



منظمة الأغذية
والزراعة
للأمم المتحدة

联合国
粮食及
农业组织

Food
and
Agriculture
Organization
of
the
United
Nations

Organisation
des
Nations
Unies
pour
l'alimentation
et
l'agriculture

Продовольственная и
сельскохозяйственная
организация
Объединенных
Наций

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

FINANCE COMMITTEE

Hundred and Thirty-fifth Session

Rome, 25 - 29 October 2010

**Progress Report on Introduction of an Enterprise Risk Management
Framework**

Queries on the substantive content of this document may be addressed to:

Mr Boyd Haight

Director, Office of Strategy, Planning and Resources Management

Tel. +3906 5705 5324

This document is printed in limited numbers to minimize the environmental impact of FAO's processes and contribute to climate neutrality. Delegates and observers are kindly requested to bring their copies to meetings and to avoid asking for additional copies. Most FAO meeting documents are available on the Internet at www.fao.org

EXECUTIVE SUMMARY

- The Immediate Plan of Action for FAO's Renewal (IPA) includes the implementation of an Enterprise Risk Management (ERM) framework, which is to improve the Organization's approach to identifying, prioritizing, managing and monitoring its risks, for example to the achievement of objectives, the management of resources or the protection and enhancement of its reputation.
- A team has been mobilized, background research completed, and an ERM implementation proposal has been drafted which sets out the initial design of a customised ERM Framework for FAO and defines the objectives and expected benefits of ERM, and includes a work plan for the project.
- The core of the ERM framework is a generic risk assessment process that will identify, score, mitigate and monitor/report on risks across the whole Organization. To ensure that ERM produces the greatest value and remains proportionate to FAO's needs, it will be targeted at five key management areas: fast problem response, Organizational Result formulation, work planning, managing field project/programme risk, and managing business improvement projects.
- By strengthening the capacity to identify and to act on risks, the framework will benefit the Organization by: improving the content of progress reporting to Members, raising management competence and so reducing any tendency towards unnecessary risk aversion or excessive risk taking; making strategic and operational plans more robust; increasing the Organization's efficiency and effectiveness by making business improvement projects more successful; and enabling the Organization to secure and retain more extra-budgetary funding, by meeting the ERM funding criteria of potential donors.
- The work plan foresees completion of the project's main elements within the current biennium and the USD 0.7 million in resources allocated under the IPA. The full recurrent cost in 2012-13 is estimated at USD 0.8 million.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to review and provide any views or guidance on the ERM framework and the work plan for its implementation.

Draft Advice

- **The Finance Committee notes the progress made on developing an ERM framework for FAO embedded in the Organization's results-based management process. It commended the stepwise approach to implementation, including multiple pilots to test the framework in the five management areas in which it will be applied. The Committee looks forward to receiving at its next regular session a report on the results of the pilots and the plan for full implementation of the institutional ERM in FAO, including the format for reporting to the Governing Bodies.**

I. Background

1. The Immediate Plan of Action for FAO's Renewal (IPA) includes the implementation of an Enterprise Risk Management (ERM) framework, which is to improve the Organization's approach to identifying, prioritizing, managing and monitoring its risks. The Finance Committee at its 128th Session in July 2009 affirmed the importance of ERM, and endorsed an internally-led project supported by specialized risk management consultants as needed, rather than a consultant-led approach as included under the IPA.¹

2. Subsequently, the Secretariat submitted to the Conference Committee on Follow-up to the Independent External Evaluation (CoC-IEE) a revised set of actions for the introduction of ERM under IPA Project 12, which were incorporated into the Integrated IPA contained in the report of the CoC-IEE on the IPA² and endorsed by the 36th Session of the Conference in November 2009³:

3.50 *Develop a project structure to implement an internally led organization-wide Enterprise Risk Management (ERM), e.g. organize a project team and its TOR, obtain necessary training and external guidance as needed, prepare a workplan, etc.*

3.51 *Design an appropriate ERM model to develop a customized ERM framework for the organization, with the support of external risk management consultants. The ERM framework should include key components that address the objectives, strategy, organization, risk processes, monitoring and reporting.*

3.52 *Initiate a pilot to test the ERM framework before a large-scale implementation.*

3.53 *Based on the results of the pilot, develop a comprehensive plan to fully implement ERM across the Organization.*

3.54 *Full Implementation of Enterprise Risk Management structure and systems (Institutional ERM).*

3. As requested by the Finance Committee at its 128th Session, this paper presents the proposed ERM framework, and a roadmap and costing for its implementation.

II. Recent progress

4. Research into ERM practices outside and across the UN system has been completed, including discussions with other agencies and first sight of the draft findings of the recent Joint Inspection Unit (JIU) review of ERM in the UN System. Some observations emerging from this research are:

- a) The international standard for risk management, ISO 31000, was issued in November 2009 and represents the most widely accepted definition of good risk management practices. The standard was a key point of reference for the JIU review. The proposed ERM framework for FAO follows the steps set out in the standard and will enable the Organization to progress towards compliance with the eleven principles of risk management identified therein.

¹ CL 137/4 paragraphs 19-22

² C 2009/7 Appendix 5, Annex 2

³ CR 4/2009

- b) While noting the differing approaches being taken to ERM by UN agencies, the JIU puts forward 10 benchmarks for successful ERM, and the FAO ERM framework is designed in a way that addresses the proposed JIU benchmarks.

5. A dedicated ERM project resource was recruited in July 2010, and a specialized risk management consultant was engaged in September 2010 to provide external ERM advice as needed. Under the guidance of the consultant, and with support from the Office of the Inspector-General, the Secretariat has drafted an ERM implementation proposal which sets out the initial design of a customised ERM Framework for FAO; it also defines the objectives and expected benefits of ERM and includes a full workplan for the project.

III. An ERM framework for FAO

Objectives and benefits

6. The objective of the project is to put in place an ERM Framework which will enable Management to proactively identify, prioritize, manage and monitor the full range of risks to the Organization, whether strategic, financial, operational or reputational.

7. By strengthening the capacity to identify and to act on risks, the framework will benefit the Organization by:

- a) improving the content of progress reporting to Members by enriching the information on risks and mitigating measures;
- b) raising management competence and so reducing any tendency towards excessive risk aversion or risk taking;
- c) making strategic and operational plans more robust and so better able to support the Organization's Strategic and Functional Objectives;
- d) increasing the Organization's efficiency and effectiveness by making business improvement projects more successful; and
- e) enabling the Organization to secure and retain more extra-budgetary funding, by meeting the ERM funding criteria of potential donors.

The FAO ERM Framework

8. The design of FAO's ERM framework is based on five principles:

- a) the use of proven, but simple, ERM concepts and processes;
- b) the focus of effort on areas that will add greatest value;
- c) the minimization of any avoidable burden on business areas;
- d) initial integration into existing results-based management processes, in particular strategic planning (Organizational Result formulation), operational work planning, project formulation, and monitoring and reporting; and
- e) a phased approach to extending coverage to all material areas of the Organization's work.

9. The core of the ERM framework is a generic risk assessment process, which will be embedded into existing FAO management processes. The generic process has four steps: a) identify risks, b) score risks, c) mitigate risks, and d) monitor/report on risks.

10. The "identify risks" step is the most important for raising management competence and building a mature risk culture. The toolkit that will be developed will allow managers to identify in a consistent manner the full range of risks, for example to the achievement of objectives, the use of resources in pursuit of those objectives, and that achievements protect and enhance the Organization's reputation. Subject to validation during piloting, this would be done by requiring staff to ask four basic questions about the activity involved:

- a) The future: what changes are on the horizon, as regards people and personnel, structure, volumes, service delivery standards, rules and regulations, markets, etc.?

- b) The past: what has gone wrong before, for example problems in design, failure to deliver anticipated benefits, cost overruns and control failures?
 - c) Stakeholders: whose expectations are not met, perhaps because their legitimate interests have not been recognised or their needs have not been identified and managed?
 - d) Dependencies: Whose support is needed to satisfy stakeholders?
11. The “score risks” step imposes common rating scales, of impact and likelihood, on all of the Organization’s risks, so allowing consistent monitoring, escalation, and reporting to management.
12. The “mitigate risks” step will be available in a normal and an enhanced form. The enhanced form will incorporate analytical tools to enable managers to identify the underlying causes of threats and to define actions to solve complex problems. These tools will focus on the identification of causes of problems and the generation and selection of options for corrective action.
13. The final “risk monitoring and reporting” step will involve the analysis and presentation of risk data to support pro-active executive governance over:
- a) the Organization’s exposure to risk (the main elements of the Organization’s risk profile, highlighting changes to exposure and matters which may require executive action); and
 - b) the effectiveness of the ERM Framework (statistics on risk assessments undertaken and risk log updates, highlighting any delays to ERM activities and assessing the effectiveness of risk action closure, proposing executive intervention where needed).
14. Risk management capacity will be put in place throughout FAO. However, to ensure that ERM provides the greatest value and remains proportionate to the Organization’s needs, the generic risk assessment process will be targeted at five areas of management and embedded in associated processes:
- a) “Fast problem response”: the ERM function will facilitate the solution of urgent business problems, using the generic process and the enhanced mitigation toolkit, when called on by Management.
 - b) “Organizational Result formulation”: the existing risk assessment component will be refined and made more robust by incorporating the generic process.
 - c) “Work Planning”: Unit Results, the primary operational and accountability level in the Organization’s results hierarchy, will obtain particular benefit from risk assessment during work planning, as mitigation strategies can be identified and incorporated at an early stage.
 - d) “Managing field project/programme risk”: the existing risk assessment component of project planning will be strengthened by the generic process and applied before a project’s approval and through to its close.
 - e) “Managing business improvement projects”: the generic process will be applied before the start of a project and through to its close.

IV. Work plan and budget

15. The ERM framework implementation project has seven main phases during 2010-11:
- a) Build the generic ERM risk assessment process (**Q4/2010**)
 - b) Pilot the ERM element for Organizational Results refinement/formulation (on one Strategic Objective and one Functional Objective) and then implement (**Q4/2010**)
 - c) Build risk assessment capacity across the whole Organization (**Q1/2011 and continuing**)

- d) Pilot “Fast problem response” service and then implement (**Q1/2011**)
- e) Pilot ERM for selected field projects/programmes, one Country Programme, one Emergency project, and then implement (**Q1-2/2011**)
- f) Pilot ERM for business improvement projects (on one project) and then implement (**Q2/2011**)
- g) Pilot and establish the ERM element for Work Planning (**Q3/2011**)

16. The project will be staffed by one Senior Officer, and one implementation support officer under the direction of the Director, Office of Strategy, Planning and Resources Management (OSP) and the guidance of specialized risk management consultants as needed. The project team Terms of Reference will be prepared during October 2010.

17. The Office of the Inspector-General has been instrumental in advising Management on the adoption of ERM. The Office will continue to support ERM through this implementation phase, providing advice to Management on an on-going basis both as a member of the Project Steering Board, and to the project team as policies and processes are developed.

18. To implement the ERM framework according to this plan, IPA Project 12 has a budget of USD 700,000 in 2010-11 to provide for:

	<u>USD</u>
Senior Officer (P-5, 75% for 15 months):	225,000
Implementation Support	175,000
Specialized risk management consultants	150,000
Operating expenses for pilots and the development of training materials:	150,000
Total:	700,000

19. The full recurrent cost of implementing the ERM framework in 2010-13 is estimated at USD 0.8 million for two full-time ERM specialists in the Office of Strategy, Planning and Resources Management.

20. The Finance Committee is invited to review and provide any views or guidance on the ERM framework and the work plan for its implementation.