

FOR ACTION

Risk Management

Purpose

To monitor risk management within the Trust and consider whether it is being appropriately undertaken.

To prepare the 2009 annual Board Statement on Risk Management.

A Risk management approach for the Trust

The Executive Board has responsibility for ensuring that an appropriate risk management process is in place to identify and manage high and significant risks to the achievement of the Trust's objectives. They have adopted a risk management approach for the Trust where the review and monitoring of key risks is a standing item at each annual Board meeting and the expectation is that risks, defined as either:

- a threat (potential negative events);
- an opportunity (maximizing the upside or return); and
- an uncertainty (reducing the variance between anticipated outcomes and actual results);

are regularly identified, assessed, managed and monitored. As noted in the CGIAR Internal Auditing Unit, this three part definition implies that risk management, in the fullest sense, is therefore not just about "avoiding things that go wrong" but also about "helping to make things go right".

Identification

After establishing the strategic and operational context under which the Trust operates, including considering external factors such as political and economic, five risk types were identified:

- Performance risk;
- Governance risk;
- Financial risk;
- Operational risk; and
- Programme/project risk.

Two levels of risks are managed within the Trust:

- Board level risks - strategic risks at a higher level, many of which are the result of external factors and therefore out of Trust control;
- Secretariat level risks - management and operational risks, considered important to Trust operations but not relevant for Board consideration.

Analysis

At regular intervals the identified risks are analyzed and given a risk rating considering the likelihood and impact of the risk, based on the Australia and New Zealand Risk Management Standard AS/NZS 4360:2004. This Standard scores risks by considering the

risk consequence of impact and likelihood of occurring using 5x5 qualitative classes (Table 1).

The first step is to analyze the risk to obtain an ‘inherent’ risk score using the classes in Table 1. Following this, the impact of implementing risk mitigation actions is considered and then the analysis exercise is repeated, resulting in a ‘residual’ risk score. In most cases the mitigation action will have an impact of reducing either the consequence and/or likelihood of the risk occurring and thus the final residual risk score is often lower than the initial inherent risk score. Although this is not always the case.

An example of where the risk score has been reduced through management actions is risk # 4.2 “system failure, loss of data” (Table 2). Here the inherent risk of it occurring is ‘high’, due to the ‘possible’ likelihood of it occurring multiplied by the ‘severe’ consequence it could have on the organisation should it occur. However, following the adoption of mitigation actions as part of regular management procedures, the risk likelihood is significantly reduced to ‘rare’ and the consequence of it occurring is also reduced to ‘minimum’ because if it now were to occur, due to the various management actions it would not involve ALL data or systems. This has resulted in an overall residual risk score of ‘low’ and the risk has now been ranked towards the bottom of the risk concerns.

By utilising this approach, the Trust isn’t attempting the impossible task of eliminating all possible risks, but is attempting to grasp opportunities, to better understand the possible causes of failure and to manage them so as to minimize them or at least mitigate their impact on the organisation when they do occur.

The ranked summary was provided to Members prior to the Board meeting. The more detailed risk matrix, which includes both the inherent risk ratings and residual risk ratings, has not been tabled here but is available if required.

Table 1 – Risk level scoring table

	Consequence				
Likelihood	Severe	Major	Moderate	Minor	Insignificant
Almost certain	High	High	High	Significant	Significant
Likely	High	High	Significant	Significant	Moderate
Possible	High	Significant	Significant	Moderate	Low
Unlikely	High	Significant	Moderate	Low	Low
Rare	Significant	Significant	Moderate	Low	Low
Risk Level: Legend High: high risk; immediate action required Significant: significant risk; attention needed Moderate: moderate risk; management responsibility must be specified Low: low risk; manage by routine procedures					

Adapted from Australian & New Zealand Standard: Risk management No: AS/NZS 4360:2004

Table 2 – Example of Board level risk matrix- detail

		1) 1 st risk analysis			2) consider mitigation action	3) 2 nd risk analysis		
Risk		Likelihood x	Consequence =	Inherent risk	Action/control to mitigate risk	Likelihood x	Consequence =	Residual risk
4	operational							
4.2	System failure, loss of data	Possible	Severe	High	Off site data archive and backup. Disaster recovery plan. Access to appropriate external resources.	Rare	Minimum	Low

Management

The majority of the risk mitigation actions are focused on reducing the risk likelihood, impact or both (such as the maintenance of systems of internal control) as opposed to risk avoidance or risk acceptance. The Trust endeavors to manage risk by ensuring that the appropriate infrastructure, controls, systems and people are in place. Key practices employed to manage risks and opportunities include regular fundraising, investment and environmental scans; clear mission, policies and strategies; Programme logic and project planning; transaction approval frameworks; capacity and relationship building strategies with partners; financial and performance reporting; contingency plans and the monitoring of performance indicators and other metrics, such as the “Trust Dashboard”, which are designed to highlight performance across a broad range of areas.

At the beginning of the 4th quarter, the Secretariat undertook an assessment of risks for 2010. The results are tabled here for Board discussion and review.

Board level risks

At the Board level, the top three risks for 2010 scored as ‘significant’ fell into the performance, financial and programme risk categories. All have a reasonable degree of external factors influencing the outcome.

- Lack of momentum in reaching endowment fund target
- Market risk – erosion of financial resource
- Lack of willingness and/or capacity for collaboration among key partners to build a global system

Pleasingly, one of the risks that was rated in this ‘significant’ risk category last year has now been reclassified to a lower level of ‘moderate’.

- Strategic objectives not matched with political realities

During the review and assessment exercise some risk ratings were changed and an additional two risks were added by the Secretariat that should be noted by the Board.

- As mentioned above, the inherent likelihood of *Strategic objectives not matched with political reality* was reduced from 'likely' to 'possible' and the residual likelihood from 'possible' to 'unlikely', following the positive outcomes of the Governing Body meeting in Tunis.
- The risk of *Breakdown in relationship with Secretariat of the ITPGRFA or Governing Body or co hosts* was reviewed and the inherent likelihood was increased from 'unlikely' to 'likely' however, the residual likelihood following implementation of management actions remained at 'unlikely'.
- Two additional risks associated with the Board membership process were identified and added. These were:
 - *Maintenance of high-level Board membership; and*
 - *Politicisation of Board selection process.*

Secretariat level risks

At the Secretariat level, risks were identified in all risk categories with the exception of performance risk. Six risks were rated as 'significant' and these all fell into the operational and programme & projects risk categories. Many of these had been identified early on in original project documents. As suggested by the mid-term external review team for the – UNF / BMGF project, particular attention was given to reassessing the project risks and their likelihood and consequences in the light of their report.

As for the Board level risks, the six top risks with a 'significant' risk rating involve external factors where the Trust has less ability to influence the outcome. These risks, however, are being actively managed by the Secretariat in terms of reducing the likelihood or reducing the impacts where possible. The risks rated as 'significant' are:

- Inability to retain appropriate staff
- Lack of capacity for core operations (new risk)
- Some institutes are unwilling to cooperate
- Partners' unable to perform as per contract (deadlines, deliverables and requirements to make germplasm and information available in accordance with the Treaty)
- Interest in Trust *ex-situ* conservation activities diminishes (new risk)
- Culture change towards a more rational global system slows or ceases

Monitoring

The final step in the Trust risk assessment approach is regular monitoring. The Trust has identified three formal opportunities for monitoring the full suite of risk and as per the mitigation actions, individual risks are monitored regularly and frequently, depending on the scale of risk.

For the Board level risks, these are re-assessed annually before the annual Executive Board meeting in the last quarter, where they are reviewed by the Board and an annual Board Statement documenting the progress made is issued. The Board Statement on Risk Management and Internal Controls is published in the Trust Annual Report. Generally speaking, if a spring Board meeting is held, these will have a strong strategic agenda comprised of items that focus on the major risks facing the Trust at the time, however, a formal risk assessment is not undertaken.

At the Secretariat level, these risks are also re-assessed annually in the last quarter before the annual Executive Board meeting along with the Board level ones. In addition, the

Programme and Project risks are also reviewed during the first quarter before reporting to the Bill and Melinda Gates Foundation in May. This year, the mid-term external review team for the BMGF-UNF project also undertook an assessment in June.

Action

That Members review and monitor the Trust's risk management approach and resultant risk assessment.

That Members review and approve the 2009 annual Board Statement on Risk Management (Annex A).

**Global Crop Diversity Trust
Statement on Risk Management and Internal Controls
2009**

The Executive Board of the Global Crop Diversity Trust has responsibility for ensuring that an appropriate risk management process is in place to identify and manage high and significant risks to the achievement of the Trust's objectives. These risks include **performance, governance, financial, operational and programme risks** that are inherent in the nature, *modus operandi*, partnerships and location of the Trust's activities, and are dynamic as the environment in which the Trust operates changes. They represent the potential for loss or failure resulting from inadequate or failed internal processes or systems, human factors, or external events. Risk management is aimed at minimizing risks and taking appropriate opportunities in line with the organization's strategy and business plans. In the Trust's context, the objectives of risk management include:

- strong performance in ensuring the long-term conservation and availability of plant genetic resources;
- high impact, effective fund disbursement and allocation of scientific efforts towards building a global system;
- maintenance of integrity, reputation and recognition as an essential element of the funding strategy of the Treaty;
- momentum in building the endowment;
- strong performance from investment management;
- liquidity of funds for long-term programme needs;
- efficient transaction processing;
- maintenance of assets including information assets;
- recruitment, retention and effective utilization of qualified and experienced leadership and staff and capacity for core operations; and
- proper execution of legal, fiduciary and agency responsibilities.

Risk mitigation strategies include maintaining of systems of internal control and monitoring which, by their nature, are designed to manage rather than eliminate the risk. The Trust endeavors to manage risk by ensuring that the appropriate infrastructure, controls, systems and people are in place throughout the organization. Key practices employed in managing risks and opportunities include environmental scans, clear policies and accountabilities, transaction approval frameworks, early identification through monitoring, financial and technical reporting and the monitoring of metrics which are designed to highlight positive or negative performance across a broad range of areas.

The risk management approach of the Trust seeks to draw upon best practice and will be subject to ongoing review. The implementation of risk management during 2009 has been reviewed by the Board with the Trust Secretariat. The Board views risk management as an ongoing process and is satisfied with the progress made.