Central African Forest Initiative (CAFI) Risk Management Strategy[1]

Revisions of May and June 2022

[1] Adopted by the CAFI Executive Board on 5 April 2019 through decision EB.2019.04

1 INTRODUCTION

Central African Forest Initiatives (CAFI)'s objective is to mitigate climate change from the land use/forest sector and reduce poverty. Reducing the pressure on forests and achieving the nation-wide emission reductions as expected by the Paris Agreement, require a systemic response led by governments in coordination with different stakeholders. This is because the drivers of deforestation span several economic sectors (agriculture, energy, forestry, infrastructure, land use planning, demography, mining, land tenure etc.) Very few countries have managed to decouple deforestation from economic growth, and this is what is expected from Central African governments. In addition to this decoupling being very difficult to achieve, the complex political economy context in the region, with structural issues often including weak institutions and low capacity (in terms of lack of institutional performance, adaptability, stability and inter-ministerial collaboration), compounded by vested interests preventing the needed institutional and policy reforms, make the decoupling even more difficult. Numerous studies have documented these obstacles in various countries in the region, and mention issues such as close ties between the political and economic elites, or lack of national ownership over reform processes and inclusiveness of policy processes.

In this context, the purpose of CAFI's Risk Management Strategy is to provide a means to deliver on the strategic objectives of the fund, within the risk context in which the fund operates. There is a need for a risk management strategy at fund window level to manage risks that extend beyond the objectives and operations of individual programs, and to ensure that fund operations "do no harm". These risks extend beyond the cumulative performance of individual programs to the aggregate impact of the operation and distribution of funds as a whole. They constitute what might be termed portfolio level risks, or those that are common to the operations of the funds as a whole, irrespective of individual programs/projects: here issues such as national level policy dialogue, political context, communication and capacity or fund level delivery might come into play.

Along with coordination, harmonization, scale, and lower transactions costs, the pooling of risk and risk management arrangements is now commonly considered a key advantage of multi-partner funds.[2] However, for this risk sharing to be meaningful, it is fundamental to this strategy that by sharing their analysis and management of risk, governments, contributors and the fund manager/administrator are able to respond to the risks of engaging in forest management in Central Africa.

Commented [AEH1]: Maybe good to include references, given that the text specifically mentions studies and gives examples of their content?

Commented [BP2R1]: All the references are in the CAFI TORs

Commented [MG3]: Not sure this sentence makes sense. Its not the job of a risk management strategy to provide the means to deliver objectives.

The purpose of a risk management strategy is to consider occurrences or opportunities that would impact the delivery of the objectives of the fund.

The risk management strategy is a structured approach to addressing risks. It should identify a series of steps in which new and ongoing risks are continually identified, assessed, managed and monitored.

[2] Commins et al. 2013, ii.

2 RISK MANAGEMENT PRINCIPLES

This risk management framework is based on the following UN principles of risk management:

1. It is aligned with the objectives of the Fund
2. It fits the context
3. It engages stakeholders
4. Its framework provides clear guidance
5. It informs decision making
6. It facilitates continuous improvement
7. It has measurable value
8. It creates a supportive culture

Commented [AEH4]: What is the risk management framework? Is this the same as the risk management strategy, or does it include other documents, guidelines etc in addition? Please also see Camilla's comment below – a bit confusing.

Commented [BP5R4]: It includes the strategy and the dashboard

Commented [JCK6]: Possible to insert reference?

Commented [MG7]: Not sure if these can be added to, but if so "It is iterative" meaning that it changes, is regularly added to and is a dynamic process.

In addition, the risk management strategy is iterative inasmuch as it changes, is regularly added to and is a dynamic process.

3 RISK MANAGEMENT PROCESS

This risk management framework is established following the recommendations of the Multi-Partner Trust Fund Office[3] and ISO 31000 standards on risk management: a) Active communication and consultations with the stakeholders; b) Process execution through establishing the context, risk identification, analysis, evaluation, and treatment (mitigation and contingency) and, c) Oversight via regular monitoring and review. The steps b and c are combined and displayed in the Risk Matrix (*Annex 1*).

3.1 JOINT RISK MANAGEMENT APPROACH

This ~~framework~~ strategy is intended to complement, not replace, risk management approaches at project and programme level.[4] Project and programme level tools will be applied for managing project and programme level risk. Project and programme level risk monitoring is be fed into the risk management approach at fund level.

Commented [JCK8]: A bit confused on the terminology, is it a framework or a strategy? I think those are two different things?

Commented [MG9R8]: Agreed:

Risk Strategy = a structured approach to addressing risks. It should identify a series of steps in which new and ongoing risks are continually identified, assessed, managed and monitored.

Risk Framework = tools (e.g. policies, strategies, plans, processes) that decision makers rely on to make decisions about how to manage risk.

This complementarity is based on the **principle of sharing risk management responsibilities** between Fund donors, agencies implementing projects/programmes and governments. As per the terms of reference of the CAFI Trust Fund, implementing agencies are first responsible for identifying and mitigating risks that are inherent to the projects. Implementing agencies, as per the CAFI Fund Terms of Reference, are asked to "respect their rules and regulations and display a high level of awareness with regard to the risk of fraud, corruption[5] and all other contextual and programmatic risks identified

[3] Designing Pooled Funds for Performance. A Manual prepared by Multi-Partner Trust Fund Office. 2015

[4] The World Bank's project level risk guidance is the SORT tool, which emphasizes risk management in relation to project level development objectives. Similarly, OECD guidance on risk suggests the "Copenhagen Circle" approach, which divides risks into contextual and institutional risk, with the union of these two categories the risk to achievement of programme objectives. While an important conceptual tool, this approach can suggest that interaction between risk categories is linear and positive rather than complex and of mixed directionality, and thus may underplay the importance of trade-offs when considering fund and facility level risks: OECD 2012, 16.

[5] Described in section VIII of the Memorandum of Understanding.

by the Executive Board (EB).~~).~~ The implementing organizations are expected to be proactive in reporting those risks to the CAFI Multi-Partners Trust Fund".

Based on this principle, the « owner » column of the Dashboard, updated annually, highlights who are entity primarily responsible for identifying and mitigating a given risk. Besides implementing agencies and the CAFI Executive Board, other stakeholders have various risk management responsibilities.

- Central African Governments and National Steering Committees are often responsible for political risks
- Donors (when examined separately from the Executive Board, that comprises non-contributing donors) for resources risk
- the CAFI Secretariat for coordination and management risks at Fund level
- the Multi Partner Trust Fund (MPTF) Office for fund management at Fund level.

Commented [KW10]: Do they use the risk dashboard to find out what risks are identified by the EB?

Commented [BP11R10]: No they use their own risk management framework

Commented [KW12]: So risks are reported to the MPTF not to CAFI Secretariat?

Commented [BP13R12]: Yes, no one reports to the CAFI Sec, the IOs sign and agreement with the MPTFO and they submit reports to the MPTF-O that shares those reports with the donors of the trust fund

Commented [MG14R12]: How are issues escalated up?

Commented [AEH15]: Maybe explain what the "Dashboard" is prior to describing one of its columns?

Commented [MG16]: Is there a plan for CAFI to ever become self-funding (and so sustainable). Putting donors in charge of getting resources seems quite short sighted.

Commented [BP17R16]: Sorry, not clear, CAFI is a Trust Fund

Commented [MG18R16]: What happens to the projects once the Trust Fund ends? Or does it only fund finite projects, that need no further sustainable financing/maintenance?

There are several key features of this approach. First, the risk management strategy recognizes that there will be interactions between project and fund level risks– this fund level risk management influences, and is influenced by, project level risk approaches and vice versa. The strategy tries to support integration between project and fund level risk management.

A second is trade-offs. Managing risk at fund level has been shown through extensive international experience to particularly involve risk trade-offs.[6] For example, management of fiduciary risk in individual projects may have an impact on programme delivery through delays, or emerging imbalances in the portfolio disbursements, that in turn may affect fund level objectives.

An important implication of this multi-level approach to risk is that the risks encountered at this level are interactive and dynamic, and therefore that the level of knowledge about the risk profile is necessary limited, initial analysis notwithstanding. A core principle of this risk management strategy is therefore emphasis on on-going analysis, feedback loops to inform management of emerging risks, and flexibility to respond to increased knowledge about risk profiles over time.

An added value of this approach is the possibility to include risk escalation procedures as described below in section 3.4~~3.3~~ CAFI Risk Event Escalation Procedures~~CAFI Risk event escalation procedures~~.

3.2 INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

1. Executive Board

The Executive Board

i) will adopt the Risk Management Strategy
ii) will review the Risk dashboard, updated on a~~n~~ semi-annual basis
iii) may decide to formally endorse the dashboards, annually, through formal decision[7]
iv) will review the risk summary per country, presented in Annual reports, the latter being subject to approval.

Commented [KW19]: Could this be updated on a semi-annual basis?

Commented [BP20R19]: yes

Commented [MG21R19]: great.

2. Shareholder Risk Management dialogue / group

[6] For example, a recent review of 16 pooled funds in fragile and conflict affected states identified trade-offs as the first "key theme" of its cross-cutting analysis: Commins et al. 2013, 7–8.

[7] While the Risk dashboard is not intended to be shared publicly, EB decisions are public.

Dialogue between contributors to the CAFI Fund about risks identification, trends and management will take place, upon request, during donor monthly calls facilitated by the CAFI Secretariat.

3. CAFI Secretariat

The CAFI Secretariat will

i) update the Risk Dashboard on an annual basis
ii) produce a risk summary for each country, based on reports from implementing organizations and in dialogue with them, that will be inserted in consolidated reports of the CAFI Fund.
iii) Provide guidance to implementing organizations, ensuring that they provide a risk analysis in their annual reports to the Fund, and perform quality control over the process by which this assessment has been performed. For DRC, these activities are performed by the FONAREDD secretariat, with technical support from the CAFI Secretariat and discussions in the Technical Committee meetings, as part of its M&E functions.
iv) Escalate to the Executive Board

The primary person responsible for risks in the CAFI Secretariat is the M&E Officer, under the supervision of the Head of the CAFI Secretariat.

4. Implementing organizations

Implementing organizations will

i) identifying and mitigating risks that are inherent to the projects
ii) display a high level of awareness with regard to the risk of fraud, corruption and all other contextual and programmatic risks identified in the Risk Management Strategy.
iii) Be proactive in reporting those risks to the CAFI Executive Board and MPTF (and to the FONAREDD Secretariat in the DRC), through Annual reports and ad-hoc discussions when a risk materializes
iv) Work together with the rest of the CAFI Executive Board to support risk mitigation measures that do not solely pertain to their programmes

5. Cost policy

Potential sources of costs associated with the implementation of the strategy include:

- Risk monitoring
- Staffing
- Development of tools and guidance
- External reviews/assessments
- Capacity building /additional safeguards

~~which will be further detailed as this strategy is implemented~~.

Cost bearers: each implementing organisation (and the FONAREDD Secretariat) bears the costs of identifying, monitoring and mitigating the risks associated with their programmes, as per their own policies and procedures, and in accordance with the "owner column" of the Dashboard.

The CAFI Secretariat bears the costs of ~~risk~~ monitoring risks and alerts the Executive Board when its

Commented [KW22]: Not explicitly. This is what would be very helpful – for a quick summary during EB calls of programme delivery risks, fiduciary risks, policy dialogue risks (including issues to be aware of in terms of our relationship with Central African governments), reputational risks, safeguarding risks, context and operational risks to be shared in this risk-centred way, under these different categories. It makes it easier for the EB to be aware of the main risks that they need to be aware of which they can either action or monitor.

Commented [MG23]: Escalate to donors?

Commented [BP24]: To be changed with senior staff in place

Commented [JCK25]: Language is a bit unclear. Is it the risk management strategy that identifies the risk? Higher up it says that the EB identifies risks.

Commented [AEH26R25]: I agree – and normally the implementing agencies would be the best placed to identify risk related to project and programme implementation, not the EB nor the Strategy.

Commented [BP27R25]: The risks are listed in this staregy and the board approves this strategy. IOs are then request to do what is listed here.

Commented [JCK28]: A bit unclear. Do they report directly to the EB? In the MoU referenced above it seems they report to the MPTF.

Commented [BP29R28]: Yes, see my reply to Karina

Commented [KW30]: Aren't they only supposed to report to the MPTF? Do they ever report risks directly to the board ?

Commented [BP31R30]: We can distinguish for clarity reporting to the MPTF-O and sharing information with the Board

Commented [JCK32]: Not sure what this entails..

Commented [BP33R32]: They identify a risk that concerns others not just their program. I.e. wide-spread corruption case within a ministry, the non meeting of a programmatic milestone that has a impact on other programs etc.

Commented [MG34]: Would be helpful to understand what additional staffing will be needed, and why.

Commented [BP35R34]: The new org chart includes sufficient people.

Commented [MG36R34]: Could we add a couple of lines next to this bullet showing how many people/ % of people's time is dedicated to risk strategy?

Commented [JCK37]: Does this mean that there will be additional revisions to this strategy once it is implemented? Just to be clear..

Commented [AEH38]: If FONAREDD is an own independent Fund, following the MPTF-model, should it then be included here together with implementing agencies?

Commented [BP39R38]: Not clear, it is included action is needed. Specific costs associated with a particular mitigation action may be added to the Secretariat budget when they exceed its budget and capacity.

6. Capacity building

The implementation of the Risk Management strategy provides an opportunity for risk management related capacity building of all actors involved. Capacity building may occur through tailored risk management support to recipient entities, as requested by the entities themselves, or mandated/requested by the CAFI as a condition for funding, upon guidance from the Executive Board. To be further defined are the process and criteria for technical assistance on risk management and the sources of technical assistance if any.

3.3 VI. REPORTING AND INFORMATION SHARING AT FUND LEVEL

1. *Reporting mechanisms/frequency/audience/content*

Tool	Frequency	Audience	Content	Platform
Risk Dashboard	Annual basis	CAFI Executive Board only	As described above	Prepared for and presented to the EB in April of each year
Country Risk summary (in CAFI annual report)	Annual basis	Public – in annual reports of implementing agencies, of the FONAREDD and of CAFI	Summary per country, based on annual reports	Summary inserted in CAFI annual reports, completed by 30 June of each year [8]
Risk alerts	Ad hoc	Executive Board during monthly calls or dedicated calls, donors during bi-monthly calls or dedicated calls	Ad hoc alerts when a risk materialize. Request for discussion may originate from CAFI Secretariat or any donor/member/observer	Scheduled or ad-hoc calls

[8] As per decision EB.2018.08 https://www.undp.org/content/dam/cafi/docs/Executive%20Board/CAFI_EB_Decisions/English/EB.2018.08%20-%20Reporting%20monitoring%20evaluation%20verification.pdf

Commented [AEH40]: Further defined below in the document or later or somewhere else?

Commented [BP41R40]: Later somewhere else and probably for national entities only

Commented [AEH42]: Would it be relevant to describe reporting and info sharing at the different levels as described in the ToR?

Commented [BP43R42]:

Commented [MG44]: Is this where old/outdated risks are updated? Interested to understand what happens if a risk doesn't materialise, but may not be relevant (e.g. a risk that decreases over time).

Commented [BP45R44]: See dashboard + between 2016 and 2021 we updated the existing i.e. adjusted risk ratings, this year we are changing the risks (some have not materialized or have been absorbed by others in practice or new ones were identified during the 1st five years of implementation)

Commented [MG46R44]: Great, so you keep a record of closed risks.

Commented [AEH47]: Possible to repeat to make it easier to read?

2. *Information sharing*

Information sharing will respect standards operating procedures on information sharing of each implementing agency and of UNDP for the FONAREDD and CAFI Secretariat. Principles of confidentiality are guided by the same, with categories of information not available to the public including (but not limited to)[9]:

- information received from third parties under an expectation of confidentiality
- information whose disclosure is likely to endanger the safety or security of any individual
- information on internal deliberations, communications and deliberation with member states
- information which, if disclosed, would seriously undermine the policy dialogue with Member states and implementing partners

3.4 CAFI Risk Event Escalation Procedures

As with other Multi-Partner Trust Funds of the United Nations, risk is managed at two levels: at the implementing organization and the Board level.

CAFI is a pass-through mechanism, this means that the programmatic and fiduciary responsibility is fully delegated to the implementing organizations that use their own rules and procedures to implement programs and manage risks. This includes investigations, audits, refusal of cash advances, recovery of funds and disciplinary measures etc.

Implementing organizations either have automatic access to the Trust Fund (UN agencies, World Bank and bilateral cooperation agencies – reference to the CAFI TORs) or they go through an assessment process at the end of which the Executive Board can decide whether to grant access to the Trust Fund's resources and approves an assurance plan to be overseen by the Secretariat.

When approving programs, implementing organizations are requested to provide information about their processes including relevant links to rules and procedures. When reporting back to the Trust Fund, implementing organizations are expected to report back on any incident that happened during the reporting period (from allegations to sanctions). The EB decisions, the Trust Fund Terms of the Reference and Manual of Operations also request implementing organizations to proactively manage and inform the board of risks (i.e. not only when requested in reports).

In certain cases, the legal framework imposes requires that the CAFI Secretariat notifiesthe notification and oversight of the Board (i.e. the second level of risk management). For example, ~~i~~in). In the case of corruption, misuse of funds and fraud, implementing organizations must inform the Board, strive to recover funds, reimburse the Trust Fund in accordance with Executive Board decisions. In the case of sexual exploitation, abuse and harassment … (reference agreements).

In addition to the legal reporting obligations of implementing organizations, the Executive Board can also be notified via the CAFI complaints management procedure, through the Secretariat or informally based on contacts and networks.

The Executive Board has several tools to respond to a risk event:

[9] Excerpts from the UNDP Disclosure policy, available at https://popp.undp.org/_layouts/15/WopiFrame.aspx?sourcedoc=/UNDP_POPP_DOCUMENT_LIBRARY/Public/AC_Accountability_Making%20Information%20Available%20to%20the%20Public%20.docx&action=default

Commented [AEH48]: Any change after CAFI's transfer to MPTF?

Commented [BP49R48]: no

Commented [JCK50]: Fund?

Commented [BP51R50]: ok

Commented [KW52]: I think we need to clarify what this means i.e. by explaining that they do not need to go through a HACT assessment or equivalent. Feel free to add if there is more that automatic access entails.

Commented [KW53]: Do you mean, before the EB approves programmes?

Commented [KW54]: And what about any trainings undertaken (e.g. anti-fraud/anti-corruption / SEAH trainings) or documents signed (e.g. duty of care/code of conduct etc) ?

Commented [BP55R54]: This information is in the prodoc template

Commented [MG56]: How are lessons from risks materialising shared between partners?

Commented [BP57R56]: The CAFI Sec shares with the Board and there is informal sharing between partners.

Commented [MG58R56]: Could you add some text on this in the document?

Commented [AEH59]: Is this limited to one certain form of risks, more related to safeguards?
Maybe the strategy could provide a definition of risks?

Commented [BP60R59]: It is described in the prodoc template. Maybe attach it as an annex?

Commented [KW61]: How do they usually do this? Do they inform the Board member who sits on the Technical/Steering Committee of that CAFI beneficiary country or do they write to the whole Board? How is this usually done?

Commented [BP62R61]: They usually reach out to the CAFI Sec

Commented [BP63]: Check as final wording is confusing after meging of documents.

Commented [JCK64]: This sentence is a bit hard to understand. What is meant by the oversight of the board?

Commented [BP65R64]: The example is the second sentence. The first sentence should not be changed as there is no reference to the CAFI Sec

Commented [JCK66]: Not MPTF?

Commented [BP67R66]: no

Commented [KW68]: Is it worth also adding the following:

...

Commented [BP69R68]: yees

- It can request clarification from the implementing organization during an Executive Board meeting, call or on an ad hoc basis (suggested for all risks if information in programme semi-annual reports is deemed insufficient or incomplete by the Executive Board)
- It can address a formal letter raising concerns (correspondence can be confidential as per CAFI Public Disclosure Policy) (suggested if 1) has not seemed sufficient 2)~~/~~ for medium and high risks)
- It can make an EB decision to express its concern (decisions are public according to the CAFI Public Disclosure Policy) (suggested for high risks)
- It can launch an evaluation (suggested for high ad very high risks))
- It can make an EB decision to suspend the funding (or delay the disbursement of a next tranche or an annual payment) (suggested for high risks)
- It can make an EB decision to terminate the program/project and claim back funding already disbursed (suggested for very high risks)

Risk events are consolidated and summarized in the annual revision of the risk management dashboard and in the annual reports. The annual report also contains information about the quality of the reporting of the implementing organizations

4 RISK MANAGEMENT FRAMEWORK

4.1 Risk Categories

In order to address the issues of diverging language and definitions in regards to risk management, the UNDG Risk Management framework is based on the definitions and structures of the OECD/DAC International Network for Conflict and Fragility (INCAF). Conflict-affected countries are considered high-risk and complex environments, characterized by high levels of insecurity, political instability and social turmoil. While development partners may have different risk categories, the Copenhagen Circles (figure 1) defined by the OECD DAC is an internationally recognized method to categorize risk.

From the perspective of aid management, risks can be grouped into three overlapping categories, referred to as the 'Copenhagen Circles' (figure 1) (OECD,2014)

- **Contextual risk** refers to the range of potential adverse outcomes that may arise in a particular context, such as the risk of political destabilisation, a return to violent conflict, economic deterioration, natural disaster, humanitarian crisis or cross-border tensions. Development agencies have only a limited influence on contextual risk in the short-term, but they seek to support interventions that create conditions for reduced contextual risk in the long-term, for example by promoting statebuilding and peacebuilding processes, strengthening disaster risk management and promoting economic reforms that increase resilience in the face of shocks.
- **Programmatic risk** relates to the risk that donor interventions do not achieve their objectives or cause inadvertent harm by, for example, exacerbating social tensions, undermining state capacity and damaging the environment. Programmatic risks relate to weaknesses in programme design and implementation, failures in donor coordination, and dysfunctional relationships between development agencies and their implementing partners.
- **Institutional risk** refers to the range of potential consequences of intervention for the implementing organisation and its staff. These include management failures and fiduciary losses, exposure of staff to security risks, and reputational and political damage to the donor agency. Current risk management practices are predominantly focused on institutional risk reduction. risk, etc. ~~In line with the UNDG Risk Management Framework (see *Figure 1*), the~~

Commented [MG70]: Is there a criteria for this decision? If not, who's decision is it?

Commented [BP71R70]: The Board's

Commented [MG72R70]: Could you outline the process for an ad hoc request? Email? Phone call? Meeting?

Commented [AEH73]: ?

Commented [AEH74]: If high risk, is a decision to express concerns sufficient?

Commented [BP75R74]: You decide

Commented [KW76]: An evaluation of the programme or an investigation into the claim/allegation?

Commented [AEH77]: How does CAFI define high and very high risk?

Commented [BP78R77]: Evaluation od the program

Commented [BP79R77]: See table below

Commented [AEH80]: High risk: suspend funding, very high risk: launch an evaluation/ audit?

Commented [BP81R80]: You decide

Commented [KW82]: Or biannual if that's what the Board decides to do

Commented [AEH83]: It would have made the document easier to read if some of the definitions here were explained earlier.

~~RSRTF risks are categorized into *contextual*, *institutional*, and *programmatic* risks as listed in column A of the Risk matrix (*Risk Register and Treatment, Annex 1*).~~

Commented [JCK84]: What does RSRTF stand for?

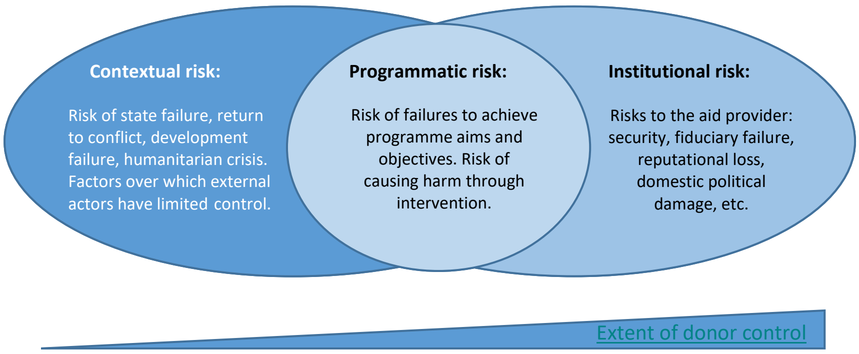

Figure 1. Copenhagen Circle for Risk Management (OECD,2011)

The Copenhagen Circles help to specify different categories of risk, but also draw attention to connections between risk categories. One category of risk may affect another. For example, the outbreak of conflict is above all a contextual risk outcome, but also heightens programmatic and institutional risks by limiting access to conflict zones and affecting staff security (OECD, 2014)

4.2 Risk Register & Risk Matrix

Risk is commonly understood as the potential for a defined adverse event or result to occur. It is typically measured against two dimensions: the probability of the risk occurring, and the severity of the outcome. It is also useful to distinguish between risk factors, which affect the probability and severity of risks, and risk outcomes, which describe what happens if the risk occurs. The risk register is an integral part of the Risk Matrix (Annex 1) which captures the potential contextual, institutional, and programmatic risks (column B) their ~~drivers~~ factors (column C) and potential impact (column D) on the Fund's performance. The risks are rated in terms of likelihood (column D and H) and potential consequences (column E and I) on a scale of 1-5 (Table 1). The Risk Matrix also contains the most appropriate menu of treatment (mitigation or contingency measures) to the identified risks (column G). The matrix shows the risks before the treatment as "inherent" risks and after the proposed treatment measures as "residual" risks. The rating is completed for both inherent and residual risks to see the effect of the treatments. The final rating depends on the combination of the likelihood and probability rather than the score obtained by multiplication thereof. For instance, if the likelihood is 5 and consequences are 1, accordingly the score is 5, the rating is "medium". However, if the likelihood is 1 but the consequences are 5, the rating will be "high" although the score is still 5.

Commented [AEH85]: Maybe it could be given an overview early in the document of the different tools: a strategy, a framework, a dashboard and a register, and a risk matrix – correct?

Commented [EF86]: And indication is given about their evolution since the last risk report

A registered risk does not mean that the risk has been managed – the framework is intended to be regularly reviewed and updated with genuine linkage to fund and facility management processes and decisions, rather than a static exercise. As such appraisal of the present risks and inclusion of new and emerging risks must be ongoing.

INTERPRETATION OF RISK DASHBOARD

Risk describes the condition or event leading to risk outcomes.*Risk factors* are contributors that increase the likelihood of the risk or its severity, and to which mitigation or treatment measures can be linked.

Risk outcome identifies the effects that the risk will have on fund objectives and operations.

Likelihood: Estimate of the current likelihood of the risk arising. If there is little or no usable information this should be indicated. If possible, indicate trend (very likely, likely, possible, unlikely, rare, insufficient information; increasing, decreasing, stable).

Impact: An aggregate expression of the severity of the risk outcomes already listed (extreme, major, moderate, minor, insignificant, insufficient information).

Risk score: This is an indication of the combined effect of likelihood and the aggregate impacts, as well as the trend (very high, high, medium, low, unknown; increasing, decreasing, stable).

Risk treatment: Indicate risk mitigation and adaptation measures. Mitigation measures seek to influence the likelihood of a risk. Adaptation measures seek to respond to the occurrence of a risk (its impact). In each case, indicate if there are any significant foreseeable second order risks (new or existing) that might be generated through a given treatment measure.

Monitoring: Relates to monitoring of the risk itself, including periodicity, inputs and other arrangements for monitoring. Identify key indicators and available sources of information, and significant knowledge gaps, to be used as an indicator of where additional information gathering need to be prioritized.

Owner: Indicates lead role in monitoring the given risk.

~~*Monitoring*: Relates to monitoring of the risk itself, including periodicity, inputs and other arrangements for monitoring. Identify key indicators and available sources of information, and significant knowledge gaps, to be used as an indicator of where additional information gathering need to be prioritized.~~

Commented [AEH87]: And implementing mitigation measures?

Commented [BP88R87]: Not necessarily

Table 1. Risk rating matrix

	Consequences				
Likelihood	**Insignificant (1)**	**Minor (2)**	**Moderate (3)**	**Major (4)**	**Extreme (5)**
Very Likely (5)	**Medium (5)**	**High (10)**	**High (15)**	**Very High (20)**	**Very High (25)**
Likely (4)	**Medium (4)**	**Medium (8)**	**High (12)**	**High (16)**	**Very High (20)**
Possible (3)	**Low (3)**	**Medium (6)**	**High (9)**	**High (12)**	**High (15)**
Unlikely (2)	**Low (2)**	**Low (4)**	**Medium (6)**	**Medium (8)**	**High (10)**
Rare (1)	**Low (1)**	**Low (2)**	**Medium (3)**	**Medium (4)**	**High (5)**

4.3 Risk Levels and Response

The rating from "Low" to "Very High" determines the level of monitoring for each of the identified risks to be applied and response actions (see *Table 2*) to be taken as well as the level of staff and leadership involvement if the risks occur. The actions may include regular monitoring, establishment of control measures (see *Risks Treatment* below) and structures or even investigations if the risks materialize.

Table 2. Risk Levels and Response Actions, Risk Matrix (Dashboard, Annex 1)

Risk Levels	Low	Medium	High	Very High
Actions	Keep the process going, but monitor regularly. Mitigation and contingency options are recommended to reduce likelihood and/ or consequence.	Keep the process going; however, a control measure must be developed and roles and responsibilities for the response specified.	Senior management attention needed. There may be a need to establish control structures. Additional control measures will be required if the event is reported.	Investigate the process and implement controls immediately if the event is reported. Immediate senior management attention needed; control structures should be established. Implementation of control measures with serious consequences is highly likely.

Commented [AEH89]: As mentioned above, may come earlier in the document, or a cross-reference could be provided earlier.

Commented [MG90]: Would be good to explicitly say that learning from risks will be distributed to partners.

4.4 Risk Treatment

The Risk Matrix (Annex 1) offers a range of risk treatment options under "Mitigation and Contingency Measures" for each of the risks. The risk treatments are to be implemented by the risk owners, namely EB members, Fund Secretariat, grantees and partners, etc., also indicated in the matrix. The treatment measures include but not limited to the following:

- Robust institutional arrangements to prevent fraudulent actions and ensure due diligence incorporated in allocation procedures
- Zero tolerance policies and conflict and gender sensitive approaches institutionalized
- Foresight analysis, monitoring, advocacy, coordination and communication
- Knowledge management documenting and sharing lessons learned and best practices
- Specific programming designed to tackle or contribute to addressing the drivers of the risks, such as external risks.

The extensive menu of measures for each of the risks CAFI envisages are shown in Annex 1.

4.5 Risk Appetite

Following the traditional rule of thumb "the higher the risk, the higher the potential return", a pooled fund, by nature, is a risk sharing mechanism, enabling stakeholders to take on more risk together than each individual stakeholder could take on alone. By its nature, the CAFI stakeholders accept the risks of targeting high risk environments. The CAFI supports programmes in some of the most fragile countries where the security, economic or political climates, lack of capacity, have till now often curtailed intervention possibilities through other funding mechanisms and programmes. Furthermore, the fund has a complex theory of change covering several sectors with the possibility of rebound effects (i.e. if not implemented right, program interventions can have the exact opposite effect such as increased deforestation as opposed to the originally intended reduced deforestation).

Commented [AEH91]: Not sure if I understand the sentence

The risk ranking matrix developed by the Fund Secretariat and reviewed by the EB, captures the hierarchy of risk at different levels. All the risk response strategies fall into either "Accept" with risk reduction (see *Risk Treatment*) or "Avoid" categories reflected in the column K of the Risk Register and Treatment, Risk Matrix (Annex 1). The CAFI EB decides which risks to accept and which ones to avoid completely if the risks are deemed too high for the Fund.

Annex 1: Risk Dashboard

The Risk Dashboard will be updated every year on an annual basis and shared with the CAFI Executive Board. A summary of risks and mitigation measures, for each country, will be included in the CAFI Fund Annual report.

Commented [KW92]: Unless the EB consider it biannual. I think we discussed biannual risk dashboard updates.

Its template is as follows

Risk	~~Sub type of risk~~ Type	Risk Drivers (basis to assess likelihood)	Risk Outcomes (basis to assess impact)	Risk treatment: Mitigation and/or adaptation measures	Monitoring	Owners (primary owner is bolded)	Risk score (likelihood X impact) [10]	Evolution of risk since set up of Trust Fund (2015-2018)

Risks are classified into 3 Copenhagen Circles categories

1. Contextual (partner country)

***Contextual risk** refers to the range of potential adverse outcomes that may arise in a particular context, such as the risk of political destabilisation, a return to violent conflict, economic deterioration, natural disaster, humanitarian crisis or cross-border tensions. Development agencies have only a limited influence on contextual risk in the short-term, but they seek to support interventions that create conditions for reduced contextual risk in the long-term, for example by promoting state building and peacebuilding processes, strengthening disaster risk management and promoting economic reforms that increase resilience in the face of shocks (OECD, 2014)*

Risk	Type
Environmental changes/shocks (climate change, epidemics, etc.)	Safety and security
Armed conflicts & control loss over territory	Safety and security
Economics changes - national markets: inflation/shortage of basics commodities including food & gas	Economic

[10] See matrix in Annex II for calculation of severity. This risk is based on the risk before mitigation, but the evolution of the trend (last column) reflects the residual risk after mitigation measures have been taken.

Economics changes/shocks – international markets (international market price change for hydrocarbon & mining products & agro-industrial etc. affecting opportunity costs)	Economic
Fluctuations in exchanges rates	Financial
Political instability / administrative turnover in government	Political
Ineffective resources transfer to administrative staff (equipment, salaries, etc.)	Financial
No unified country vision	Political
Lack of public accountability and limited reform commitment	Political
Change in country's vision (resulting in reduced or lack of alignment with CAFI TOC)	Political
Lack of/unclear targets/indicators of National Development Plan & Investment Framework	Political
Inadequate/Inefficient resources allocation (incl. domestic finance) to achieve country national development plan objective	Financial
Unaligned external incentives	Political
Conflicts of competences (due to unclear roles & responsibilities between governmental institutions at central & local level)	Political
Breach of political commitments (international commitments including LOIs)	Political
Abuse of influence/ corruption	Political / Financial
Degradation of bilateral relationship between the partner country and a donor country	Political

Institutional (CAFI & IO)

Institutional risk *refers to the range of potential consequences of intervention for the implementing organisation and its staff. These include management failures and fiduciary losses, exposure of staff to security risks, and reputational and political damage to the donor agency.*

Risk	Type
Countries' vision and CAFI theory of change not harmonized	Political
Fund allocation not aligned to strategic objectives and/or poorly prioritised fund allocations	Political
Lack of synergies / coordination between CAFI & others funds / bilateral aids supported by CAFI EB donors	Resources
Inability to monitor and verify development outcomes	Resources
Mismatch in roles and responsibilities of fund governance organs	Resources
Lack of adhesion to CAFI programming priorities by non-governmental stakeholders	Social
Unclear/Tedious processes leading to inefficient operations of CAFI Sec & AA (delays in fund transfer, in recruitments, changes of procedures affecting programs implementation, costs, etc.)	Resources
Discrepancies between CAFI secretariat's capacities & growing expectations (linked to funds expansion / growing number of EB donors & partners countries)	Resources
Turnover EB Member & CAFI Sec. staff	Resources
Lack of sustainability of CAFI financing (commitments vs disbursement)	Resources
Abuse of influence/ corruption	Political / Financial

Programmatic (joint)

Programmatic risk *relates to the risk that donor interventions do not achieve their objectives or cause inadvertent harm by, for example, exacerbating social tensions, undermining state capacity and damaging the environment. Programmatic risks relate to weaknesses in programme design and implementation, failures in donor coordination, and dysfunctional relationships between development agencies and their implementing partners.*

Risk	Type
Lack of efficiency of CAFI-Countries partnerships bodies	Resources
Poor communication and coordination amongst fund stakeholders (eg countries and secretariat) and other actors	Resources
Poorly designed fund interventions (eg geographic bias)	Political
Poor understanding of CAFI requirements/expectations & inadequate resources allocated to program development by IO	Resources
Insufficient implication/participation of national stakeholders to program development & implementat ion	Resources
Inadequate funding to a program or inadequate budget structure	Resources
Inefficient operation management of IO and program coordination units	Resources
Weak capacity in implementing organisations and Government	Resources
Inefficient coordination between implementing institution including defiance between gvt & agencies	Resources
Poor reporting including on CAFI M&E indicators	Resources
Lack of national appropriation of results	Political and resources
Abuse of influence/corruption	Political and financial
Sexual harassment and abuse of authority	Social
Security issue (leading to program halt – delays)	Safety & Security
No permanence of results and adverse effects observe at the closure of the program (rebound effect in agriculture on forest, cessation of maintenance, incapacities of beneficiaries to continue operation without ODA support, etc.)	Resources

Annex II - Calculation of Severity

Likelihood

Likelihood	Occurrence	Frequency
Very Likely	The event **is expected** to occur in most circumstances	Every month
Likely	The event **will probably** occur in most circumstances	Once every two months or more frequently
Possible	The event **might** occur at some time	Once a year or more frequently
Unlikely	The event **could** occur at some time	Once every three years or more frequently
Rare	The event **may** occur in exceptional circumstances	Once every seven years or more frequently

Consequence/Impact

Consequence	Result
Extreme	An event leading to **massive** or **irreparable** damage or disruption
Major	An event leading to **critical** damage or disruption
Moderate	An event leading to **serious** damage or disruption
Minor	An event leading to **some degree** of damage or disruption
Insignificant	An event leading to **limited** damage or disruption

Risk Matrix

	Consequences				
Likelihood	Insignificant (1)	Minor (2)	Moderate (3)	Major (4)	Extreme (5)
Very Likely (5)	Medium (5)	High (10)	High (15)	Very High (20)	Very High (25)
Likely (4)	Medium (4)	Medium (8)	High (12)	High (16)	Very High (20)
Possible (3)	Low (3)	Medium (6)	High (9)	High (12)	High (15)
Unlikely (2)	Low (2)	Low (4)	Medium (6)	Medium (8)	High (10)
Rare (1)	Low (1)	Low (2)	Medium (3)	Medium (4)	Medium (5)

Level of Risk	Result	Ownership
Very High	Immediate action required by executive management. Mitigation activities/treatment options are mandatory to reduce likelihood and/or consequence. Risk cannot be accepted unless this occurs.	CAFI EB, CAFI Secretariat, implementing agencies
High	Immediate action required by senior/executive management. Mitigation activities/treatment options are mandatory to reduce likelihood and/or consequence. Monitoring strategy to be implemented by Risk Owner.	CAFI EB, CAFI Secretariat
Medium	Senior management attention required. Mitigation activities/treatment options are undertaken to reduce likelihood and/or consequence. Monitoring strategy to be implemented by Risk Owner.	CAFI EB, CAFI Secretariat
Low	Management attention required. Specified ownership of risk. Mitigation activities/treatment options are recommended to reduce likelihood and/or consequence. Implementation of monitoring strategy by Risk Owner is recommended.	CAFI secretariat

Commented [EF93]: Pourquoi pas les IO programme manager aussi ? En l'absence de qui owne quel risque (puisqu'on ne le montre pas) on ne peut pas présupposer qu'ils ne sont pas owners

ANNEX III

MPTF PRINCIPLES FOR JOINT RISK MANAGEMENT POLICY

The CAFI MPTF is a risk management platform for the Contributors, Partners Countries and Implementation Organisations by developing a common understanding of the risk context and mutually agreed mitigation measures including a national grievance mechanism where these have not already been developed in the national REDD+ process.

- Trust Fund as risk sharing mechanism: commitment to risk management strategy and Fund resources for Risk Management capacity
- Dialogue between fund managers and key stakeholders (fund contributors and recipient entities) to build consensus on trade-offs, acceptable levels of risk and appropriate mitigation measures
- Focus on development dividends: Willingness to fund investments in under-developed and high risk areas
- Risk diversification: investments across sectors and across regions and using various implementation modalities
- Importance of capacity building: higher tolerance for programmatic difficulties for interventions that focus on national rather than international implementation
- Balance between fiduciary and programmatic risk tolerance: investment in local/national entities, but with appropriate safeguards and following defined capacity assessment
- Pro-active, flexible and adequately resourced approach to unforeseen events