</td>
<td>Risk management central to decision making</td>
<td>Risk management used for strategic advantage</td>
<td>Managers pursue risk unconsciously</td>
<td>Board and CEO drive risk agenda</td>
<td>Training focuses on best practice</td>
<td>Risk-adjusted performance measures used</td>
<td>Risk management seamlessly integrated into HR</td>
<td>Business driven with key risk indicators</td>
</tr>
</tbody>
</table>

- **Necessary elements for effective risk management**
- **Suggested as adequate re balance of cost & benefit**
- **Suggested as optimal when balancing cost & benefit**
- **Feasible but with significant effort & funding**
# Center perceptions on risk maturity

<table>
<thead>
<tr>
<th>Level of Maturity</th>
<th>Framework</th>
<th>Commitment</th>
<th>Ownership</th>
<th>Processes</th>
<th>Communication &amp; Training</th>
<th>Measurement</th>
<th>HR Support</th>
<th>Oversight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ad hoc</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>8</td>
<td>4</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Initial</td>
<td>11</td>
<td>8</td>
<td>14</td>
<td>11</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Repeatable</td>
<td>6</td>
<td>15</td>
<td>8</td>
<td>13</td>
<td>17</td>
<td>16</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Managed</td>
<td>24</td>
<td>20</td>
<td>24</td>
<td>16</td>
<td>11</td>
<td>17</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>Excellence</td>
<td>7</td>
<td>6</td>
<td>3</td>
<td>7</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>12</td>
</tr>
</tbody>
</table>

*Suggested Adequate balance between cost/benefit*

*Suggested Optimal balance between cost/benefit*
Process Overview

**Workstream 1**
Determine preliminary top risks

- Develop a ‘risk register’ of potential ‘top’ risks
- Develop a categorization for risks and explore preliminary risk tolerance within them
- Selected System Council members invited to serve as an ad-hoc sounding board

**Workstream 2**
Put in place SC Audit & Risk Committee

- TOR for System Council’s Audit & Risk Committee
- Membership of SC’s Audit & Risk Committee
- Internal Audit Function defined and approved by SMB after consultation with the System Council
- Take the draft framework to the SMB September 2017 meeting

**Workstream 3**
Review risk assessment results and recommendations

- November 2017 SC5 Meeting – get consensus on Risk Management Framework
- Identify road map for rollout
- Routinely (annually?) reflect on risk appetite and tolerance in changing geopolitical context