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General risk management strategy

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Report by the Director General

In line with conclusion 2016/8 of the thirty-second session of the Programme and Budget Committee, the present document reports on the progress achieved in UNIDO's general risk management strategy framework and measures undertaken for addressing the financial and administrative impact of Member States leaving the Organization.

I. UNIDO's general risk management strategy

1. The first section of the present document outlines briefly the management framework in place at UNIDO for the assessment and management of risks that may impede the achievement of organizational objectives. In the second section it presents measures adopted to address the recent reduction in membership.
2. The UNIDO risk management strategy framework follows the Director General's Bulletin on the "Internal Control Framework (ICF)"¹ and the "Enterprise Risk Management (ERM) Policy".² Details on the policies are included in the relevant Bulletins. Both the ICF and ERM Policy were developed based on guidance issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO),

¹ DGB/(M).119/Rev.1: Internal Control Framework.

² DGB/(P).126: Enterprise Risk Management Policy.

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which is the leading international body in these matters. In addition, it builds on and integrates UNIDO's existing risk management activities, relevant policies, procedures, and standards of behaviour into a consistent set of practices. The resulting ERM strategy framework provides a comprehensive base for setting up an organization-wide process of structured, integrated and systematic identification, analysis, evaluation, response, and monitoring of risks. However, it should be noted that implementing the ERM strategy is an evolving process and requires time and resources to reach a level of full maturity. Hence, the Organization will report periodically on the progress made in implementing the below presented ERM strategy framework, as well as on further updates to the strategy framework. The Secretariat plans to establish an internal task force to monitor the financial and administrative impact of Member States leaving the Organization, according to the areas outlined in section II, and channel its findings into the comprehensive risk response plan. Updates on the progress achieved in this regard will be presented to future sessions of the policymaking organs.

The ERM strategy framework

3. Risk management practices are embedded into existing business processes of UNIDO as an integral part of all decision-making processes. UNIDO needs to be aware of the risks it faces stemming from external and internal events and their implications for the Organization's resources and operations. A prerequisite for effective risk assessment and risk management is the establishment of a mission/vision, an ERM strategy framework and objectives, and setting aligned objectives cascaded throughout the Organization. The ERM strategy framework is geared to achieving the Organization's objectives set in four categories:

(a) *Strategic* — pertains to the effective alignment of UNIDO's long-term direction with its mandate, the needs of its Member States and the Organization's role in the wider United Nations development agenda. UNIDO's ISID mandate is contained in the Lima Declaration; the 2030 Agenda for Sustainable Development, Sustainable Development Goal (SDG) 9, and other industry-related SDGs; the UNIDO medium-term programme frameworks (MTPFs); and the biennial programme and budgets. Risk management is integrated into the strategic planning and operations of all departments and divisions of the Organization.

(b) *Operations* — pertain to the effective and efficient use of the Organization's resources. The effective and efficient Organization's activities contribute to the expected outcomes in UNIDO client countries, through the three thematic priorities of the strategic programme framework.

(c) *Reporting* — pertains to the reliability of reporting of financial and non-financial information. UNIDO programme progress reports, including the Annual Report, provide management with accurate, complete, and appropriate information. In addition to providing a summary of the funding situation and its impact on programme implementation, these reports also focus on innovations introduced and lessons learned. The Organization's financial situation and performance are reported through financial statements that comply with International Public Sector Accounting Standards.

(d) *Compliance* — pertains to the adherence to relevant laws and regulations. In its efforts to support all developing countries and countries with

economies in transition, UNIDO ensures that its activities are carried out strictly in accordance with its internal regulatory framework. The current oversight mechanisms in UNIDO, which also involve the External Auditor, the Office of Internal Oversight and Ethics (IOE) and the Office of Legal Affairs, contribute to ensuring that compliance.

Objectives under (a) and (b) above, are subject to external events and are not always within the Organization's control. For these objectives, ERM can provide reasonable assurance that management and the Executive Board are made aware, in a timely manner, of the extent to which the Organization is moving towards achievement of these objectives. For objectives under (c) and (d), which are within the Organization's control, ERM can provide reasonable assurance of achieving them.

4. The ERM strategy framework includes the following components:

(a) *Objective setting* — Objectives must exist before management can identify potential events affecting their achievement. ERM ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with its risk tolerance.

(b) *ERM policies and procedures* are established and implemented to ensure that the risk responses are carried out effectively. The UNIDO ERM Policy was articulated in DGB/(P).126 on the Enterprise Risk Management Policy and communicated across the Organization.

(c) *Risk tolerance* refers to the risk levels an organization is prepared to accept linked to the objectives it has set to achieve. Hence, decisions on mitigation strategies for identified risks and on establishing controls need to consider the relative costs and benefits, aligning them with the Organization's risk tolerance levels.

(d) *Event identification* assumes identifying internal and external events affecting the achievement of the Organization's objectives in terms of risks and opportunities, which are channelled back to the strategy or objective-setting stage. A process is in place to facilitate the identification of potential events that may positively or negatively affect UNIDO's ability to implement its strategy and achieve its objectives and performance goals.

(e) *Risk assessment* (identification and analysis) is the process of identifying and analysing risks to the achievement of the Organization's objectives and takes place at two distinct levels: *institutional* and *functional*. At the institutional level, the major risks relevant to UNIDO are assessed, whereas risks at the functional level pertain to the Organization's regulatory framework and structure. Identified risks are required to be listed in a risk register for both levels.

(f) *Risk response*: Each risk identified within UNIDO in any given risk register has a corresponding "risk owner", who is responsible for taking action to mitigate this risk. Where risks have been identified, mitigation/response processes have to be established, with a specific set of actions to manage the risks, aligning them with the Organization's risk tolerance levels. At the *institutional level*, the Executive Board, under the leadership of the Director General, manages risks on an ongoing basis. At the *functional level*, risk management and mitigation is part of the functional role of line managers, and is coordinated at the department level. Risk

management at the functional level is captured and monitored within the enterprise resource planning system and business processes.

Roles and responsibilities

5. The Director General of UNIDO has the overall responsibility for implementing the ERM Policy and the related processes. He sets “the tone at the top” and promotes ERM in the Organization. The ICF and the ERM Policy further specify the roles of the following entities: the Executive Board, the UNIDO Risk Focal Point, the Risk Liaison Officers, UNIDO staff, the Office of Internal Oversight and Ethics, the Evaluation Group, and the Office of Legal Affairs.

II. Measures to address the financial and administrative impact of Member States leaving the Organization

6. The risk of withdrawal of Member States from the Organization is constantly being monitored and carefully assessed by the Secretariat, with a view to minimizing the associated impact at the institutional and functional levels, as well as to reverse or at least halt the trend of withdrawal.

7. Mitigation efforts are in place, and include initiatives to (a) enhance dialogue between the Secretariat and Member States, (b) maximize the developmental impact of UNIDO operations through an optimized partnership approach, and (c) strengthen the perceived relevance of the Organization in the intergovernmental and policy discussions on development cooperation.

8. At the same time, measures are being adopted by the Organization to adjust to the financial and administrative impact of the changing membership and funding status. Should a Member State decide to withdraw from the Organization, UNIDO’s Constitution provides a one-year grace period for UNIDO to reflect the financial impact of the withdrawal in its next biennial budget and adjust its operations accordingly. In addition, the operational budget, which is funded by voluntary contributions, allows for recovering some of the negative financial impact of Member State withdrawals. Furthermore, to make use of voluntary contributions for funding core activities, the Board approved the creation of two special accounts in 2015 (IDB.43/Dec.6): the Special Account of Voluntary Contributions for Core Activities (SAVCCA) and the Major Capital Investment Fund (MCIF). Both funds, once attracting contributions, will mitigate the risk of resource constraints under the regular budget.

9. The Director General is deploying strict cost control measures on all budgetary expenditures. Such control measures include the temporary freeze of external recruitment and a higher reliance on temporary staff and other personnel with contractual terms that allow flexibility in case of the need for quick, emergency-induced cost reductions.

10. The above measures, together with the efficiency gains achieved from successive management and information technology reforms, have been effective. UNIDO’s service levels have remained high and its programmes are well funded. However, these measures may prove to be effective only in the short term; in the

long term, they may have a negative impact on the overall performance of the Organization, which would need to be addressed in the future.

Action required of the Board

11. The Board may wish to take note of the information provided in the present document.
