

Nordic Development Fund



Risk Management Policy

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Responsible Department

Quality Assurance and Reporting

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Related documents

Risk Management Guidelines

Contents

1.	Introduction and context	4
2.	Scope of the Policy	4
3.	Objectives and benefits	4
4.	Principles	5
5.	Components of the Framework	5
6.	Governance and responsibilities	6
6.1.	Governing Bodies	6
6.2.	Internal Audit	7
6.3.	Management	7
6.4.	Staff	7
6.5.	Quality Assurance and Reporting Department – QAR	7
6.6.	Other stakeholders and partners	7
6.7.	Responsibilities for specific risk categories	8
7.	Risk management process	8
7.1.	Risk identification	8
7.2.	Risk assessment	8
7.3.	Risk treatment	8
7.4.	Risk monitoring	9
8.	Main risk categories	9
8.1.	Financial risks	9
8.2.	Non-financial risks	9
8.3.	Reputational risk	10
9.	Review of the Policy	10

1. Introduction and context

The Nordic Development Fund (“NDF” or “the Fund”) is the joint international finance institution (IFI) of the five Nordic countries - Denmark, Finland, Iceland, Norway and Sweden - established in November 1988. In fulfilment of its purpose, NDF finances projects together with strategic partners, such as multilateral development banks (MDBs), development finance institutions (DFIs) and other public and private partners, with a focus on the nexus between climate change and development in lower-income countries and countries in fragile situations. NDF’s financing is provided on concessionary terms in the form of grants, loans and equity. NDF engages in both the public and the private sector and uses one or more financial instruments flexibly in various combinations

Risk can be defined as “the effect of uncertainty on the achievement of an organisation’s objectives.”¹ By nature of its mandate and purpose, NDF operates in high-risk environments, and the level of NDF’s willingness to accept certain risks and, conversely, to avoid certain risks, is dependent on the context of those risks. *Risk management*, therefore, refers to the process of NDF identifying and managing this uncertainty, or risk, with the objective to support NDF’s purpose.

The risks faced by NDF are varied, and include, among others, financial, operational, legal and reputational factors. Accordingly, the Fund strives to establish and develop risk management principles and procedures that take into account both its purpose and complex operational environment.

2. Scope of the Policy

This Risk Management Policy (“Policy”) forms the core of and defines NDF’s Risk Management Framework (“Framework”), as well as establishes NDF’s overall approach to the implementation of systematic risk management, defining the related key roles and responsibilities, and guiding the further implementation of the elements under the Framework.

Specific elements of risk management and internal control practices have already been put into place at NDF or are under development. This Policy forms the overarching document which links all these underlying documents and related practices together in order to provide the Fund with a comprehensive and consolidated view of its various risk exposures and a structured and consistent way of managing these exposures in accordance with its mandate.

3. Objectives and benefits

The main objectives of the risk management in NDF are to ensure a shared understanding of, and promote a consistent approach to, risk management within NDF in line with NDF’s constituent documents and Strategy, as well as to support NDF in meeting its values and delivering upon its purpose.

¹ Definitions as per ISO 31000.

The Framework will:

- support the Fund’s governing bodies and management in making risk-informed decisions and provide the basis for managing identified risks faced by NDF both as part of the project management processes, as well as on an aggregate level;
- enable the Fund to fully integrate risk management into its culture and operations, drawing from internationally recognised best practices and taking into account the specific needs of the Fund;
- ensure that risk management is understood and implemented by all NDF staff consistently;
- enable the Fund to communicate its risk management approach to its stakeholders;
- ensure the benefits of risk management are realised through maximising opportunities and minimising threats.

4. Principles

In implementing risk management, NDF will adhere to the following core principles:

- Risk management is not a stand-alone initiative; instead, it is integrated with and embedded in all NDF activities, and it will build and evolve based on the Fund’s previous and on-going work in the area of risk management.
- Risks are to be considered regularly as part of the normal flow of management information about the Fund’s activities and in significant decisions on strategic matters, major new projects, as well as other prioritisation and resource allocation commitments.
- The Risk Management Framework and the related processes are to be customised in accordance with the specific needs of NDF, taking into account NDF’s operating environment and purpose.
- The Risk Management Framework and the processes are to be continuously improved to reflect best internationally recognised standards.

5. Components of the Framework

The Risk Management Framework comprises of NDF’s policies, processes, organisational structure as well as of any related control and assurance systems, which enable the Fund to identify, assess, treat and monitor risks. As part of risk management, NDF ensures that any policies, guidelines, and procedures that are relevant for the management of particular categories are documented and kept up-to-date.

In addition to this Policy, the day-to-day risk management activities of the Fund are informed by the *Risk Management Guidelines*, which provide further guidance with regard to the management of the various risks and describe the relevant policies and guidelines concerning those specific risks.

The implementation of a risk management process as described in the Policy shall be supported by a number of operational tools (with their description and use further detailed in the Risk Management Guidelines):

Process step	Related tools	Purpose
Risk identification	Risk taxonomy Risk register	Identification of risks, resulting from uncertainty threatening the achievement of the Fund's strategic or operational objectives
Risk assessment	Control library Risk matrix	Evaluation of the severity of risks, on the basis of their likelihood and impact
Risk treatment	Bow-tie analysis Action plans	Identification and selection of relevant risk treatment options, and its translation into an action plan
Risk monitoring	Risk reporting Key Risk Indicators (KRI)	Monitoring of the evolution of risks and of the progress of their related action plans

6. Governance and responsibilities

NDF is committed to promote a culture of integrity, high ethical standards and strong risk awareness. Effective risk management is fundamental to the success of the Fund. In order to safeguard its capital base, fulfilment of its purpose, and reputation, NDF will follow international standards to actively manage all inherent risks in its activities.

All NDF staff are expected to contribute to and promote a sound risk culture which helps to maintain an effective internal control environment and improves the operationalisation of the NDF's Risk Management Framework. Clear governance structure, policies and procedures support the creation of a sound risk culture. The Fund management will ensure that a consistent risk control approach is communicated to all staff so as to promote a strong institutional risk culture.

NDF implements effective risk management by introducing structured governance and oversight that clarifies and segregates roles and responsibilities accordingly.

6.1. Governing Bodies

The **Nordic Council of Ministers** (i.e., the five Ministers of Nordic Cooperation) is the body responsible for, among other things, approving amendments to NDF's Statutes and capital. The Nordic Council of Ministers approves the annual report of the Board of Directors and the audited financial statements of NDF.

The **Control Committee** acts as the Fund's supervisory body and oversees that NDF's operations are conducted in accordance with its Statutes. The Committee is responsible for the financial audit of the Fund and annually delivers an auditors' report to the Nordic Council of Ministers. The audit of NDF is carried out by external auditors appointed by the Control Committee.

The **Board of Directors** (Board) is NDF's key decision-making body, and it makes all financing and policy decisions in matters involving operative and administrative questions and is responsible for the financial statements of NDF. The Board shall have the responsibility to assure itself of the effectiveness of the Fund's Risk Management Framework and its alignment with the Strategy and other relevant internal and external circumstances.

6.2. Internal Audit

Internal Audit acts as NDF's independent, objective assurance function with reporting lines to the Board and the Control Committee. Internal Audit shall be responsible for providing assurance on the effectiveness of the NDF Risk Management Framework, including the risk management governance arrangements. Internal audit shall provide oversight, monitoring and audit activities, as well as independent evaluations and reporting to the NDF Management on the adequacy of the Fund's internal control environment and mechanisms.

6.3. Management

The primary responsibility for risk management rests with **NDF Management**, i.e., the Managing Director and the Heads of Departments collectively. NDF Management shall review risks on regular basis and takes decisions with regard to risk management, both on risk category and organisational level. NDF Management shall be responsible for the promotion of sound risk culture and the integration of risk management into any intra-Departmental processes.

The **Managing Director** (MD) shall have the overall responsibility to ensure the implementation of risk management, including sufficient resourcing to support an effective management of risks. The MD shall delegate responsibility for risk management to the Heads of Departments to ensure effective leadership, accountability and decision making.

The **Heads of Department** shall be responsible for the effective implementation and monitoring of risk management within their areas of responsibility, by ensuring staff comply with the Policy and fostering a culture where risks can be identified and treated.

6.4. Staff

Risk management is the shared responsibility of all **NDF staff**. NDF staff members shall be responsible for adequately considering risks associated with their fields of responsibility and the decisions they make, and to apply the risk management practices established by NDF consistently in compliance with the Policy and its related guidelines.

6.5. Quality Assurance and Reporting Department – QAR

QAR shall support NDF's adherence to the Policy by:

- providing advice and support on risk management;
- arranging risk management awareness training to all NDF staff, including NDF Management, in order to ensure their understanding of roles and responsibilities with regards to the Policy and its concrete application through the Guidelines.

6.6. Other stakeholders and partners

NDF works closely with **co-financing partners and other partners** and recognises their input as essential to the successful implementation of risk management. In particular, NDF recognises their role as a critical source of information as well as recommendations and advice on measures to mitigate risks.

6.7. Responsibilities for specific risk categories

More detailed guidance for the roles and responsibilities concerning specific risk categories and risk management in the day-to-day operations of the Fund shall be provided in the Risk Management Guidelines and other applicable NDF policies and guidelines.

In particular, responsible staff members and Departments within NDF shall have specific roles in providing targeted oversight, knowledge, and support to the management of risks related to their areas of expertise and responsibility.

7. Risk management process

The risk management process at NDF consists of four key elements, or steps, based on internationally recognised standards and guidance, as described below

7.1. Risk identification

Risk identification includes the identification of risks to which NDF are exposed in the pursuit of its objectives. Risk identification might be performed as a result of various techniques that include, but are not limited to:

- Horizon scanning;
- Incidents (i.e., the materialisation of risks);
- Lessons learned from completed projects;
- Risk assessment exercises (bottom-up or top-down);
- Reporting of misconduct and corruption;
- Complaints from NDF stakeholders;
- Internal audit findings.

These various sources of risk identification are further detailed in the Risk Management Guidelines. The resulting identified risks are mapped to one of the categories included in the NDF risk taxonomy.

7.2. Risk assessment

Risk assessment refers to the analysis and risk evaluation of identified risks. Risk is the combination of the probability (likelihood) of occurrence of an event and of its consequence (impact). Risk analysis requires an assessment of the likelihood of a risk and its potential impact on NDF's objectives, and provides a basis for risk evaluation and any further decision on the options of how to treat the risk. This analysis aims to prioritise, or rate, the level of risks, and evaluate whether the risk is acceptable to NDF. NDF shall develop and adopt the necessary models and indicators for the determination of likelihood and impact of the risks it faces.

7.3. Risk treatment

Risk treatment refers to the selection, design and implementation of risk treatment options that support achievement of intended outcomes and manage risks to an acceptable level.

Those risk treatment options consist of:

- Risk acceptance
- Risk mitigation

- Risk transfer
- Risk avoidance

Risk mitigation, through the implementation or enhancement of internal controls, represent one of the most common risk treatment solutions. Various types of controls may be selected and implemented by NDF to address these residual exposures. These controls can be preventive, detective or corrective:

- Preventive controls aim at reducing the likelihood of a risk event.
- Detective controls take place during or just after a risk event and, thanks to early detection, can help reduce the risk impacts.
- Corrective controls take place after a risk event and aim at mitigating net impacts.

7.4. Risk monitoring

Continuous monitoring of identified risks ensures risk management processes are functioning and that current and emerging risk are effectively managed. NDF shall maintain a list of risks it faces in the form of a risk register, which shall serve as the repository of the most important risks that impact NDF's ability to achieve its objectives and allow for the NDF Management and the Board to monitor these risks, both individually and in the aggregate, and be assured that appropriate mitigation measures are being taken. The register shall state the risk, the level of risk, actions for managing the risk, and the date for reviews, as well as the corresponding mitigation measures. Each risk identified in the risk register shall have a corresponding *Risk Owner* who shall be responsible for actions to be taken to mitigate the risk. QAR will oversee the risk register on a general basis and follow up on the mitigation measures with Risk Owners.

8. **Main risk categories**

NDF and its operations are exposed to risks of different nature and complexity. In line with market best practices, NDF differentiates between financial risk, non-financial risk, and reputational risk.

The combination of the different categories of risks to which the Fund is exposed forms its risk universe. These categories, as well as their sub-categories in the form of risk types defined at a more granular level (for example, credit risk as financial risk, or corruption and fraud risks as non-financial risks), are documented in the NDF risk taxonomy.

8.1. Financial risks

Financial risk involves the possibility of financial losses on an investment or loan. Financial risk includes credit risk, liquidity risk and market risk.

8.2. Non-financial risks

Non-financial risk includes operational risk and strategic risk. Operational risk includes the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Strategic risk refers to the risk of loss arising from changes in the political, economical, social, technological, legal or environmental domains which may impact the execution or relevance of NDF's Strategy.

8.3. Reputational risk

Reputational risk represents the potential impacts arising from the negative perception of NDF by its stakeholders. Reputational risk emerges as a result of other risk types, i.e., financial risk or non-financial risk, and is also affected by NDF's response to such risk events and communication with stakeholders.

9. Review of the Policy

As knowledge and recommended practices around risk management develop, this Policy will be regularly revised and updated as deemed relevant. NDF Management will periodically assess and recommend when a revision of the Policy as relevant.