

# **Risk Management Strategy**

## **EEA & Norway Grants 2014-2021**

Adopted by the Financial Mechanism Committee  
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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 strategy for the risk 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 legal framework governing the Financial Mechanisms requires active risk management and reporting to the donor states and the FMO on risk assessment and handling.
4. 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 in 15 beneficiary states. This strategy builds on the principle that sound risk management is essential to effectively achieving the expected results of the EEA and Norway Grants.
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 donor states 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 2014-2021 (section 6) and should be read in conjunction with the [Results Guideline](#).

## Main features of the strategy:

- 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 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 intervention.

# 2 Risk management as part of managing for results

## 2.1 Definitions

7. The following definitions are applied:

<b>Result</b>	The output, outcome or objective (impact) of an intervention.
<b>Risk</b>	An event or circumstance that may affect the achievement of expected results.
<b>Managing for results</b>	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.
<b>Risk management</b>	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. <sup>1</sup>

<sup>1</sup> Adapted from European Commission, Risk Management in the Commission, Implementation Guide, October 2010.

## 2.2 Principles

8. All programmes and activities funded by the EEA & Norway Grants 2014-2021 shall follow a results and risk management approach (Regulation Article 1.3.4). The ambitions in relation to the programmes and funds, 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 and manage it more effectively with results and performance in mind. 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. All programmes and activities funded by the EEA Financial Mechanism 2014-2021 shall follow the principles of good governance; they shall be participatory and inclusive, accountable, transparent, responsive, effective and efficient. There shall be zero-tolerance towards corruption. The donor states' and the FMO's risk management relies to an extent on risk assessment and mitigation by the beneficiary states' institutions, and openness from actors involved. A dialogue with the relevant entities in the beneficiary states to identify good risk mitigation shall be carried out.

## 2.3 Risk management levels and roles

12. 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.

### 2.3.1 Donor states and the FMO

13. Risk management at the donor states level is undertaken with a wide perspective, including identification of challenges related to the overall management structure.
14. The risk management functions of the FMO are outlined in section 4.2.
15. The FMO's management integrates risk analysis into its broader assessments on human resources, organisational requirements and ICT management.
16. The FMO's risk management at the country, fund 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.
17. The EFTA Board of Auditors / Office of the Auditor General of Norway may conduct audits of national level management and all programmes and projects funded by the EEA / Norwegian Financial Mechanisms, respectively (Article 11.2 of the *Regulation*).

### 2.3.2 Beneficiary states

18. 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).

19. The beneficiary state institutions at all levels shall follow a results and risk management approach within their area of responsibility.
20. 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; and the Results Guideline, which outlines the results based management framework, risk assessment and mitigation.

### 2.3.3 Directly-contracted Fund Operators

21. Risk management of programmes and projects under funds that are not guided by the Regulation is the responsibility of the FMO in cooperation with directly-contracted fund operators.

## 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 1: The risk management process**

	Step	Main Actions
Communication and dialogue are a continuous process throughout.	1. Identify the results to be achieved.	<ul style="list-style-type: none"> <li>▪ Design programmes and interventions according to the Results Guideline.</li> </ul>
	2. Identify critical success factors (assumptions).	<ul style="list-style-type: none"> <li>▪ Assess the critical success factors to a programme/fund achieving its intended results to help determine what risks might be present.</li> </ul>
	3. Identify risks.	<ul style="list-style-type: none"> <li>▪ 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.</li> <li>▪ In the regional funds, identify risks linked to the transnational cooperation as well as local/country level.</li> </ul>
	4. Analyse and prioritise risks, in terms of likelihood and consequence.	<ul style="list-style-type: none"> <li>▪ Assess the risks in terms of both their likelihood and consequence using qualitative information and quantitative data.</li> </ul>
	5. Define and implement risk response.	<ul style="list-style-type: none"> <li>▪ Define response to each risk:               <ul style="list-style-type: none"> <li>▪ Tolerate / accept.</li> <li>▪ Reduce / share</li> <li>▪ Avoid / terminate.</li> <li>▪ Mitigating actions (including controls) and assess their impact.                   <ul style="list-style-type: none"> <li>- Evaluate and decide on concrete actions</li> <li>- Carry out actions as appropriate</li> </ul> </li> </ul> </li> </ul>
	6. Monitor and report.	<ul style="list-style-type: none"> <li>▪ Risk reporting from beneficiary states to FMO.</li> <li>▪ Risk reporting from the FMO to donor states.</li> <li>▪ Risk reporting from donor states to public and parliaments.</li> </ul>

23. At the country level, a main task from the donor states' perspective is to identify those beneficiary countries where the context for the programmes as defined in the MoUs poses

particular 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 actors in the beneficiary countries should apply appropriate methodologies and analytical tools for analysis and response to risks that may undermine effectiveness across the programmes and projects (see Table 1).
25. The FMO assesses a range of potential risks to the individual programmes/funds, and enters into dialogue with the relevant beneficiary state institutions and other actors concerning additional risks, especially regarding programmes and funds 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. Methods include: brainstorming, dialogue with beneficiary states and other stakeholders i.a. as part of programme management, scenario analysis, workshops, audit, monitoring, ex ante or interim evaluation, risk assessment matrices or statistical analysis.
27. Key sources of information include: concept notes, risk management plans, programme agreements, calls for proposals, annual programme/fund reports, annual strategic reports, reviews of descriptions of the management and control systems at national and programme/fund levels, the annual report by the Audit Authority, monitoring or evaluation reports, quarterly irregularities reporting and interim financial reports.

## **4 Responsibilities**

### **4.1 FMC and NMFA**

28. 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;

### **4.2 FMO director, management and staff**

29. The Director of the FMO is responsible for:
  - a. Ensuring overall oversight and compliance with the risk management strategy;
  - b. Fostering a culture of active risk management by all employees, ensuring that all FMO staff are aware of the strategy and contribute to its implementation in line with 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.
30. The FMO is responsible for:
  - a. The Results and Evaluation unit is responsible for updating the strategy and the methodology.

- b. Applying good risk management practice to the EEA and Norway Grants;
- c. Conducting risk assessments and mitigating actions according to the Risk Management Strategy and reporting these to the donor states;
- d. Preparing, in consultation with the donors, an annual assessment of the risk elements affecting the EEA & Norway Grants 2014-2021, which shall be presented to the FMC;
- e. Systematically documenting risk assessments and plans for mitigation, where risks are assigned an owner and emerging risks are added as required;
- f. Ensuring a risk assessment is part of the programme design phase for each programme;
- g. Analysing relevant reports received from the beneficiary states from the point of view of risk and risk mitigation, and ensuring that the reports deal with risks in a systematic and comprehensive manner;
- h. Carrying out evaluations, monitoring, audits and on-the-spot verifications, based i.a. on risk assessments done by the FMO;
- i. Contributing to improving transparency, good governance, risk management, mitigation, and reducing corruption risks within the EEA and Norway Grants.

### **4.3 Beneficiary states**

- 31. 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:
- 32. The Programme Operators, who:
  - a. Identify and assess the relevant risk factors that may affect the achievement of the expected outcomes, and develop a risk assessment and mitigation analysis;
  - b. Ensure the governance principles set out in Article 1.3 of the Regulation are adhered to;
  - c. Provide a detailed description of the management and control system at programme level; Conduct annual monitoring of a sample of projects selected based on risk assessment and random samples;
  - d. Report in the Annual Programme Report on any changes to risk assessment and the risk mitigation plan.
- 33. The National Focal Points (NFP), who:
  - a. Retain overall responsibility for implementation of the Grants and for reaching their objectives;
  - b. Provide a detailed description of the management and control system at national level;
  - c. Assess the functioning of these control systems in the Strategic Report as well as any risks and mitigation measures identified in respect of programmes;
  - d. Carry out regular monitoring of the programmes;
  - e. Ensure 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.
- 34. The Certifying Authorities, who:
  - a. Carry out the functions assigned to them in the Regulation, in particular as regards the certification of the regularity of expenditures incurred.
- 35. The Audit Authorities, who:
  - a. Ensure audits are carried out to ensure effective functioning of the management and control systems of the beneficiary state and the programmes;
  - b. Set out the audit strategy for the programmes;

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

#### **4.4 Directly-contracted Fund Operators**

36. In cases where the FMO is the Programme Operator/Funds Manager, the Fund Operator shall:
- a. Help identify and assess the relevant risk factors that may affect the achievement of the expected outcomes, and suggest mitigating actions;
  - b. Help ensure the governance principles set out in Article 1.3 of the Regulation are adhered to;
  - c. Conduct annual monitoring of a sample of projects selected based on risk assessment and random samples;
  - d. Report in the Annual Programme Report on any changes to risk assessment and the risk mitigation plan.

### **5 Related legislation and documents**

37. The following documents form the basis according to which the EEA & Norway Grants 2014-2021 are regulated:
- a. Protocol 38c to the EEA Agreement on the EEA Financial Mechanism 2014-2021, and the Agreement between the European Union and Norway on a Norwegian Financial Mechanism for the period 2014-2021;
  - 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 2014-2021 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. The Programme Implementation Agreements signed between the FMO and the Fund Operators for the directly-contracted programmes and funds;
  - f. Guidelines adopted by the Financial Mechanism Committee after consultation with the beneficiary states.
38. In addition, the management of the EEA & Norway Grants 2014-2021 is guided by Financial Mechanism Committee decisions, assignment letters from the NMFA and other guidance. The EEA and Norway Grants Fund for Youth Employment and Fund for Regional Cooperation is guided by its Rules and Procedures.

### **6 Reviewing and updating the strategy**

39. The strategy is subject to review as required by the donor states. In addition, the FMO regularly assesses the validity of the strategy and risk management tools towards the EEA & Norway Grants programme cycle.