CGIAR

ILRI

INTERNATIONAL LIVESTOCK RESEARCH INSTITUTE

ILRI risk management policy

November 2016

Rev	Date	Change Summary
0	March 2012	Initial policy
1	September 2016	Updated with new content, and Related policies added

Contents

Introduction

Because of the uncertainty that is intrinsic to any endeavor, all enterprises are presented with both risks and opportunities in the achievement of their objectives. ILRI has a challenging mission that must be delivered in an increasingly complex environment.

The Institute faces operational, financial, and reputational risks that are inherent in the nature, location of its activities, and partnership management which remains the institute's fundamental modus operandi, and which are all dynamic as the environment in which the Institute operates changes. They represent the potential for loss resulting from inadequate or failed internal processes or systems, human factors, or external events. As experience in both the public and private sectors has shown, failure to adequately deal with risks and opportunities can result, in extreme cases, in the wholesale failure of organizations, severe losses by stakeholders and significant setbacks in terms of operational goals and objectives.

An effective Institute-wide risk management process should help the Institute deal with uncertainty and proactively respond to both risks and opportunities with the rigor expected of an international public organization. It should also provide confidence to donors, partners, and other stakeholders that the Institute is adhering, in its actions and use of resources, to the governance standards expected of an international public organization. For the purpose of risk management, such standards can be discerned from various national standards and guidelines on risk management and corporate governance recently published in CGIAR member countries. This policy has been prepared taking into account the currently available standards and guidelines in this area, and will be reviewed on a periodic basis, to reflect the presently evolving nature of this aspect of organizational governance.

The policy is designed to provide guidance to ILRI staff on implementing an Institute-wide risk management process, which comprises the following elements:

i. Communicating the Institute's overall risk management strategy;

ii. Defining the responsibilities within the Institute for risk management;

iii. Implementing a framework for identifying potential events, assessing risks and opportunities and selecting responses, thereby reducing the occurrence of surprises and related costs or losses while at the same time ensuring opportunities are not inadvertently missed. The framework provides, among other things:

    a. a basis for more explicit consideration of the acceptable levels of risk (the "risk appetite") in the Institutes' strategy setting and implementation;

    b. a method for assessing the interrelated impacts of risks in different areas. Risks for individual units may be within the units' risk tolerances, but taken together may exceed the risk appetite of the Institute as a whole;

    c. guidance on how the analysis of risks that are jointly managed with other CGIAR Consortium members, and entities external to the CGIAR, should be incorporated into the Institute's risk assessments;

iv. Reporting the results of risk management activities within the Institute and to external stakeholders.

Purpose and categories of risk management process

ILRI's risk management process is designed to systematically identify and manage high and significant risks and opportunities relating to the achievement of the Institute's business objectives.

The primary business objective is embodied in ILRI's mission, which is to enhance the well-being of present and future generations in developing countries through research that improves sustainable livestock production. Its research products are designed to raise livestock productivity without depleting the natural resources on which farming depends. This implies that the work that ILRI does has impact in this area.

Other "macro" business objectives which flow from this include:

a) "Doing the right things" -

Effectiveness

- Maintain strategic relevance (what is planned is relevant to the mission, and plans are appropriately adapted as external conditions change)
- Align actual research and networking activities with strategy
- Maintain scientific quality in research activities
- Ensure the protection and effective use of germplasm and animal genetic resources held in trust
- Continue operations of the Institute in the event of significant natural, political, social and other disruptions

b) "Doing things right" -

Efficiency

i. Maximize, through efficient allocation and economic use of resources, the amount of restricted and unrestricted funds available for research and networking activities
ii. Implement efficient financial, administrative and project management processes
iii. Protect the Institute's rights and assets

Financial Integrity and Compliance

i. Ensure adequate funds to meet medium term plans and short term obligations to third parties
ii. Adhere to sound investment practices expected by donors
iii. Comply with financial obligations to staff
iv. Comply with external financial reporting obligations

Legal Compliance and Reputation

i. Apply ethical principles to scientific research activities
ii. Protect intellectual public goods produced by the Institute against third party restrictions
iii. Comply with third party legal obligations, including those embedded in host country agreements
iv. Maintain a high reputation for integrity in the management of resources
v. Maintain a high reputation for scientific quality

Safety and Security

i. Ensure safe working environment for staff
ii. Ensure environmental safety of Institute activities
iii. Ensure security of Institute premises for the protection of assets and business continuity

The risk management process ensures that for these "macro" business objectives, and for various sub-objectives which may be identified, there is:

i. an adequate assessment made by the Institute, on an ongoing basis, of the relevant risks and opportunities, and
ii. related decisions and transactions are made taking into account these assessments.

Overall ILRI risk management strategy

ILRI seeks to take advantage of opportunities which will help it achieve its mission as effectively and efficiently as possible. It also seeks to minimize the risks associated with its activities where possible and where the costs justify related controls or other risk mitigating action. The Institute recognizes that risks cannot be eliminated, but must be managed. It therefore:

1. Focuses the attention and commitment of the board, management and staff to risk management by implementing a process of assessing risks and opportunities across the Institute's activities, culminating in an annual report to the board of trustees by management, and the adoption of an annual statement on risk management by the board;

2. Provides guidance to staff on the "risk appetite" that should be considered when assessing risks and the requirements for controls or other risk mitigating actions:

    a. "Risk appetite" is the amount of risk the Institute is prepared to be exposed to before it judges action to be necessary. The risk appetite can vary depending on the business objective, and can be explained in terms of the willingness of the Institute to accept the high or moderate likelihood of a particular risk actually eventuating. This will be influenced by the perceived impact of the risk to the organization.

    b. There are a number of activities where ILRI will ensure minimal risk by either not being involved in certain activities or implementing a high degree of control. These are made explicit by the Institute through the following means:
        i. A schedule of various transactions, approved by the board of trustees, for which board approval or consultation is required. These include approval of the Institute's strategic plan; annual operating plans and budgets; terms and conditions for the appointment and expenses of the director general and loans by the Institute to other organizations or individuals.

        ii. A financial investment policy approved by the board of trustees, which limits investments to approved risk instruments, and sets requirements to avoid the risks of concentration of investments in one financial institution.

        iii. An authority matrix, approved by the director general, specifying those transactions requiring director general approval. This includes approval of donor agreements, partner agreements, and pre-financing of project expenditures in anticipation of donor funding.

    c. However there will be various sub-objectives where the Institute is willing to accept moderate likelihood of risks in the pursuit of its mission. These include:

i. Research projects where returns on effort may not be certain but there are opportunities for significant breakthroughs on research problems. ILRI accepts and manages associated risks by requiring explicit consideration of the risks in internal project planning documents, through the application of logical framework methodology or other means;

ii. Partnerships with other organizations, particularly those in developing countries that are less well-endowed and benefit from their relationship with ILRI in terms of capacity building. ILRI accepts and manages risks to quality and timeliness of research contracted with such partners by requiring that agreements with partners specify required standards and targets, and mechanisms to allow ILRI to monitor performance and take timely action where standards or targets are not met.

iii. Decentralizes risk management as much as possible. The board and senior management focus on the aggregate risks to the achievement of the high level or “macro” objectives listed above. Unit managers and staff focus on the particular risks to the achievement of their work programs and other targets for which they are responsible, on the principle that they are best aware of existing and emerging risks at their operating level.

iv. Implements an internal audit function to provide an independent monitoring within the organization of the design and effectiveness of risk management and control activities.

Responsibilities for risk management

The Institute's board of trustees has overall responsibility for ensuring an appropriate risk management process is in place.

The Institute Management Committee under the leadership of the Director General are responsible for the Institute-wide implementation of a risk management system, creating an environment in the Institute whereby risks are appropriately identified, assessed and acted upon in accordance with the Institute's policies.

The Institute's management and staff are responsible for ensuring that risks are considered for all programs and business processes under their responsibility, and for identifying appropriate risk mitigation strategies after due consideration of costs and benefits.

Internal audit is responsible for reviewing the design and effectiveness of the risk management system and internal controls on an ongoing basis, and reporting the results of its reviews to the Director General, and to the Institute's board of trustees, through the Audit and Risk committee. The Head of IAU provides a focal point for integrating the results of risk management activities throughout the Institute and supports management and the board in the preparation of Institute-wide risk assessments and reporting.

ILRI’s risk management framework

The risk management framework has five key elements:

1. **<u>Identification of risks</u>**

The Institute’s board of trustees and management will regularly review, as part of their strategy setting, the context within which the Institute operates and will maintain a broad understanding of the risks and opportunities in the internal and external environment at this level. In order to do this comprehensively, a range of risk dimensions, including financial, operational, human resources, physical environment, host country, donor, partner, supplier, impact, safety, legal, and reputational dimensions, will be considered.

Proposals for changes in strategy or adoption of new initiatives are required to include an analysis of the associated internal and external risks and how they will be addressed.

The Institute’s management will integrate into business processes the identification of key risks and opportunities at process/unit and Institute level and inventory these risks and opportunities for assessment and monitoring.

2. **<u>Risk analysis and evaluation</u>**

The Institute shall consider, at unit level as well as in aggregate across the Institute, how the identified risks might affect the achievement of the Institute’s objectives from two perspectives - the impact of occurrence and the likelihood of occurrence.

Risk impact – The severity of the exposure to the Institute if a risk event occurred. For analytical purposes, this will be measured in terms of:

- High – failure has the potential to significantly damage or destroy the effective functioning of the Institute or its future viability, particularly through loss of important donors’ confidence or major financial or reputational loss. Also includes potentially significant employee health and safety hazards.
- Moderate – failure has the potential to damage important aspects of the Institute’s functions or future viability, which would require significant management effort and time to recover.
- Limited – failure has the potential to damage particular aspects of the Institute’s functions, diverting management effort if an adverse event occurred, but not expected to damage the overall medium-long term operations of the Institute.

Risk likelihood - The probability of a risk event occurring, given what is known about the degree or quality of the risk mitigation strategies in place for a given risk. For analytical purposes, this will be measured in terms of:

- High – Mitigating actions –designed by the Institute, in terms of (i) avoidance of certain activities, (ii) implementing controls (such as policies, procedures, clarity of responsibilities, training, management monitoring and information), and/or (iii) insurance arrangements, have not been taken or are limited, and occurrence of adverse events for the Institute is therefore considered likely over the short-medium term.
- Moderate – Appropriate mitigating actions have been designed by the Institute but are not yet operating effectively; or there are important omissions or further opportunities in terms of action the Institute should take, which if addressed would reduce the likelihood of an adverse

event occurring.

- Low – The mitigating actions taken by the Institute are sufficiently designed and operating effectively to reasonably protect the Institute against foreseen adverse events.

Each risk will be evaluated and classified in terms of the above two dimensions. A summary record of this analysis will be maintained to include the following items:

- Business objective
- Potential risks
- Procedures and systems employed to manage the risks
- Manager(s) responsible for ensuring the effectiveness of these procedures and systems
- Recent or planned reviews of the procedures or systems (e.g. CCERs, special review consultancies, internal audits, external audits)
- Risk impact assessment (high, moderate, limited)
- Risk likelihood assessment (high, moderate, low)
- Recent risk mitigation achievements or plans, or areas flagged as requiring further focused attention to risk mitigation.

These evaluations will be made and documented periodically at both unit and Institute level (see Annex I for a format).

In the case of risks which the Institute shares with other Consortium Members or other entities (common services eg OCS, Open Access), designated Institute staff will be responsible for providing evaluations. These may draw on risk identification, analysis and evaluation exercises undertaken jointly with partners.

3. Risk treatment

Risk treatment comprises the mitigating measures employed to manage significant risks to the Institution. These can include:

- risk avoidance (not undertaking certain activities);
- risk reduction (implementing internal controls and other activities to minimize the likelihood of occurrence of risk events); Risk reduction activities include the implementation of authority matrices which define the approval requirements for various types and levels of transactions, the dissemination of policies and guidelines, implementation of control procedures, training, monitoring and evaluation systems, and information reporting and feedback systems. They have a cost, and therefore the extent of measures employed by the Institute will be tailored according to cost-benefit tests. This needs to be monitored over time as the perceived impact and likelihood of risks may change as the Institute's environment changes. Management may seek the advice of external consultants, internal and external auditors to ascertain the appropriate balance in terms of risks and controls.
- risk sharing (especially through insurance arrangements, to minimize the impact of risk events which occur); and
- risk acceptance (not taking action, on the basis that the Institute is willing to bear a loss if a risk event occurs. This may arise where the risk presents low impact and likelihood.

4. Monitoring and review

The Institute management committee will develop an appropriate monitoring system to provide assurance that risk mitigation measures are being implemented as intended, through a combination of monitoring ongoing activities and through separate evaluations. This includes an annual program of internal audits (developed in the context of a three-year rolling plan) approved by the Director General (see Annex I for a summary format). The board of trustees (audit and risk committee) is expected to review this program annually.

5. Reporting

The key reporting requirements for the Institute's risk management system are:

a) An annual board of trustees' statement on risk management, for external stakeholders;
b) Director General's annual report to the board of trustees on the results of the Institute's risk assessments during the year. This will support the Board statement and will be based on the results of various reviews and self-assessments carried out within the Institute, and by external consultants, internal and external auditors.

6. Risk ratings and Score Chart

Risk ratings are a composite of the **impact** of the risk which the recommendation is addressing and the **likelihood** of that risk occurring if action is not implemented. For analytical purposes, composite risk is classified as follows:

12 or More. Risk Score is High	Failure has the potential to significantly damage or destroy the effective functioning of the process and/or Program/unit or its future viability. The risk would require attention and action by senior management and a clear action plan developed.
6 to 11. Risk Score is Significant	Failure has the potential to damage important aspects of the Program/Unit/Process functions or future viability, which would require significant management effort and time to recover.
3 to 5. Risk Score is Moderate	Failure has the potential to damage particular aspects of the Program Unit/ functions, diverting management effort if an adverse event occurred, but not expected to damage the overall medium-long term operations of the Program/Process.
2 or Less. Risk Score is Low	Failure would have limited impact on the process or Program/Process functioning.

Risk rating Score chart

Impact				
	4	8	12	16
	3	6	9	12
	2	4	6	8
	1	2	3	4

Likelihood

Institutional risk register

Critical risks are detailed in the organizational risk register. This register states the risk, the level of risk, actions for managing the risk, lead risk owner and date for review. It serves as the repository of the most important risks that impact on the organization's ability to achieve its objectives. It allows senior management and the Board to monitor these risks, both individually and in the aggregate, and be assured that appropriate mitigation actions are being taken.

Policies and procedures

ILRI aims to manage risks by ensuring appropriate policies and procedures are documented, readily available to relevant staff and kept up to date to protect the mission, people, funds, information, relationships and reputation.

Partners

ILRI works closely with partners and relies on them to help achieve its mission. This includes a role in risk management. Partners fulfil this role by providing essential technical assistance to implementers in proposal development, the preparation of implementation plans, assistance on programmatic matters and reporting and a wide variety of other capacity building measures.

Partners also serve as a critical source of information and feedback on both strategic and operational risks across all aspects of operations as well as advice and recommendations on measures to mitigate these risks. This information, feedback and advice are provided through various means, including through Principal Investigators, but also on a day-to-day level through interaction with staff. ILRI recognizes that this partner input is essential to the successful and efficient implementation of sound risk management.

Related policies

i. Authorization matrix

ii. CGIAR Financial Guidelines

iii. Anti-Fraud and Anti-corruption Policy

iv. Project Management Framework

v. Internal Control Integrated Framework Control Statement

vi. ILRI Partner's Collaborative Research Agreement & Due Diligence Procedures

Annex 1

Objectives/ Activity	Risks	Risk Owner	Impact	Likelihood	Actions to address risks	Start date	End date	Status of current controls and actions
Effectiveness								
Efficiency								
Financial integrity and compliance								
Legal compliance and reputation								
Safety and security								