Progress on Enterprise Risk Management

1.   The Finance Committee at its 128th Session in July 2009 affirmed the importance of Enterprise Risk Management (ERM), and endorsed an internally-led project supported by specialized risk management consultants as needed, rather than a consultant-led approach as originally included under the IPA. Subsequently, the Secretariat submitted to the CoC-IEE a revised set of actions for the introduction of ERM under IPA Project 12, which were contained in the report of the CoC-IEE on the IPA and endorsed by the 36th Session of the Conference in November 2009:

> 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 work plan, 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).*

2.   The 135th session of the Finance Committee in October 2010 considered the proposed ERM framework and roadmap for its implementation (FC 135/13). It commended the direction that the secretariat was taking to embed ERM in results-based management. A second progress report will be presented to the 138th Session of the Finance Committee in March 2011.

3.   This paper outlines the ERM framework developed in 2010 the business plan being used for implementation in 2011.

ERM framework

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

5.   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 with 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.

6. To deliver these benefits, 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 covering all material areas of the Organization's work.

7. 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.

8. To ensure that ERM provides the greatest value proportionate to management needs, risk management capacity will be put in place throughout FAO and the generic risk assessment process will be embedded in:
    a) the results-based framework of the MTP/PWB (Organizational Results) and operational work planning (Unit Results);
    b) managing field projects and business improvement projects;
    c) a "Fast problem response" functionality to facilitate the solution of urgent business problems.

Business plan

9. The ERM business plan was approved by the IPA Programme Board in January 2011, including significant advances in the design and structure of FAO's ERM framework:
- Governance: a Corporate Risk Committee will be established, under the chairmanship of DDG Operations. The Committee's specific responsibility will be to oversee the development of ERM policy; to ensure that the range of risks facing FAO is kept within acceptable limits; and to monitor the overall health and effectiveness of FAO's risk processes, taking action where required.
- Reporting parameters: ERM systems are being designed to produce two sets of reports: on the relative severity of risks facing FAO, and the performance of the ERM systems.
- Performance indicators: the business plan contained the performance measures which will be used to assess the extent to which the intended benefits of ERM are being delivered. These measures will form the basis for reporting to the Corporate Risk Committee on the health and effectiveness of ERM processes.

10. The ERM project expects to meet six milestones during 2011:
    a) build the generic ERM risk assessment process and begin to build risk assessment capacity across the Organization
    b) identify enhancements required in the results-based frameworks, if any, to support the introduction of ERM
    c) pilot the ERM element at Organizational Results level (for one Strategic Objective and one Functional Objective), then implement in others;
    d) pilot and establish the ERM element for operational work planning;
    e) pilot ERM for selected field projects/programmes (one Country Programme, one Emergency project) and one business improvement project, then implement in others;
    f) pilot "Fast problem response" service and then implement.