

Decision 68-XIII-25R



Risk Management Policy

Asian Forest Cooperation Organization

Thirteenth Session of the Assembly
29-30 October 2025, Seoul, Republic of Korea

Agenda Item 15.6

DECISION 68-XIII-25R **Risk Management Policy**

The Assembly of the Asian Forest Cooperation Organization (AFoCO),

Recognizing the imperative to integrate risk management into strategic planning, decision-making, and resource allocation to safeguard the long-term sustainability and credibility of the Organization; and

Ensuring a coordinated approach that strengthens AFoCO's capacity to anticipate, respond to, and recover from operational and financial risks, thereby protecting the rights and interests of all stakeholders,

Decides to:

1. *Revise* the Risk Management Policy as contained in document **A-25-13-27** in accordance with the comments and recommendations from the Parties;
 2. *Adopt* the revised Risk Management Policy as contained in document **A-25-13-27 Annex-1-Rev**; and
 3. *Task* the Secretariat to facilitate the necessary follow-up actions, including the amendment or update of related regulations and operational guidelines.
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A-25-13-27 Annex-1-Rev (Agenda Item 15.6)

AFoCO Risk Management Policy

I Background

1. Risk refers to the impact of uncertainty on an organization's ability to achieve its objectives either on its operation, financial and/or legal aspects. Consequently, risk management involves identifying and addressing this uncertainty to help meet organizational goals and objectives. The Asian Forest Cooperation Organization (AFoCO) is an intergovernmental, treaty-based organization that fosters collaboration to advance shared Sustainable Development Goals (SDGs) and regional and global forestry objectives. AFoCO aims to contribute to global efforts in expanding forest cover and fulfilling the Paris Agreement on climate change.

2. AFoCO's operations span multiple countries and partnerships, involve complex development challenges, and cover a broad geographical area. Risk is an inherent aspect of these operations. Therefore, it is crucial to balance various risks to effectively meet the organization's objectives. Robust risk management is essential for good governance, assuring that risks are identified, monitored, and managed to enable informed decisions and prompt actions. This process ensures that opportunities are optimized with confidence that risks will be managed, and the organization's goals and strategies will be achieved.

3. In the context of AFoCO, this Risk Management Policy intends to ensure the organization's ability to fulfill its mandates by mitigating risks or threats to its operations, reputation and stakeholders. It will primarily focus on operational and financial risks associated with institutional dealings and transactions.

4. The AFoCO Secretariat will employ a range of operational tools to implement this policy, as detailed in the Risk Management Framework. This can be updated periodically or as needed and keep Member Countries informed of such revisions/enhancements.

5. This Risk Management Policy seeks to align with recognized standards established by comparable inter-governmental and international organizations ensuring that risks are effectively addressed by AFoCO. Further, the Risk Management Policy strengthens the AFoCO's Environmental and Social Safeguard Policy.

II Definitions

6. For this Policy, including the Annexes, the following terms shall be defined as below:

- (a) "AFoCO" means the Asian Forest Cooperation Organization.
- (b) "AFoCO Agreement" means the Agreement of the Establishment of the Asian Forest Cooperation Organization

- (c) "Analysis" is a reflection of the interrelationships among data/information gathered.
- (d) "Assembly" means the highest decision-making organ of the AFoCO comprising representatives appointed by the Parties of the AFoCO Agreement.
- (e) "AFoCO Secretariat" means the body which shall provide administrative support to the AFoCO as well as carry out the activities by the Assembly.
- (f) "Assurance" means performing independent checks and verification, to be able to identify and analyze the main risks to achieving strategic objectives, to take appropriate risk mitigation measures in response to those risks, and to know whether the measures are effective.
- (g) "Context" provides the essential linkage between decision-makers and the technical or scientific analysis of risks. It is described as a process to "Establish the strategic, organizational and risk management context in which the rest of the process will take place." Criteria against which risk will be evaluated should be established and the structure of the analysis defined.
- (h) "De-Risking" refers to the phenomenon of financial institutions terminating or restricting business relationships with clients or partners/ donors to avoid, rather than manage, risk.
- (i) "Due Diligence" means the process of investigating potential investments to confirm all facts, such as reviewing environmental and social safeguards, audits, assessments, and compliance before consideration of funding or entering into an agreement with another, under the environmental and social management system.
- (j) "Environmental and Social Impact Assessment" (ESIA) refers to a process or tool based on an integrated assessment where the scale and type of potential biophysical and social, including, where appropriate transboundary risks and impacts of programs, projects, and/or policy initiatives are predicted, acknowledged, and evaluated. It also involves evaluating alternatives and designing appropriate mitigation, management and monitoring measures to manage the predicted potential impacts.
- (k) "Environmental and Social Management Frameworks" (ESMF) describes the roles, responsibilities, and processes to manage environmental and social risks and impacts including, where appropriate, transboundary risks and impacts, including screening, preparation, implementation, and monitoring of relevant projects.
- (l) "Environmental and Social Management System" (ESMS) refers to a set of management processes and procedures that allow an organization to identify, analyze, control, and reduce the environmental and social impacts of its activities, including transboundary risks and impacts, in a consistent way and to improve performance in this regard over time.
- (m) "Environmental and Social Safeguards" (ESS) refers to a set of standards that specifies the desired outcomes and the specific requirements to achieve these outcomes through means that are appropriate to the nature and scale of the activity and commensurate with the level of environmental and social risks and/or impacts.
- (n) "Executive Director" means the chief administrative officer of the AFoCO who is appointed by the Assembly.
- (o) "ESS Policy" means the AFoCO's Environmental and Social Safeguard Policy under Decision 28-III-19R approved during the 3rd Session of the Assembly on 28-29 October 2019 in Seoul, South Korea.

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- (p) “Implementing Agency” (IA) means an entity responsible for implementing and executing project activities. An IA will be one of the following entities: government agency, international organization, nongovernmental organization, educational institution, research institution, or a private sector organization.
 - (q) “Implementing Country” is a member country of AFoCO where an IA is located who is responsible for implementing and executing project activities.
 - (r) “National Focal Point” (NFP) is a designated position for a member country to oversee and coordinate the implementation of all AFoCO activities, as the official channel of communication.
 - (s) “Project” is defined as execution of activities over planned period to achieve the specific goals and objectives. The AFoCO Project is any project within the realm of AFoCO funding.
 - (t) “Project Document” is a project description translated from the project proposal as approved by the Assembly together with its annexes.
 - (u) Project Steering Committee (PSC) – is a supervisory and decision-making body for project implementation.
 - (v) “Risk” means the effect of uncertainty on the achievement of the organization or project’s objectives. It also refers to anything that can go wrong or any danger that can pose obstacles to the attainment of the project objective.
 - (w) “Risk Analysis” is the systematic use of information to identify sources and to estimate risk. Risk analysis provides a basis for risk evaluation, risk treatment and risk acceptance.
 - (x) “Risk Appetite” is the amount of risk, at a broad level, that an organization is willing to accept in pursuit of its strategic objectives.
 - (y) “Risk Communication” means exchange or sharing of information about risk between the decision-maker and other stakeholders.
 - (z) “Risk Control” means actions implementing risk management decisions.
 - (aa) “Risk Criteria” are terms of reference by which the significance of the risk is assessed.
 - (bb) “Risk Evaluation” means the process of comparing the estimated risk against the given risk criteria to determine the significance of the risk.
 - (cc) “Risk Identification” means the process to find, list and characterize elements of risk.
 - (dd) “Risk Differentiation” is the process used to systematically treat entities directly based on the assessment of risks of the entity’s non-compliance.
 - (ee) “Risk Management” means a process, AFoCO management and other personnel, applied in strategy setting and across the organization, designed to identify potential events that may affect the organization, and manage risk to be within our risk thresholds, to provide reasonable assurance regarding the achievement of objectives.
 - (ff) “Risk Management Framework” is a description of an organizational specific set of functional activities and associated definitions that define risk management in an organization and the relationship to the risk management organizational system. It defines the processes and the order and timing of processes that will be used to manage risks.
 - (gg) “Risk Management System” means a set of elements of an organization’s management system concerned with managing risk.

- (hh) “Stakeholder” means any individual, group or organization that may affect, be affected by, or perceive itself to be affected by, a risk.
- (ii) “Technical Committee for Environmental and Social Considerations” means the entity responsible for assessing environmental and social aspects of AFoCO-funding projects, consisting of a President; Gender Policy Officer; Environmental and Social Officer; and, one or two external experts in the country where the project is implemented
- (jj) “Three Lines of Defense” refers to a generally accepted framework for assigning risk-management and internal-control responsibilities: operations management forms the first line; risk, control, and compliance oversight functions by the Secretariat form the second line; and the Assembly provides the third-line oversight.

III Purpose and Scope

7. The AFoCO seeks to integrate risk management into its strategic planning, decision-making, and resource allocation by adopting a coordinated approach to address potential risks. This Policy is designed to guide the organization’s decision-making process on risk management to achieve the best possible outcomes.

8. The Risk Management Policy provides principles and guidelines to assess the risk in its operation and financial transactions. In building on existing policies, operating procedures, and project policy of AFoCO, this Policy pursues the following objectives, to:

- (a) Strengthen AFoCO’s capacity to anticipate, respond to and recover from risks that could disrupt its operations, e.g. financial, legal, reputational and security threats;
- (b) Protect the rights and interest of its Member Countries, partner organizations, staff and beneficiaries, by mitigating potential harm;
- (c) Maintain highest standards of integrity and credibility by aligning with international standards, regulations and governance framework;
- (d) Facilitate evidence-based decision-making and transparency by adhering to structured approaches in identifying, assessing and addressing potential risks;
- (e) Manage potential financial risks, including budget uncertainties, donor dependencies and prevention of fraud, ensuring long-term operational sustainability;
- (f) Establish risk management framework for effective risk mitigation in times of crisis, e.g. pandemics, conflicts, natural disasters, cybersecurity, etc.; and
- (g) Encourage proactive risk management practices to promote awareness, preparedness and sustained improvement

IV General Principles

9. **The Risk Management Principles.** The Project Managers, National Focal Points, the Assembly, the Secretariat, and staff members, partners and donors must proactively manage risks and take collective responsibility for the risk management process. Further, the AFoCO’s Environmental and Social Safeguard Policy is an intrinsic part of AFoCO’s project cycle. It ensures that the implementation and effectiveness of mitigation measures are monitored and

that any impacts arising during execution of projects are addressed, consistent with the principles of: 1) Sustainable Forest Management; 2) Transboundary risks and impact approach; 3) Equality and non-discrimination; 4) Mitigation Hierarchy; 5) Coherence and links with relevant policies and practices of AFoCO; 6) Continuous improvement and best practices; 7) Stakeholder engagement and disclosure; 8) Gender-sensitive approach; Knowledge-sharing; 9) Compliance with applicable laws; and 10) Involvement of local communities.

10. This Risk Management Policy also considers that risk management should:
- (a) Facilitate, not obstruct, the achievement of objectives and should directly address areas of uncertainty;
 - (b) Be embedded in the organization's regular processes and decision-making, ensuring it is part of the core responsibilities of management, rather than an isolated activity.
 - (c) Be aligned with both internal and external factors affecting the organization, helping to drive goal achievement and improve performance;
 - (d) Be coordinated across all responsible parties to avoid gaps and duplication, while minimizing any impact on the organization's strategic objectives;
 - (e) Be transparent and inclusive, involving decision-makers at all levels and ensuring the participation of relevant stakeholders;
 - (f) Be a continuous and adaptive process. A structured, timely, and methodical approach ensures greater efficiency and leads to consistent, comparable, and reliable outcomes; and
 - (g) Play a crucial role in decision-making, supporting decision-makers in making informed choices, prioritizing actions, and evaluating alternatives. When making risk-related decisions, careful consideration should be given to balancing their impact on the ultimate goal, ensuring the benefits of each decision outweigh the associated costs.

11. **The Risk Appetite: Likelihood and Impact.** The Assembly is tasked with determining AFoCO's risk appetite or inclination. The Assembly acknowledges that AFoCO's mandate requires taking calculated risks in its operations and activities as it works toward becoming a stronger regional forest cooperation. This entails developing business models or projects in areas typically seen as risky or underdeveloped, while also staying aligned with evolving technology, market trends, and political conditions that influence successful implementation. Risks rated Critical require immediate notification to the Executive Director and reporting to the Assembly's Ethics and Audit Committee in the next meeting; High risks require a written mitigation plan, risk owner, and due date within 30 days. AFoCO maintains low appetite for integrity, fraud, AML/CFT, prohibited practices, safety, and E&S non-compliance risks; moderate appetite for operational and IT risks where compensating controls exist; and high appetite for programmatic innovation within approved budgets, schedules, and E&S safeguards.

12. Reducing risks is central to AFoCO's mandate to increase financial capacity flowing to member countries. To stay relevant and responsive to the rapidly changing needs of its member countries and donors, AFoCO must act swiftly and be ready to take pioneering steps or engage in designing high-risk, innovative initiatives. Given the nature of such forward-thinking projects and business models, the Assembly and AFoCO as a whole recognize that

its project failure rate may be higher than that of traditional development organizations, thus necessitating a higher risk appetite. Nonetheless, in managing international operations, AFoCO will strive to implement strong risk management practices with sound business processes, and efficient resource management, aligned with its established policies to ensure robust administrative and organizational management, including through this Risk Management Policy. AFoCO maintains a zero-tolerance stance on fraud, corruption, coercion, and collusion, and ensures that staff have the right to work in an environment free from discrimination and harassment. AFoCO will assess specific risks according to the degree of their likelihood of occurring, as categorized in Table 1.

Table 1. Risk Likelihood

Category	Risk Likelihood
High	The risk is highly likely to materialize beyond the risk tolerance level identified for the risk in the next 12 months, and additional risk mitigation action is required immediately.
Medium	The risk is managed only partly and may breach of tolerance level identified for the risk in the next 24 months, and thus requires additional measures to reduce the risk rating to low.
Low	The risk is managed well and is unlikely to materialize in the next 36 months. Ongoing risk management and monitoring will be continued.

13. The risks are evaluated based on the potential impact(s) as they may have on disrupting AFoCO's operations if they occur (Table 2). Risk impact prioritizes the risks according to their significance and relevance to AFoCO's operations.

Table 2. Risk Impact – Capacity of the Risk to Disrupt AFoCO Operations

Category	Risk Likelihood
High	Risk has high potential to disrupt operations of AFoCO.
Medium	Risk has the medium potential to disrupt or hinder achievement the strategic objectives in a timely and efficient manner.
Low	Risk is low in terms of its impact on operations, but may cause delay and inefficiencies.

14. While AFoCO's risks are classified as 'high,' 'medium,' and 'low,' the organization faces various types of risks, including organizational risks, project risks, financial risks, IT and data risks, asset management risks, legal risks, human resources risks, and work environment risks, as outlined in the Risk Management Framework.

15. **Risk Management Process.** The Assembly is responsible for setting AFoCO's risk appetite. Risk management processes at AFoCO follows a standard risk management process consisting of four stages explained below. Each risk category involves a specific risk and an assigned line of defense responsible for its mitigation, as identified during regular risk assessment and scenario planning. Heads of each operational level are tasked for implementing risk mitigation measures and risk assessments. Concerned Staff of AFoCO at

both Secretariat and project levels are enjoined to implement risk mitigation measures in their daily work.

- (a) **Risk Identification.** This process aims to proactively identify events or conditions that may adversely affect the achievement of organizational goals. It shall be conducted with reference to AFoCO's strategic, operational, financial, and legal objectives, and guided by the Risk Management Framework in **Annex 1**. All identified risks shall be documented using a standardized Risk Register template in **Annex 2**, ensuring traceability and enabling ongoing monitoring and mitigation. Risk identification shall begin at the country level, where Implementing Agencies, possessing contextual and technical insight, are best positioned to detect relevant threats. This shall be conducted in coordination with the AFoCO Secretariat. Concurrently, the Secretariat shall assess risks inherent to its internal operations, financial transactions, procurement processes, and legal instruments. To ensure comprehensive coverage, risks shall be identified across the following categories:
- (i) **Strategic Risks** – risks that impact long-term goals, reputation, or alignment with AFoCO's mission;
 - (ii) **Operational Risks** – risks related to day-to-day processes, project implementation, and service delivery;
 - (iii) **Financial Risks** – risks involving financial management, budgeting, fraud, and cost overruns;
 - (iv) **Compliance and Legal Risks** – risks arising from non-adherence to laws, regulations, agreements, or internal policies;
 - (v) **Procurement Risks** – risks related to transparency, value for money, and fairness in procurement processes; and
 - (vi) **Environmental and Social Risks** – risks affecting the social or ecological impact of AFoCO-funded activities.
- (b) **Risk Assessment.** This stage involves categorizing and evaluating risks based on their potential impact and likelihood of occurrence. The AFoCO shall conduct regular annual risk assessment and scenario planning to identify emerging threats e.g. financial stability, legal challenges, negative publicity and/or security threats. The regular risk assessment and scenario planning shall engage with Member Countries to understand region-specific risks that could impact AFoCO's operations, financial and strategic objectives.
- (c) **Risk Management Action.** At this stage, actions are taken to address the identified risks. These risks are documented in a risk management plan along with the agreed-upon actions. Typically, risks can be accepted, mitigated, or avoided as part of the standard process. Under risk management action is the development and deployment of risk response plan that outlines steps for responding to specific types of risks and to ensure the continuation of critical operations.
- (d) **Monitoring and Review.** Ongoing monitoring and assessment ensure that the risk management processes are working effectively, and that both current and emerging risks are being addressed. Risk monitoring should be integrated into the organization's overall daily operations using the Risk Register.

16. **Risk Management Schedule and Review Cycle.** Effective risk management is an ongoing process that requires regular review and adaptation to new challenges and emerging risks.

- (a) **Project Risk Management and Internal Audit Review.** On an annual basis, respective projects, at the occasion of the Project Steering Committee, will undertake risk assessment and review. The Secretariat will consolidate and undertake risk assessment and review engaging the relevant Implementing Agencies. The risk assessment and review may engage Technical Committee for Environmental and Social Safeguard;
- (b) **Real-Time Risk Monitoring.** High-priority risks, such as those related to safety, security, and regulatory compliance, will be continuously monitored using real-time data in the Risk Register where possible. Immediate escalation protocols will be in place for these types of risks to ensure prompt responses. Unscheduled reviews may be initiated as necessary in response to grievance reports on prohibited acts, complaints, disputes, or identified risks; Immediate escalation protocols shall include notification thresholds, on-call focal points, and maximum response times.
- (c) **Annual Risk Management and Internal Audit Committee Meeting.** The annual Committee meeting will be organized to consolidate the findings of the Project Risk Management and Internal Audit Review as well as operational risks and concerns identified on an ad-hoc basis. A risk management and internal audit report summarizing key findings from monitoring and reviews will be reported to the Assembly by the Executive Director on an annual basis, in writing, together with the plan on Annual Risk Management and Internal Audit; and
- (d) **Focused and Integrated Risk Review.** In support of the annual Risk Management and Internal Audit Committee meeting, supplemental risk assessment may be integrated into the regular Staff meetings of the Secretariat (semi-annual basis) through the ESS Officer/Focal Person. Such assessments may focus on priority strategic and operational risks identified by the Secretariat.

17. **Risk Register, Mitigation and Accountability.** The AFoCO Risk Register records key and recurring risks, which are internally and externally coordinated with the Secretariat and shared with member countries. It includes details such as the risk name, risk level, management actions, assigned risk owner, and the review date. This register serves as a central repository for critical risks that may impact the organization's ability to achieve its objectives, including those linked to AFoCO projects. It allows respective Staff Members, Project Managers, country leaders, and the Secretariat to monitor these risks and ensure that proper mitigation strategies are in place and executed.

18. AFoCO's risk register and management cover risks related to its organization and reputation, operational programs and project management, finance, information technology (IT) and data, legal issues, human resources, and work environment, as outlined in detail in the Risk Management Framework.

19. **Organizational Roles and Responsibilities vis-à-vis 3-Line Defense Approach.** The roles and responsibilities of the concerned officials/bodies/units at all levels within AFoCO are detailed in **Annex 3**. Across offices and in alignment with the three-line defense approach.

20. The first line of defense lies with the Staff Members, stakeholder, and individual who are implementing daily operations both at the Secretariat and implementing entities for the implementation of the AFoCO's project. Individuals and entities engaged with AFoCO, both internal and external stakeholders, are included in the Secretariat's risk management framework. Internal stakeholders include but not limited to staff and non-staff members of AFoCO, namely: AFoCO Secretariat staff, Fellowship Officers, consultants, volunteers and interns. External stakeholders include but not limited to contractors and suppliers, implementing partners, grantees, and cooperating organizations, and any person or entity engaged in business or collaboration with AFoCO. The Secretariat, through the Risk Management and Internal Audit Committee, serves as second line of defense for risks not adequately managed at the first line of defense. The third line defense is the Assembly.

21. **Risk Management Framework.** The Risk Management Framework is in Annex 1 which provides the foundation and structure to integrate risk management across all levels of AFoCO. This framework has adopted the 'three lines of defense' approach from the Global Fund to manage risks related to its strategic objectives. This approach clearly outlines the risk management responsibilities across various functions within the organization, with each line responsible for a specific set of core risk management activities.

22. The Risk Management Framework serves as a mechanism for implementing the risk management system and a guide for identifying, assessing, managing, and monitoring risks within AFoCO. It categorizes risks in detail, including organizational risks; project risks; financial risks; IT, data risks and asset management; legal risks, human resources risks; and work environment risks.

V Governance of the Policy

23. The Risk Management and Internal Audit Committee comprising of internal and external experts with the knowledge necessary to provide advice and counsel relating to potential risks.

24. The Executive Director will regularly update and seek guidance from the Assembly as and when necessary.

VI Risk Screening and Management

25. All proposed programs/projects either executed by AFoCO or implemented by AFoCO together with implementing agencies (IAs) shall be screened by AFoCO or the IAs through risk screening to determine their potential risks. Under the guidance of AFoCO, all IAs must also review proposed projects against the national environmental and social laws and

regulations where they exist and are applicable, requiring at a minimum, that executing entities have all necessary permits where required and that their operations are not unlawful.

26. The screening process shall consider all potential direct, indirect, trans-boundary, and cumulative impacts in the program/project's area of influence that could result from the proposed project/program. All proposed projects/programs shall be categorized according to the scale, nature, and severity of their potential environmental and social impacts.

27. Based on the project activities and on the nature and significance of potential environmental and social impacts, three (3) categories for field projects will be given: low, medium, and high. For proposals to the Green Climate Fund, AFoCO's environmental and social risk categories shall be mapped to the relevant GCF categories to ensure consistent disclosure, monitoring, and reporting.

28. If during the program/project review process, AFoCO determines that further information on the environmental and social assessment, mitigation, and management of risks is required, the IA can be requested to provide it. As deemed necessary, this will be reflected in the agreement between AFoCO and the IA.

29. Regardless of the outcome of the screening procedure, all proposed programs/projects shall comply with AFoCO's environmental and social performance standards, which are based on applicable national and local laws and regulations.

VII Grievance Review (Redress) Mechanism

30. AFoCO assures compliance with the ESMS through specific institutional arrangements put in place for the operationalization of the ESMS and through a grievance review mechanism.

31. AFoCO will facilitate the resolution of concerns of beneficiaries of the projects regarding alleged or potential risks including violations of AFoCO's social and environmental commitments.

32. Concerns must be addressed at the closest appropriate level, i.e. at the project management level. If a concern or grievance cannot be resolved through consultations and measures at the project management level, a complaint and/or disputes may be filed with the assigned staff by the Secretariat and addressed in accordance with the three lines of defense.

VIII Public Disclosure and Consultation

33. The first line of defense including IA should identify stakeholders and involve them as early as possible in planning any activities and program/project.

34. The IA is responsible for disclosing the final environmental and social assessment to people and other stakeholders affected by the program/project. Program/project reports, including the status on implementation of environmental and social measures, shall be publicly disclosed. Any significant proposed changes in the program/project during implementation

shall be made available for effective and timely public consultation with directly affected communities.

IX Amendment to the Policy

35. The provisions of this Policy may be supplemented or amended upon proposal by the Executive Director and subsequent approval by the Assembly.

X Report and Review

36. This Policy will be periodically reviewed and revised to assure its alignments with international standards and national regulations and policies.

Annex 1. Risk Management Framework

I. Introduction

1. The effectiveness of risk management depends on the strength of the management framework, which provides the structure necessary to integrate risk management throughout all levels of AFoCO. This framework ensures efficient risk management by applying the risk management process (i.e., risk identification, risk assessment, risk management actions, and monitoring and review) at various levels and across different organizational contexts. It guarantees that risk-related information is accurately reported and used as a foundation for decision-making and accountability at all relevant levels within AFoCO.

2. AFoCO's risk management framework ensures the integration of risk assessment standards. The organization has adopted the 'three lines of defense' model to manage risks related to its strategic objectives. This model clearly defines the risk management responsibilities across different functions within the organization, with each line responsible for specific risk management activities. The idea is that risks occur at all levels, though they tend to be more significant at the project or in-country level. These risks will be managed at all levels to minimize their impact on AFoCO's strategic objectives.

3. The Risk Management Framework serves as a tool for the risk management system, offering guidance for handling AFoCO's risk identification, assessment, management actions, and monitoring and review. It provides a detailed definition of the risks identified in the Risk Management Policy, categorized into areas such as organizational risks, project risks, financial risks, IT and data risks, asset management risks, legal risks, human resources risks, and work environment risks.

II. The Risks

4. **Organizational Risk.** AFoCO is a treaty-based intergovernmental organization governed by an Assembly of signatory member countries, which is responsible for overseeing its activities. The Assembly has appointed an Executive Director who is responsible for implementing AFoCO's strategy, annual Work Program, and Budget; managing member admissions; and overseeing AFoCO's resource utilization to achieve the results mandated by the Assembly in areas specified by the AFoCO Agreement. The organizational risks are identified as follows:

(a) **Organizational Governance:** The Executive Director is supported by a Vice Executive Director, Division Directors, and AFoCO Secretariat Staff Members. The risk of losing key executives is mitigated through delegation of authority, involving the management team at the Secretariat.

(b) **Membership Expansion and Partnership:** AFoCO's strategy includes expanding membership and fostering partnerships, integral to the AFoCO Agreement. However, it presents a risk related to AFoCO's ability to meet the demands of new members given its financial and human resource capacities as well as partnership risks. To mitigate these risks, AFoCO takes a cautious approach, programming operations in new partner countries through a value chain approach. This involves comprehensive needs assessment and a commitment from new partners and member-applicant countries to align with AFoCO's strategic objectives.

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- (c) **Strategic Alignment:** The risk of institutional overstretch occurs when programs spread resources too thin, potentially preventing AFoCO from achieving its desired results. This risk is mitigated by clearly defining operational scope and aligning activities with strategic objectives that link AFoCO's work to the commitments of its member countries.
- (d) **Policy Compliance:** AFoCO operates under a policy framework consisting of regulations approved by the Assembly and AFoCO, as well as rules, procedures, and guidelines endorsed by the Executive Director. Regular staff training ensures that employees remain up-to-date and capable of performing their roles in compliance with current policies, such as the Staff Regulations. Policy compliance is the responsibility of all staff, under the supervision of Division Directors, as outlined in the Staff Regulations policy.
5. **Operational Project Risk.** AFoCO implements both country-specific and regional projects within its member countries. These projects are financed through AFoCO's financial resources, which are supplemented by co-financing partners and member countries. AFoCO's projects are managed using output-based budgets, based on Memorandums of Understanding and approved Project Documents that align project outputs and intermediate outcomes with AFoCO's strategic objectives. The following risks are identified in its country operations:
- (a) **Political Commitment:** The Memorandum of Understanding, project logical frameworks, and risk assessments highlight the political commitment of AFoCO member countries. This commitment is crucial for securing government counterpart participation in AFoCO's programs and projects, including financial contributions. National Focal Points and country representatives closely monitor the fulfillment of these commitments and recommend actions to strengthen them.
- (b) **Funding Commitment:** AFoCO programs and projects are funded from AFoCO's resources. However, the availability of funds from various sources carries certain risks. These risks are identified at both the country and project levels for earmarked and counterpart funding, as well as in the resource mobilization and financial units of AFoCO. To mitigate these risks, the Work Program and Budget are planned annually through the Secretariat and the Assembly.
- (c) **Program Design and Implementation:** An operational risk arises if AFoCO projects fail to deliver results due to weak design or poor implementation, along with other factors that may harm AFoCO's reputation and funding. A reputational risk can also occur if AFoCO works with partners who lack the capacity to achieve outcomes. AFoCO's Project Manual and ESS Policy act as a quality control system for project design and implementation, ensuring robust project-level logical frameworks that identify risks and mitigation strategies. This mitigation is strengthened by continuous oversight by the Project Steering Committee, annual reviews, compliance audits, and implementation of recommendations from auditors and independent evaluations commissioned by the Secretariat.
- (d) **Results Reporting:** Inadequate communication of AFoCO's results and strategic outcomes to key stakeholders, particularly members and donors, can damage AFoCO's reputation and impact its funding. Comprehensive annual reports are produced, detailing project results against project log frames, and are shared during

the annual Project Managers' meeting. Independent evaluations of AFoCO's projects, managed by the AFoCO Secretariat, serve as a key mitigation measure to ensure the credibility of result reporting.

6. **Financial Risk** AFoCO was founded with financial support from contributing members and donors. The use of AFoCO's resources is approved by the Assembly through the annual Work Program and Budgets. AFoCO's financial accounts are prepared annually and audited by external auditors. Since its inception, AFoCO has expanded its resources through donors' earmarked funding, which is restricted to financing project activities outlined in specific Memorandums of Understanding.
 - (a) **Funding Stance:** AFoCO's capacity is limited by its funding, organizational development, and limited staff. To strengthen its operations, AFoCO is increasing its staff size, which has grown rapidly in terms of quality and number through staff recruitment (both as regular and project-based) and fellowship arrangements with its member countries as well as intensive training and international exposures. However, AFoCO's funding sources is subject to volatility due to the contributions from member countries and the competitive nature of accessing earmarked funds. In order to mitigate this funding risk. AFoCO will regularly review its financial capacity during annual meetings with the Assembly and will continue to promote partnerships and resource mobilization action plan to establish a more diverse and sustainable funding mechanism and better management of operational and administrative resources. Additionally, through active staff and financial resource management, AFoCO will manage its operations based on available funding and emerging opportunities.
 - (b) **Fraud, Corruption, and Unethical Behavior:** AFoCO has implemented policies to protect its operations from fraud, misuse of funds, and corruption. Staff members receive annual mandatory training to effectively manage and anticipate such risks. Furthermore, AFoCO has established a whistle-blower mechanism to enable staff to report misconduct. Regular audits and the incorporation of auditor feedback into operations aim to continuously enhance fiscal and resource management.
7. **Information Technology (IT), Data Risks and Asset Management** AFoCO seeks to ensure cost-effective connectivity and collaboration among staff while fostering the creation of virtual knowledge networks. The main IT and data risks are as follows:
 - (a) **Data Security and Protection:** Ensuring that core information systems comply with security and data protection standards is essential for the organization's continuity. All of AFoCO's information systems are equipped with personal account security.
 - (b) **Data Recovery and System Availability:** The availability of core systems and network services is a critical component of AFoCO's organizational continuity strategy. AFoCO has established a service level agreement with a provider to ensure high-quality cloud services and sufficient network redundancy, enabling the disaster recovery of AFoCO's data globally.
8. **Legal Risks** The AFoCO Agreement serves as the foundation of its legal framework. It is supported by the Memorandum of Understanding with its implementing countries and Partners, which affirms AFoCO's legal status. Additionally, there are legal agreements that address areas such as financial contributions, AFoCO's programs and projects, staff, and procurement.

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- (a) **Contractual Obligations:** Failure to comply with contractual obligations by either AFoCO or a counterparty can result in financial loss and litigation risks. Inadequate legal documentation may leave AFoCO's rights insufficiently protected. This risk is mitigated through internal procedures and policies that ensure proper legal documentation and continuous monitoring.
- (b) **Legal Compliance:** Any failure by the organization or its staff to adhere to relevant rules, regulations, and procedures can have legal, financial, and reputational consequences. This is supported by effective mechanisms and procedures to monitor and enforce compliance. Additionally, consultations from experts further strengthens compliance across all aspects of operations and administration.
9. **Human Resources Risks** The AFoCO Secretariat employs a number of staff members, each of whom is required to sign a Code of Conduct. This Code mandates that staff perform their duties as outlined in their respective terms of reference and work plans with the utmost professionalism, adhering to standards appropriate for international civil servants. This includes maintaining discretion, diplomacy, integrity, and respect for diversity. Human resources management faces the following challenges:
- (a) **Vacancies and Staff Retention:** As a newly established organization, AFoCO still has needs to expand workforce associated with expected expansion. To address this, AFoCO is also conducting a benchmarking exercise to align its compensation packages with those of comparable international organizations.
10. **Competency Risk:** Gaps in competency present a risk to AFoCO's ability to deliver its services effectively. To ensure the necessary competencies, AFoCO invests in exposure to international best practices, technology, and evolving concepts, as required by ongoing activities. Staffing gaps are mitigated through the allocation of budget resources for individual consultancy services when staff resources are not yet in place to meet short-term or specific needs.
- (a) **Values and Culture:** AFoCO aims to become a premier employer in both global and regional sectors by fostering a collegial and innovative work environment. The organization seeks to reward individual and team excellence.
11. **Work Environment Risks** AFoCO's headquarters is based in Seoul, Republic of Korea, with additional offices located in some member countries within partner government offices. The organization promotes diversity, gender balance, training, and comprehensive skills management. AFoCO upholds cultural values such as integrity, inclusiveness, transformation, boldness, and a commitment to excellence.
- (a) **Environmentally Sustainable Office Operations:** As AFoCO is dedicated to environmental and social sustainability while fostering economic growth in its member countries, failing to implement environmentally sustainable practices across its offices could damage its reputation. To mitigate this risk, AFoCO secures leadership support for promoting eco-friendly office practices, conducts internal awareness campaigns, and provides guidelines for sustainable operations.
- (b) **Potential Business Disruptions:** AFoCO is at risk of business disruptions if a major disaster were to occur in Seoul, where most of its core and support functions are based. The organization is particularly vulnerable to disruptions arising from escalating

tensions on the Korean Peninsula and natural disasters. This risk is mitigated through an emergency management plan and a business continuity plan.

III The Three Lines of Defense

12. Risks and their mitigation are considered at all levels of AFoCO's operations and management. The Risk Management Framework adopts the 'three lines of defense' model to ensure risks are addressed at each level and to reduce their likelihood and impact on AFoCO's strategic objectives. The activities of all three lines are continuous and supported by ongoing communication and coordination.

13. **First Line of Defense.** In AFoCO's Risk Management Framework, the first line of defense consists of the staff members, stakeholders, and individuals who implement daily operations both at the Secretariat and implementing entities for the implementation of the AFoCO's project, implementing Country, with Project Managers working in coordination with the National Focal Point. Individuals and entities engaged with AFoCO, both internal and external stakeholders, are included in the Secretariat's risk management framework. Internal stakeholders include but not limited to staff and non-staff members of AFoCO, namely: AFoCO Secretariat staff, Fellowship Officers, consultants, volunteers and interns. External stakeholders include but not limited to contractors and suppliers, implementing partners, grantees, and cooperating organizations, and any person or entity engaged in business or collaboration with AFoCO. They are responsible for managing individual projects and carrying out essential risk management activities. The first line of defense is responsible for handling country-specific and task-specific risks on a daily basis. The Project Manager systematically identifies, prioritizes, and monitors project-related risks, along with the corresponding controls, mitigation measures, and assurances.

- (a) **Risk Identification and Prioritization.** The first line of defense identifies risks that could hinder the achievement of the project's objectives and evaluates them based on the likelihood of their occurrence and the potential impact if they do occur.
- (b) **Risk Mitigation and Control.** Based on the identified risks, the first line of defense, in coordination with the National Focal Point, the project team, beneficiaries, and relevant country stakeholders, as applicable, are responsible for designing, planning, and facilitating the implementation of prioritized mitigating actions and controls. The risk assessment does not aim to document every root cause or possible mitigating action. The first line of defense should focus on key actions that address the main obstacles preventing the project from achieving its objectives. Since not all risks can be fully mitigated, there may be cases where it is necessary to accept that a risk may occur. For risks categorized as 'High Risk', the first line of defense must include mitigating actions.
- (c) **Assure.** A thorough assurance plan is essential to determine whether sufficient controls and mitigating actions are in place to manage key project risks and achieve the project's objectives. The assurance plan is updated annually before the preparation of the annual Risk Management and Internal Audit Committee Meeting, as its scope of work is directly influenced by the activities prioritized in the assurance plan or triggered by specific events.
- (d) **Monitoring and Reporting.** As part of their first-line responsibility, the progress of prioritized mitigating actions and controls is monitored. They assess the effectiveness

and impact of these actions using information from various sources, including assurance reports. The identified risk and mitigating measures conducted shall be registered in the AFoCO Risk Register.

14. **Second Line of Defense.** The second line of defense is managed and coordinated by the Risk Management and Internal Audit Committee at the AFoCO, who collaborates closely with other functional first-line risk owners or in-country project teams. This line provides guidance, advice, independent oversight, and monitoring of the first line's risk management activities (i.e. organizational-level risks directly managed by the Secretariat), in addition to the specific second-line functions defined.

- (a) **Oversight** The second line defense assist and ensure that the first line is fulfilling its risk management responsibilities in accordance with the applicable frameworks, policies, and procedures. They also conduct annual reviews and assessments, and when necessary, offer guidance on the effectiveness of risk mitigation plans and internal controls within their respective areas, considering resource availability and risk-based prioritization decisions at the country level. In collaboration with the implementing country, they may arrange for third-party assurance or carry out independent, risk-based interventions to gain further assurance regarding the progress of implementation.
- (b) **Monitor and Report** The second line functions track the progress and impact of implementation and controls at the country level to assess the advancement toward AFoCO's strategic objectives and targets. By utilizing data from various implementing countries, the second line cross-references the first line's risk assessments and identifies emerging thematic risks and issues. The first line functions update and summarize the organizational risk register annually for their respective areas. Risk data at the project level is available through the risk register and aggregated for reporting at the project, country, and regional levels. This analysis is included in the AFoCO Risk Register. The Risk Management and Internal Audit Committee's independent analysis, derived from the risk oversight function, is shared with the Assembly. The second-line defense in consultation with the Project Steering Committees reports on changes in the operating environment, organizational risk levels, trajectories, and the overall status of risk management within AFoCO.

15. **Third Line of Defense.** The third line of defense is represented by AFoCO's Assembly, which may request independent assurance functions, including evaluation consultants and other providers like external auditors as needed. Their main activities include examining reports from the first and second lines, offering advisory support, and providing independent assurance on the management of risks and controls.

- (a) **Policy Development** The Assembly advises on risk management frameworks, tools, and guidelines as a integrated process of Secretariat operation and Assembly decisions. This ensures a systematic and consistent approach to risk management by both the first and second lines of defense.
- (b) **Advice** The Assembly provides governing guidance to risk management. This also includes guide and assist in identifying and prioritizing risks, designing mitigating actions, controls, and assurances. This contributes to the overall risk management framework, tools, and guidelines, strengthening country and project risk management at the broader AFoCO organizational level.

Annex 2. Roles and Responsibilities in AFoCO’s Risk Management

Risk	Risk Category	Description of Risk	Likelihood	Impact	Risk Rating	Mitigation Measures	Responsible Party	Status
R-001	Financial	Delayed disbursement of project funds	High	Medium	High	Streamline fund release process; regular follow-up	Finance Unit	Open / In Progress
R-002	Operational	Limited capacity of local staff to implement activities	Medium	High	High	Conduct training; deploy technical support	Country PMU	In Progress
R-003	Legal/Compliance	Non-compliance with host country procurement law	Low	High	Medium	Align procedures with legal review	Legal/Procurement Unit	Resolved
R-004	Strategic/Reputational	Negative media coverage of project outcomes	Medium	Medium	Medium	Strengthen communications and monitoring	Secretariat/PMU	Open

Risk Matrix (Likelihood vs Impact)

Likelihood	Impact	
	Low	Medium
High	High	Critical
Medium	Medium	High
Low	Low	Medium

Instructions:

- **Likelihood** refers to the probability of the risk occurring (Low, Medium, High).
- **Impact** refers to the extent of damage or disruption if the risk occurs (Low, Medium, High).
- **Risk Rating** is derived from the matrix and used to prioritize risks (e.g., Critical, High, Medium, Low).

Annex 3. Roles and Responsibilities in AFoCO's Risk Management

1. Introduction

To make the risk management successful in AFoCO, there should be clear roles and responsibilities at all levels. The risk management will become efficient and effective by applying the risk management process at different levels and in various organizational contexts. It ensures that risk-related information from the risk management process is properly reported and used as a basis for decision-making and accountability at all relevant levels within AFoCO. Using the "three-line defense" approach, the following describes the roles and responsibilities within AFoCO.

2. The Assembly

The Assembly is accountable to AFoCO's stakeholders for ensuring the effective implementation of risk management. Its responsibilities include:

- 2.1. Understanding the organization's risks and approving its management framework.
- 2.2. Assessing the extent to which management has implemented effective risk management practices.
- 2.3. Reviewing risks and comparing them with the approved risk appetite and thresholds.
- 2.4. Staying informed about the most significant risks and evaluating whether management is responding appropriately.

The Assembly is provided with the necessary information to fulfill its responsibilities and receives assurance on this information from various sources, including the external auditor, the National Focal Points, the Executive Director, the Secretariat, and Project Managers in their respective countries. In the AFoCO's Risk Management Framework, the Assembly is the third line of defense.

3. The Secretariat

The Executive Director holds primary responsibility for day-to-day risk management at the AFoCO Secretariat. He/she delegates this responsibility through a management structure designed to ensure effective leadership, accountability, and decision-making. The AFoCO Secretariat plays a key role in fostering a risk culture, integrating risk management into overall management frameworks, ensuring risks are systematically evaluated, and implementing appropriate risk management actions. Risk management is a shared responsibility across all staff within the organization.

3. 1. Risk Management and Internal Audit Committee

For the effective implementation of this Risk Management Policy, the Executive Director of the Secretariat establishes the Risk Management and Internal Audit Committee to ensure its optimal application. Its roles and responsibilities are to comply with the risk management objectives as discussed in this Policy.

The Committee will be composed of:

- a. Representative from each Division of the Secretariat;
- b. Representative from the Regional Office;
- c. Representative from the Regional Education and Training Center;
- d. Gender Policy Officer;
- e. Environmental and Social Safeguard Officer; and
- f. Two external experts on risk management and internal audit.

The overall responsibilities of the Committee are the following:

- a. Develop and maintain a comprehensive and up-to-date risk management policy and framework, covering financial and non-financial risks, to support the systematic identification, assessment, and management of risks across AFoCO;
- b. Supervise and support the Secretariat in implementing risk management processes throughout AFoCO, including in Implementing Countries;
- c. Oversee and review the preparation and maintenance of the organization's strategic risk register, ensuring alignment with AFoCO's strategies and work plans;
- d. Monitor risk exposure, ensuring the Secretariat manages risks within the limits approved by the organization and that risk processes are effectively implemented;
- e. Review and provide recommendations on periodic risk reports, including material breaches of policies or procedures, and receive regular updates coordinated by the Secretariat for submission to the Executive Director and the Assembly;
- f. Evaluate independent assessments of AFoCO's risk management practices and provide feedback for improvement;
- g. Promote a culture of risk awareness and compliance, supporting the Executive Director in building a risk-informed organizational environment;
- h. Contribute to ethics-related activities, ensuring risk management aligns with AFoCO's Code of Ethics; and
- i. Address other risk-related matters as may be referred by the Assembly or deemed necessary by the Committee.

The committee is responsible for providing independent and objective assurance regarding the design and effectiveness of controls and processes in place to manage key risks affecting AFoCO's programs/projects, operations and financial transactions. These includes evaluating the quality of these controls and processes. all systems, processes, operations, functions, and activities within AFoCO, as well as those carried out by implementing countries, partners, suppliers, and service providers, are subject to the Committee's review, evaluation, and oversight. The Committee may also serve in an advisory capacity to support AFoCO's mission and objectives.

4. Project Implementers/ Implementing Agencies

The project implementers, or implementing agencies, are responsible for delivering programmatic results with the allocated funds. They play a crucial role in advancing AFoCO's mission and hold primary responsibility for managing risks within the projects they oversee at both project and country-levels. Implementing agencies must maintain robust domestic internal control systems to ensure that: (i) funds are used efficiently and effectively to achieve programmatic outcomes and assist those in need, and (ii) programmatic and financial data is accurate, timely, and complete. These control

systems, which must provide appropriate levels of risk assurance, are subject to regular review by external entities, such as the external auditor, and the Secretariat. Additionally, each implementing country has National Focal Points, which, along with the Project Manager, serve as the coordinating mechanisms for the Secretariat in managing risks within their respective countries. Along with the Staff Members, stakeholder, and individual who are implementing daily operations both at the Secretariat, the Implementing Agencies is the main implementers of the ESS policy and serves as the first line of defense under the Risk Management Framework.
