Risk Management

Risk management is an integral element of Results-Based Management (RBM), and delivery of UNEP’s Medium-Term Strategy (MTS) 2022-2025 and Programme of Work (PoW) 2022-2023 will include an enhanced emphasis on it.

Contents

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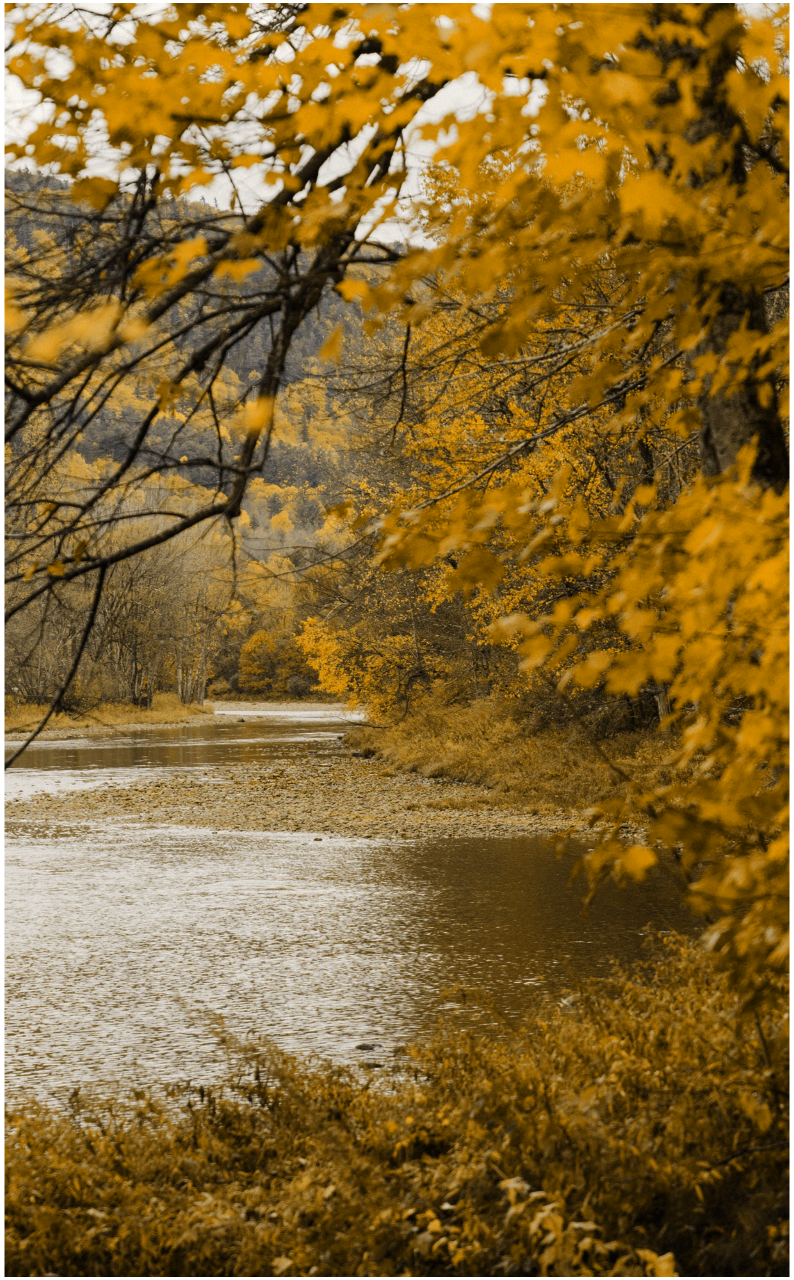


Risk Management in UNEP

UNEP employs Enterprise Risk Management (ERM), in line with UN Secretariat Enterprise Risk Management and the Internal Control (ERM/IC) Policy.

Enterprise Risk Management (ERM) facilitates effective strategic decisions and fosters dialogue at the most senior managerial level on critical matters facing the United Nations in an environment of increasing complexity and uncertainty. It supports enhanced accountability and contributes to the implementation of a best practice governance framework, through the transparent prioritization and clear ownership of objectives, risks, and managerial responses.

In UNEP, ERM involves embedding risk management in existing processes such as strategic planning, operational and financial management, programme and project delivery, and performance measurement and management, along with adopting consistent methods for the identification, assessment, mitigation, monitoring, and communication of risks.

ERM complements Results-Based Management by enabling effective objective setting with a clear, shared understanding of the internal and external uncertainties that may impact activities and the achievement of results. Risks and the effectiveness of related controls are also to be fully considered in the evaluation of programmes and relevant budgets. Elements of UNEP's ERM approach include but are not limited to corporate and division-level risk management, and UNEP's Environmental and Social Safeguards Framework (ESSF) which applies a risk-informed approach to addressing environmental and social risks and impacts. UNEP's Enterprise Risk Management and Internal Control guidelines (July 2021) provide greater information about the organization's approach.Every UNEP Division has a risk focal point; and risk assessments are integrated into programme and project review and management cycles. Risks can have an adverse effect on project results, but well-mitigated risks can also provide an opportunity to learn and strengthen approaches to project delivery

DEFINITIONS

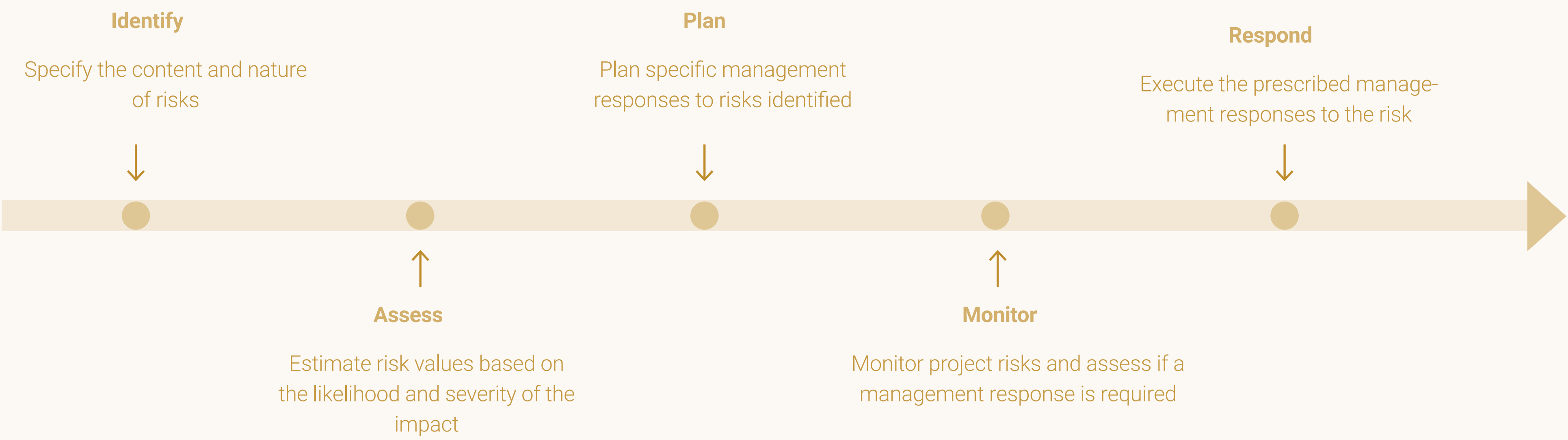
Risk	An uncertain event or condition that might occur during programme or project implementation and has an adverse effect on results.
Issue	A risk that has already occurred/materialized.
Impact	Result or effect of an issue. There may be a range of possible impacts associated with an issue and the rating scale goes from 1 (low impact) to 5 (significant).
Likelihood	The possibility that a given risk will occur. Rating scale for this is: 1 (unlikely) to 5 (expected).
Internal Control	Policies and procedures that help ensure risk responses are carried out properly and in a timely manner, include a range of activities, as diverse as approvals, authorizations, verifications, reconciliations, reviews of operational performance, physical controls, and segregation of duties.
Control Effectiveness	A measure of how reliably the internal control operates. The rating scale for it goes from 1 (highly ineffective) to 5 (effective)
Residual Risk	The remaining risk after management has taken action to alter the risk's likelihood or impact.
Risk Owner	The person(s) responsible for identifying and determining the available and appropriate course of action to manage the risk(s)

Project-Level Risk Management

A risk is an uncertain event or condition that might occur during project implementation. Risks can have an adverse effect on project results, but well-mitigated risks can also provide an opportunity to learn and strengthen approaches to project delivery. Risk management is an integral part of RBM, as risks are closely linked to project results. To achieve meaningful results, risks must be treated and responded to effectively.

A risk-management strategy allows for risks and their potential impacts to be identified, assessed, treated, and monitored. While identification and assessment of risks should be addressed at an early stage of project design, overall risk management should be considered an iterative process since the potential impacts of anticipated risks may change, and new risks can emerge throughout the project life cycle.

Risk management strategies for UNEP projects should be prepared and implemented based on the following steps:



Risk Identification

As a first step a Project/Task Manager needs to identify potential risks in a project. Stakeholders, project team members and implementing partners should all be engaged in the risk identification process. Interviews, brainstorming, and a review of lessons learned from similar projects are among the techniques that can be used.

Three processes involved in the project design phase also provide a useful opportunity for risk identification and assessment, these are development of the project's Theory of Change (ToC), the project stakeholder analysis, and the assessment of Environmental and Social Safeguard risks and completion of the Safeguard Risk Identification Form (SRIF).

More information on the SRIF can be found further on in this chapter, and in Chapter 3: Project Cycle Management (PCM). Module 2 of the UNEP RBM course provides further information on risk identification during the concept development and project design stage. It is recommended that all staff involved in UNEP projects complete this online course. See Chapter 9: Human Resources – Mandatory Training for further information.

An integral element of the UNEP Project Document (ProDoc) is the Risk Assessment Table. Other donor formats also include risk assessments as a core component of their project documentation. The ProDoc asks Project/Task Managers to document all identified risks during concept development and project design, categorized by Project Management Risks and Environmental and Social Safeguards Risks.

Project Management Risks

Project Management risks often relate to the project approach, partners, and budget, including any unexpected circumstances that may arise. The ProDoc Risk Assessment table requires the following information:

Risk Description	What is the nature of the risk?
Category	Economic, Political, Organizational, Reputational, Financial, Gender-Responsiveness, Administrative
Impact Severity	If the risk occurs, how severely will it impact the project? Rating scale: 1 (low), 2 (moderate), 3(high), 4(significant) – 5 (critical)
Likelihood	What is the likelihood of the risk occurring? Rating scale: 1 (rare), 2(unlikely), 3(likely), 4(highly likely) 5 (expected)

Risk Management Strategy and Safeguards	How will the risk be treated and responded to? Treatment and response are the two main components of risk mitigation.
By When and Whom	When or how frequently will the risk be monitored, and who is responsible for this task? Clear roles and responsibilities in the management of the risks should be determined. Stakeholders cannot be given such responsibilities. It is the responsibility of UNEP to monitor and manage risks inherent in its projects.

Risks can involve both external and internal factors. External risks are those that might occur outside the control of the programme or project. They represent factors of the project environment including political, economic, environmental, and social conditions. Internal risks are those over which project staff have greater control as part of good project-cycle management such as risks related to human resources, procurement, funding, and implementing partner capacity. Examples of key risks that should be considered during risk identification are described below. The UNEP Risk Analysis Table can be used as a reference to identify different types of risks.

External Risks

Economic

- Financial environment (inflation, exchange rate, banking infrastructure, communication infrastructure, etc.)
- Relationship between the beneficiary countries and donors

Political/Social

- Political stability in countries and regions where projects are to be implemented.
- Government change during implementation period and impact on support for the project or on turnover of staff responsible for project delivery.
- Lack or decrease of security at regional and country levels, or conflict risk.
- Lack of good governance in structures and institutions engaged in implementation of the project.
- Government/partners/beneficiaries not honoring their commitment or buy-in to the project.
- Challenges gaining beneficiary buy-in or participation.

Environmental

- Natural Disaster (Flood, cyclone, earthquake, etc.) and potential impact on project delivery.

Gender-responsive

- Equal/appropriate participation, representation and/or access of women and men – in decision-making as well as project implementation activities.

Internal Risks

Partnership Risks

Risks associated with partners include, inter alia, reputational, fiduciary and administrative risks. UNEP's partnership due diligence procedure consists of evaluating the suitability of the prospective partner, and their credentials in relation to human rights and gender equality, technical and strategic capacity to carry out project activities, current or previous experience with UNEP, audit concerns, and essential financial and administrative information, including procurement, and potential conflicts of interest.

The partnership assessment procedure considers the planned partnership activities specifically from a risk perspective. Risks relating to legal, financial, operational, technical, reputational, economic, political, organizational, environmental, and social aspects, including any specific risks related to breach of contract, ability to deliver outputs, safeguards, fraud, and corruption should be identified and assessed.

All risks identified, including those identified during partner validation and due diligence, that are assessed as medium or high must be entered into a risk mitigation plan. For Implementing Partners recognized as potentially high-risk, project staff should consider including arrangements for mandatory and regularised performance surveys and reviews (including financial reviews); on-site inspections; follow-ups and spot checks to mitigate delays in project implementation and ensure accountability. These aspects should be resourced, and expressed in relevant Partnership Agreements to ensure agreed risk management. See the chapter on Partnerships for further information.

Human Resource (HR) Risks

Human resources are key to good project-cycle management and the successful delivery of project outcomes. Recruitment in UNEP is subject to complex rules and procedures which must be followed but which take time to navigate and complete.

On projects that require additional human resource through the hiring of staff, contractors or consultants, good recruitment planning is essential to avoid recruitment risks related to length of time to complete hiring procedures, or ability to identify and source required expertise. Potential HR risks should be identified and assessed during the concept development and project design stage. Where possible, outsourcing the recruitment either to the Partner or to a Third Party could be examined. See the chapter on Partnerships for further information.

Procurement Risks

There are risks in each phase of the procurement process that can affect the delivery of a project or programme's outcome, and there are organizational and commercial measures that can be taken to mitigate those risks. Risks to successful procurement include external factors such as time taken by donors to approve project activities and budgets which can impact on project timelines, and internal factors such as complexity and duration of procurement procedures depending on the type and value of goods, services and works required, along with inadequate planning which can lead to delays in delivery and generate friction among colleagues.

By involving Requisitioners in the early planning stages and developing a project acquisition plan, project personnel can ensure that requirements for procurement are properly integrated. There are multiple risks and consequences at each stage of the procurement process; managing these risks is part of the professional responsibility of Requisitioners and Procurement Officers. Further guidance on planning and executing procurement activities can be found in the Procurement chapter and in the UN Procurement Manual (2020 - Section 15.3).

Environmental and Social Safeguard Risks

UNEP's Environmental and Social Safeguard Framework (ESSF) aims to strengthen the sustainability and accountability of UNEP programmes and projects, through respect for human rights and by protecting people and the environment from potential adverse effects of project interventions. The ESSF sets out UNEP's commitment to sustainable development and environmental and social standards and aims to integrate them into the concept development and design of programmes and projects as well as during project implementation, monitoring, reporting and evaluation.

The ESSF sets out eight (8) environmental and social Safeguard Standards (SS) for UNEP programmes and projects to meet. It establishes procedures for identifying and avoiding, or where avoidance is not possible, mitigating environmental, social and economic risks. The ESSF applies to all UNEP programmes and projects, UNEP-Administered MEAs, Implementing Partners, Executing Agencies, and Contractors.

UNEP's eight (8) Safeguard Standards (SS)

SS1	Biodiversity, Ecosystems and Sustainable Natural Resource Management	**SS5**	Cultural Heritage
SS2	Climate Change and Disaster Risks	**SS6**	Displacement and Involuntary Resettlement
SS3	Pollution Prevention and Resource Efficiency	**SS7**	Indigenous Peoples
SS4	Community Health, Safety and Security	**SS8**	Labour and Working Conditions

Safeguards Risk Identification Form (SRIF)

UNEP environmental, social and economic risks are screened using the Safeguards Risk Identification Form (SRIF). The SRIF is used to identify and assess potential safeguard risks of proposed projects and their levels of significance, and to address them adequately by avoiding, mitigating or minimizing them in a structured, consultative and planned manner. The SRIF is a mandatory step in the concept development and project design phases of all projects. It forms part of the package of documents submitted to UNEP's Concept Approval Group (CAG) and Project Review Committee (PRC).

ROLE	RESPONSIBILITY
Project Manager / Developer or Task Manager	Contact the UNEP Safeguards Advisor early in the concept development/project design stage. Complete the SRIF during concept development utilizing the SAGE online system and revisit and update the form during project design.
Safeguards Advisor	Provide advice and guidance on identifying and assessing safeguard risks, and completion of the SRIF. Comments and clears the SRIF in consultation with the Project Managers/Developers or Task Managers.

The SRIF categorizes safeguard risks in one of three categories:

Low Risk

Low risk programmes and projects typically do not require further environmental and social analysis or management measures beyond application of the ESSF Guiding Principles, stakeholder engagement and access to complaints and grievance mechanism.

Moderate Risk

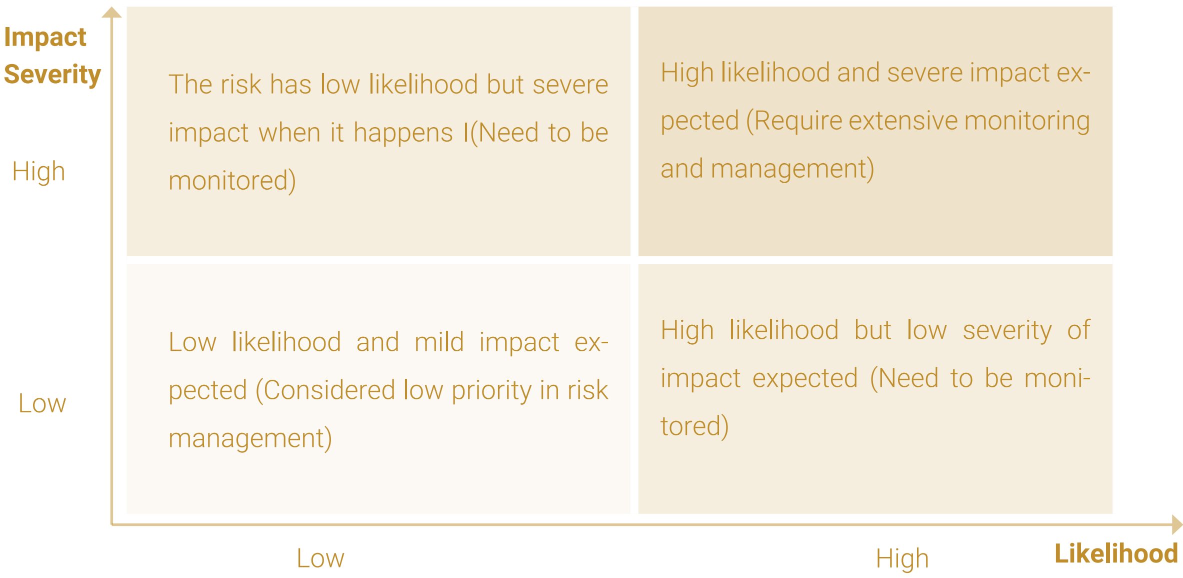
Moderate risk programmes and projects typically require targeted environmental and social analysis and application of recognized good international practice; in certain circumstances comprehensive forms of assessment may be required, along with an Environmental and Social Management Plan (ESMP).

High Risk

Low risk programmes and projects typically do not require further environmental and social analysis or management measures beyond application of the ESSF Guiding Principles, stakeholder engagement and access to complaints and grievance mechanism.

UNEP's ESSF Policy, and detailed information about UNEP's eight (8) Safeguard Standards, the Safeguards Risk Identification Form (SRIF), along with other useful information and contact details for the UNEP Safeguard's Advisor can be found on the Safeguards page of WeCollaborate.

Assessment of Risk



For each identified risk, whether that is a project management risk, environmental or social risk, partnership or procurement risk, or other, the Project Manager/Task Manager needs to assess:

- **Likelihood** – the possibility of an event to occur
- **Impact severity** - how the event would affect the achievement of outputs

This assessment will guide prioritization in risk management and provide the basis for selecting suitable management responses. Project/Task Managers are encouraged to use quantitative analyses wherever possible for objective evaluation of risk values.

The following scoring criteria exist in UNEP as a guide for measuring the impact, likelihood and level of internal control of identified risks:

Measuring Impact

	Rating	Duration	Organizational Scope	Reputational Impact	Impact on Operations	Financial Impact
5	Critical	Potentially irrecoverable impact	Organization wide	Reports in international media for more than one week	Inability to continue programme project operation	>5% of the project budget
4	Significant	Recoverable in the long-term (24-36 months)	Significant ongoing interruptions / within 2 or more project offices or locations	Comments in international media/forum	Disruptions in operations for one month longer	<5% of the project budget

<?> UNEP Enterprise Risk Management and Control – a guide for the implementation of UNEP-wide framework, August 2020.

	Rating	Duration	Organizational Scope	Reputational Impact	Impact on Operations	Financial Impact
3	High	Recoverable in the short-term (12-24 months)	Moderate impact / within 1 or more project offices or locations	Several external comments within country	Disruptions in operations for less than one month	<3% of the project budget
2	Moderate	Temporary (less than 12 months)	Limited impact within project office or locations	Isolated external comments within country	Moderate disruption of one week or less	<2% of the project budget
1	Low	Not applicable, or limited impact				<1% of the project budget

Likelihood Measurement

	Rating	Certainty	Frequency
5	Expected	>90%	Yearly, and/or multiple occurrences in a year
4	Highly likely	<90%	Every 1- 3 years
3	Likely	<60%	Every 3 – 7 years

Internal Control/Management Effectiveness Measurement

	Rating	Description
5	Effective	Controls are properly designed and operating as intended. Management activities effective in managing and mitigating risks.
4	Limited improvement needed	Controls and management activities are properly designed and operating somewhat effectively with some opportunities for improvement defined.
3	Significant improvement needed	Key controls and/or management activities in place, with significant opportunities for improvement identified.

	Rating	Certainty	Frequency
2	Unlikely	<30%	Every 7 – 10 years
1	Rare	<10%	

	Rating	Description
2	Ineffective	Limited controls and/or management activities are in place, high level of risk remains.
1	Highly ineffective	Controls and or management activities are non-existent or have major deficiencies and do not operate as intended.

Treating and Responding to Risks

ROLE	RESPONSIBILITY
Project Manager / Developer or Task Manager	Seek guidance and take proactive decisions to develop plans for treatment of risks and management responses to minimize the likelihood and impact of the identified risks. Record risks, ratings, internal controls and responses in a risk register that is regularly reviewed and updated.
Safeguards Advisor	Provide advice and guidance on managing environmental and social safeguard risks.
Fund Management Officer	Provide advice and guidance on managing financial risks.
Gender Advisor	Provide advice and guidance on managing gender risks.

In planning management responses for risks, the costs of the management responses should be examined against the cost of not managing (accepting) the risk. Fund Management Officers can be consulted to identify suitable management responses to financial risks.

.A risk register (sometimes known as a risk log) is a tool used to provide general information on risks or issues, to describe them, and to present the risk category, impact, likelihood, owner, risk drivers, internal controls, and response. An example of a risk-register, using UNEP's ERM approach is illustrated below:

Example of a Risk Register

Risk Number: *1*	**Risk Category**	**Impact**	**Likelihood**	**Internal Control Effectiveness**	**Residual Risk (Impact X Likelihood) – Level of Internal Control**	**Risk Owner**
		1-5	*1-5*	*1-5*		
Risk Definition	Description and nature of the risk					
Key Drivers			**Internal Controls**		**Risk Response**	
A description of factors that cause, influence or contribute to the risk.			Can include activities, as diverse as approvals, authorisations, verifications, reconciliations, reviews of operational performance, physical controls, and segregation of duties.		Action being taken to treat and respond to the risk	

Risk Treatment and Management

Common treatment and management responses to risks can be characterized as follows:

AVOID/PREVENT	REDUCE	INTERNAL CONTROL MONITORING	TRANSFER	ACCEPT
The adoption of prevention plans aimed at preventing the risk occurring by treating the risk contributing factors.	Through the deployment of response strategies, and appropriate risk treatment measures, to decrease the probability of the event occurring or reduce the impact of the event should it occur.	Control activities include approvals, authorizations, verifications, reviews of performance, physical controls and segregation of duties. Preventive controls are designed to limit the possibility of a risk maturing and an undesirable outcome being realized.	The transfer of risk exposures to external parties through mechanisms as insurance or outsourcing to ensure that a third party takes on responsibility for some of the impact.	Risks that can be managed in this way are those that have a low-risk exposure and a level of internal control effectiveness deemed high. A risk may be accepted, and considered either inherent in the environment, or an integral part of the activities necessary to achieve defined objectives.
EXAMPLES				
When holding a workshop that might be threatened by political unrest in the host country, a video conference can be convened instead, or the workshop can be re-scheduled to avoid disruption.	To reduce the likelihood of adverse effects from exchange rate fluctuations, funding can be disbursed in separate instalments.		In case a project might suffer significant financial impact from any delays by a contractor, relevant clauses can be included in the legal instrument to make sure the contractor bears the costs of delay.	

Management of Environmental and Social Safeguard Risks

In the case of Environmental and Social Safeguard risks, the development of an Environmental and Social Management Plan (ESMP) may be required, depending on the categorization of such risks in the Safeguard Risk Identification Form (SRIF). Further information is available in UNEP's Environmental and Social Social Framework (ESSF) Policy.

Risk Monitoring and Management

Project/Task Managers need to monitor and analyze project risks on a regular basis and implement the relevant management responses as risks emerge during project implementation. The Risk Log and management plan provides a basis for monitoring the risks and associated management responses. Project Managers should maintain and update Risk Logs and management plans, including ESMP, throughout the project cycle. In monitoring risks, the Project/Task Manager needs to review:

- Whether the identified risks have changed or become outdated
- Whether the planned management responses need to be modified
- Whether new risks have emerged

When risks are re-assessed or additional risks are identified, the Project/Task Manager needs to capture the information in the project risk register and prepare relevant management responses. Frequent communication with partners implementing a project can better inform the risk-monitoring process. Whenever a risk occurs during project implementation, the project team should refer to the risk management plan developed during the planning stage and execute the prescribed management responses described in the risk register. If a high-impact risk occurs, the Project/Task Manager is responsible for bringing the issue to the attention of the responsible Director and project steering committee for a decision on a response.

UNEP has taken steps to strengthen the project Quality Enhancement Reviews (QERs) and project Mid-Term Reviews (MTRs) to support project risk monitoring and management and identify projects at risk of not meeting targets. When a risk management action is taken, the Project/Task Manager should update the risk register.

Project Review Committee (PRC) and Risk/ Need Assessment

The Project Review Committee (PRC) reviews and assess the quality of projects before the formal approval of a Project Document and prior to submission to a donor or before signing a donor agreement. The PRC which includes the Safeguards Advisor reviews risks presented in the ProDoc and the plan for risk mitigation.

The risk evaluation process is evolving in UNEP, and a more rigorous assessment system will be established in 2023.

PIMS - Project-at-Risk System

UNEP maintains an electronic Project-at-Risk system in its Programme Information Management System (PIMS) to enhance performance management and risk monitoring at the project, programme, and corporate level. In future it is expected that a similar function will be developed in IPMR but until this takes place, it is advised that the risk thresholds described below are used at divisional level to track project performance and identify projects at risk of under-performing. Within PIMS, projects that exceed any of seven (7) specific thresholds were considered 'at risk' until the identified criteria are once again within the acceptable thresholds. The system helps identify systematic issues that require corrective actions by project and senior management. A rigorous definition of a 'project at risk' and a comprehensive risk management system is critical (monitoring and tracking of agreed timebound actions). Based on the automated data generated by PIMS, the Deputy Executive Director held monthly meetings with Directors to review the projects at risk and related management actions. It is the responsibility of the Project Manager to ensure that data in the Programme Information Management System reflects the latest information on the project's performance. The seven (7) risk thresholds are:

CATEGORY	RISK THRESHOLD
Budget	**1. Overspending:** Projects with accumulative expenditure 5% over the current year's accumulative allotment (exclude first six months as project is starting up) **2. Underspending:** Projects with accumulative expenditure less than 50% of the current year's accumulative allotment (exclude first six months as project is starting up) **3. Insufficient Funds:** Projects with secured funds being less than 30% of the approved budget
Project Performance	**4. Off Track:** Projects with a red (off-track) project performance rating (less than 60% of milestones met in the last six-month reporting period)
Project Cycle Management	**5. Slow-Maturing Projects:** More than six months have passed from the Project Review Committee's review meeting and the projects have not yet been approved. This measure tracks corporate efficiency, not project efficiency. **6. Ageing :Projects:** Projects that have surpassed the approved and agreed closure date for operations. Projects that are ongoing beyond this date are not permitted without authorization. Waivers to extend operation may be sought well in advance (3-6 months before closure). **7. Unclosed Projects:** Completed projects pending administrative closure, with all compliance actions addressed.