

Risk Management Strategy

EEA & Norway Grants 2009-2014

Adopted by the Financial Mechanism Committee
on 27 February 2013.

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Glossary

EEA	–	European Economic Area
EFTA	–	European Free Trade Association
FMC	–	Financial Mechanism Committee
FMO	–	Financial Mechanism Office
NMFA	–	Norwegian Ministry of Foreign Affairs

1 PURPOSE OF THE STRATEGY

1. This document outlines the Risk Management Strategy for the management of the EEA & Norway Grants.
2. The strategy applies directly to the donor states and their Secretariat – the Financial Mechanism Office (FMO).
3. The risk management of the beneficiary states is guided by the respective national systems, while the Regulations require active risk management and reporting to the donors and the FMO on risk assessment and handling.
4. The strategy builds on the principle that sound risk management is essential to effectively achieving the expected results of the EEA and Norway Grants. The EEA & Norway Grants are established to contribute to the overall objectives of reduced economic and social disparities in the European Economic Area and to strengthened bilateral relations between the donor and beneficiary states, as well as a number of related programme objectives and results related to horizontal concerns.
5. This document sets out:
 - Principles, definitions and the levels at which risk management should be applied;
 - The main features of the risk management approach applied by the donors and the FMO;
 - The responsibilities of the key actors at the different levels.
6. The strategy builds on the legal framework for the EEA & Norway Grants 2009-2014 (Section 5) and should be read in conjunction with the Results and Risk Management Guide.¹

Main features of the strategy:

- Senior management at the FMO and within the donor institutions directly oversee the implementation of the strategy;
- Ownership of risk management is clearly established by level and area of responsibility;
- The relevant actors should assess, document and communicate the risks taken in a systematic way;
- Adequate mitigation actions are implemented as required. Active risk mitigation is generally preferred to terminating planned programme activities.

2 RISK MANAGEMENT AS PART OF MANAGING FOR RESULTS

2.1 Definitions

7. The following definitions are applied:

Result	The output, outcome or objective (impact) of a development intervention.
Risk	An event or circumstance that may affect the achievement of expected results.
Managing for results	A management strategy by which all actors, contributing directly or indirectly to achieving a set of results, ensure that their processes, products and services contribute to the achievement of the desired results.

¹ The Results and Risk Management Guide, which describes the methodological approach to managing risk for the EEA and Norway Grants 2009-2014, will be available in 2013.

Risk management	A continuous, proactive and systematic process of identifying, assessing and managing risk in line with the accepted risk levels to provide reasonable assurance as to achieving the expected results. ²
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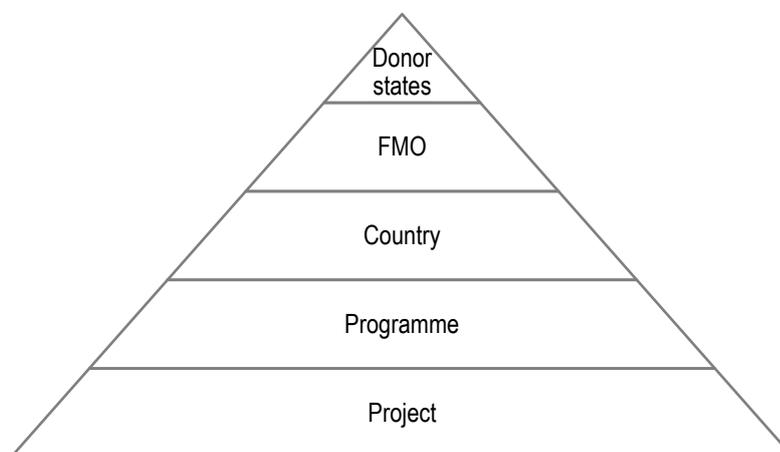
2.2 Principles

8. The EEA & Norway Grants 2009-2014 are managed in line with a results-based management approach. The ambitions in relation to the programmes, their progress and the actual results are measured based on objectively verifiable indicators. Management of risks and uncertainty as well as internal control are important for the success of this approach.
9. Risks are inevitable. The aim is not to eliminate risk altogether but to understand risk, manage it more effectively, and to identify opportunities – for example to reduce the need for complicated systems – thereby enhancing performance. A high level of risk may also be accepted in contexts where the expected impact and benefits are higher than the consequences of the potential risk.
10. Risk management is approached as a continuous, proactive and systematic process to understand, manage and communicate risk from a wide perspective. It should facilitate strategic decisions that contribute to achieving results. The process should be embedded in the organisational culture and be used to provide direction regarding performance and improvement, including how to allocate financial and human resources.
11. The highest degree of transparency, accountability, legal compliance and cost efficiency as well as the principles of good governance, sound financial management, sustainable development, gender equality and equal opportunities is applied. The donor states exercise zero-tolerance towards corruption.
12. It is assumed that beneficiary institutions perform active risk management. The donors and the FMO base their risk management i.a. on assessments by the beneficiary institutions. A dialogue to identify good risk mitigation is carried out.

2.3 Risk management levels and roles

13. Risk management is cascaded through the EEA and Norway Grants. In this manner the Risk Management Strategy is led from the top and embedded in the normal working routines of the various levels.

Figure 1: Risk management levels of the EEA and Norway Grants 2009-2014



² Adapted from European Commission, Risk Management in the Commission, Implementation Guide, October 2010.

2.3.1 Donors and the FMO

14. Risk management at the donor level is undertaken with a wide perspective, including identification of challenges related to the overall management structure.
15. The risk management functions of the FMO are set out in its internal *Standard Operating Procedures*, which provide a coherent and coordinated approach to risk management by clearly specifying the tasks and responsibilities of the FMO units and staff. The *Procedures* are subject to regular review by the FMO's management, and are adapted to the cycle of programming, implementation and closure of the Grants.
16. The FMO's management integrates risk analysis into its broader assessments on human resource and organisational requirements. Furthermore, the FMO's management ensures that the ICT platform is subject to effective risk management.
17. The FMO's risk management at the country and programme levels aims to ensure sound management of grant resources, results based management and effective handling of risks. This is outlined in more detail in the next section.
18. The EEA & Norway Grants 2009-2014 are subject to Parliamentary and political oversight of the Ministries of Foreign Affairs of the three donor states. In addition, the EFTA Board of Auditors may conduct audits of national level management and all programmes and projects funded by the EEA Financial Mechanism (Article 10.2 of the *Regulation*).

2.3.2 Beneficiary states

19. At the country, programme and project levels, the main responsibility for risk assessment and mitigation remains anchored within the relevant institutions within the beneficiary states (see paragraph 3).
20. The beneficiary state institutions at all levels are expected to carry out risk management within their area of responsibility.
21. While no uniform methodological approach is proposed in the regulations, several additional resources are at countries' disposal: their own public sector guidelines; the process described in Figure 2; the Programme Operators Manual, which outlines the results based management framework, risk assessment and mitigation; the Results and Risk Management Guide³ which provides further methodological guidance.

3 THE RISK MANAGEMENT APPROACH

22. The risk management process is outlined in Figure 2. It builds on broadly applied principles for risk management, and is adapted to the different levels of the Grants introduced above.

Figure 2: The risk management process

Step	Main Actions
1. Identify the results to be achieved.	<ul style="list-style-type: none"> ▪ For the EEA and Norway Grants. ▪ In terms of the programme (bilateral) outcomes.
2. Identify critical success factors (assumptions).	<ul style="list-style-type: none"> ▪ Assess the underlying critical success factors to help determine whether each category poses a risk to achieving the results.

³ Available in 2013.

3. Identify risks.	<ul style="list-style-type: none"> ▪ Use standard risk categories⁴ for the programme levels. ▪ Review reports and engage in dialogue with beneficiary states to identify risks. National and local stakeholders possess more detailed information on risks to the programmes and the total portfolio in each country.
4. Analyse and prioritise risks, in terms of likelihood and consequence.	<ul style="list-style-type: none"> ▪ Assess the risks in terms of both their likelihood and consequence using qualitative information and quantitative data.
5. Set and communicate risk appetite.	<ul style="list-style-type: none"> ▪ Decide and agree what level of risk to accept.
6. Define and assess risk response.	<ul style="list-style-type: none"> ▪ Identify mitigating actions (including controls) and assess their impact. ▪ Decide on mitigating actions. ▪ Re-assess to conclude on residual risk.
7. Decide on response to residual risk.	<ul style="list-style-type: none"> ▪ Tolerate / accept. ▪ Reduce / share. ▪ Avoid / terminate.
8. Monitor and report.	<ul style="list-style-type: none"> ▪ Risk reporting from the FMO to donors. ▪ Risk reporting from donors to public and parliaments.
Communication and dialogue are a continuous process throughout.	<ul style="list-style-type: none"> ▪ With beneficiaries, donor programme partners, public.

23. At the country level, a main task from the donors' perspective is to identify those beneficiary countries that are particularly vulnerable to risks and, to the extent possible, introduce measures to manage such challenges in consultation with the national focal point in the respective countries. The FMO's risk assessment and mitigating actions should, among others, draw on risk assessments of the programme portfolios and the annual reporting by the beneficiary states.
24. The relevant institutions in the beneficiary countries should apply appropriate methodologies and analytical tools for analysis and mitigation of risks that may undermine effectiveness across the programmes.
25. At the programme level, the FMO assesses a range of potential risks to the individual programmes, and enters into dialogue with the beneficiary states concerning additional risks, especially regarding programmes with high risk levels.
26. The risk management process draws on a number of methods and sources of information. Qualitative assessment and professional judgement needs to be exercised at each stage.
27. Methods include: brainstorming, dialogue with beneficiary states, scenario analysis, workshops, audit, monitoring, ex ante or interim evaluation, risk assessment matrices, spider diagrams or statistical analysis.
28. Key sources of information include: programme proposals, annual programme reports, annual strategic reports, reviews of descriptions of the management and control systems at national and programme levels, the annual report by the Audit Authority, quarterly irregularities reporting and interim financial reports.

⁴ For the time being, the following risk categories are used: (i) policy and politics (ii) governance (iii) corruption / procurement issues (iv) socio-cultural, minorities, Roma, rights values (v) financial/fiduciary issues (vi) economic issues (vii) environmental and climate issues (viii) technical/technological issues (ix) role of donor programme and project partners.

4 RESPONSIBILITIES

4.1 FMC and NMFA

29. The FMC oversees risk management for the EEA Grants, while the NMFA oversees risk management for the Norway Grants. They are responsible for:
- a. Communicating to the FMO and/or the beneficiary states the overall policy direction of the EEA & Norway Grants;
 - b. Promoting an active culture of risk management within the whole EEA & Norway Grants structure;
 - c. Taking decisions to resolve challenges encountered in the implementation of the Grants i.a. negotiation of the Memoranda of Understanding (Article 2.1 of the Regulation); making decisions on grants to programmes (Article 5.3); and carrying out audits of projects, programmes and/or management and control systems (Article 10.3);
30. The donor states shall arrange an annual event with beneficiary states that focuses on risk management, risk reporting and governance issues.

4.2 FMO director, management and staff

31. The Director and Management at the FMO are responsible for:
- a. Ensuring overall oversight and compliance with the risk management strategy;
 - b. Encouraging active risk management practice by all employees, ensuring that all FMO staff are aware of the strategy and contribute to its implementation in line with the *Standard Operating Procedures* and their duties;
 - c. Guiding the inclusion of risk management in strategic, operational and resource decision-making as well as in the system of internal control, including written documentation of the practical methodology for risk management within FMO's areas of responsibility;
 - d. Planning and implementing competence-building on results based management and risk management;
 - e. Regularly assessing the validity of the strategy and risk management methodology;
 - f. The Reporting and Evaluation unit is responsible for updating the strategy and the methodology.
32. The FMO, as the secretariat of the FMC and/or the NMFA in managing the EEA & Norway Grants, is responsible for:
- a. Conducting risk assessments and mitigating actions according to the Risk Management Strategy and reporting these to the donor states;
 - b. Preparing in consultation with the donors an annual assessment of the risk elements affecting the EEA & Norway Grants 2009-2014;
 - c. Systematically documenting risk assessments and plans for mitigation, where risks are assigned an owner and emerging risks are added as required;
 - d. Ensuring a risk assessment is part of the Grant Recommendation Document presented by the FMO for each programme;
 - e. Analysing relevant reports received from the beneficiary states from the point of view of risk and risk mitigation;
 - f. Contributing to improving transparency, good governance, risk management, mitigation, and especially integrity and corruption risk assessment, via the framework agreement with the international secretariat of Transparency International.
33. The FMO staff are responsible for applying good risk management practice to the EEA and Norway Grants. This includes i.a.:

- a. Appraising the programme proposals (Article 5.3), reviewing the risk assessment and mitigation plan contained in each programme proposal;
- b. Providing comments on the audit strategy for each programme (Article 4.6), considering whether the audit strategy takes account of the risks associated with the programme;
- c. Reviewing Annual Programme Reports (Article 5.11), ensuring that the Reports deal with risks in a systematic and comprehensive manner;
- d. Carrying out evaluations, monitoring, audits and on-the-spot verifications, based i.a. on risk assessments done by the FMO (Articles 9.2, 10.1 and 10.3).

4.3 Beneficiary states

34. Although this strategy outlines the risk management approach for the FMO and the donors, the national institutions in the beneficiary states also have a responsibility to ensure they identify and mitigate risks to achieving expected results through the Grants. According to the regulation, this includes i.a.:
 - a. Identify and assess the relevant risk factors that may affect the achievement of the expected outcomes, and develop a risk mitigation plan (Article 5.2);
 - b. Report in the Annual Programme Report on any changes to risk assessment and the risk mitigation plan (Article 5.11 and section 5.9 of the Programme Operator’s Manual);
 - c. Ensure the governance principles set out in Article 1.6 are adhered to, in particular through the application of measures to avoid conflict of interest (Article 6.6);
 - d. Conduct annual monitoring of a sample of projects selected based on risk assessment and random samples (Article 4.7).
35. The Programme Operators, who:
 - a. Retain overall responsibility for implementation of the Grants and for reaching their objectives (Article 4.3);
 - b. Describe the management and control systems at both national and programme levels (Article 4.8);
 - c. Assess the functioning of these control systems in the Strategic Report (Article 2.1) as well as any risks and mitigation measures identified in respect of programmes (section 4 of Annex 3 to the Regulation);
 - d. Carry out regular monitoring of the programmes (Article 4.3);
 - e. Ensures that risk assessment and reporting shall be a regular point on the agenda for the Annual Meeting between the donor states and each beneficiary state.
36. The National Focal Points (NFP), who:
 - a. Review progress towards the objectives of the Grants;
 - b. Examine the results, effectiveness and quality of implementation;
 - c. Assess and prepare an opinion on the Strategic Reports (Article 4.4).
37. The National Monitoring Committees, who:
 - a. Carry out their functions as set out in Articles 4.5 and 5.12;
38. The Certifying Authorities, who:
 - a. Ensure audits are carried out to ensure effective functioning of the management and control systems of the beneficiary state;
 - b. Set out an audit strategy for each programme;
39. The Audit Authorities, who:
 - a. Ensure audits are carried out to ensure effective functioning of the management and control systems of the beneficiary state;
 - b. Set out an audit strategy for each programme;

- c. Ensure that audits are carried out on projects on the basis of an appropriate sample (Article 4.6).

5 RELATED LEGISLATION AND DOCUMENTS

40. The following documents form the basis according to which the EEA & Norway Grants 2009-2014 are regulated:
 - a. Protocol 38b to the EEA Agreement on the EEA Financial Mechanism 2009-2014, and the Agreement between the European Union and Norway on a Norwegian Financial Mechanism for the period 2009-2014;
 - b. The two Regulations on the implementation of the EEA & Norway Grants respectively, and their annexes;
 - c. The Memoranda of understanding on the implementation of the EEA and/or Norway Grants 2009-2014 between the donor states and the fifteen beneficiary states;
 - d. The programme agreements signed between the donor states and the beneficiary state for each programme financed through the Grants;
 - e. Guidelines adopted by the Financial Mechanism Committee after consultation with the beneficiary states.
41. In addition, the management of the EEA & Norway Grants 2009-2014 is guided by Financial Mechanism Committee decisions, assignment letters from the NMFA and other guidance.

6 REVIEWING AND UPDATING THE STRATEGY

42. The strategy is subject to an annual review by the donor states. The FMC and/or NMFA may also ask the FMO to revisit the strategy at any time. In addition, the FMO regularly assesses the validity of the strategy and risk management tools towards the EEA & Norway Grants programme cycle.