

AD HOC COUNCIL WORKING GROUP ON  
THE ORGANIZATION'S STRATEGIC PLAN  
12th session  
Agenda item 8

CWGSP 12/8  
26 August 2011  
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## ASSESSMENT OF RISKS AS ENVISAGED BY RESOLUTION A.1013(26)

### Note by the Secretariat

#### SUMMARY

*Executive summary:* This document updates the Working Group on the principles underlying the application of the Risk Management Framework within the meaning of resolution A.1013(26) and on the actions requested of the Working Group by the Council in this regard; and provides some suggested principles for a methodology by which this might be achieved

*Strategic direction:* 4

*High-level action:* 4.0.4

*Planned output:* 4.0.4.2

*Action to be taken:* Paragraph 35

*Related documents:* C 106/3(b); CWGRM 5/4; C 100/3(b); resolution A.1013(26)

#### Background

1 The Organization's Risk Management Framework (RMF) was adopted by the Council, at its one hundredth session (June 2008), and provides a risk management policy, a risk management process, and related definitions for terms used therein. Whilst noting that the RMF could, in theory, be applied to matters beyond corporate governance, with the caveat that some changes in methodology would be required (C 100/3(b)), the Council Risk Review, Management and Reporting Working Group (CWGRM) recommended that it should initially be applied to those Planned Outputs contained in the High-level Action Plan (HLAP) that were the responsibility of the Secretary-General, a view endorsed by the Council. Such exercises were conducted in 2009 and 2010, the results being reported to the fourth and fifth sessions of the CWGRM in May 2009 and April 2011, respectively.

2 The 102nd session of the Council (June/July 2009), endorsed the re-establishment of a CWGRM Correspondence Group to consider the desirability of expanding the application of the RMF to other elements of the Organization's Strategic Plan (SP) and

HLAP. The Correspondence Group's report (CWGRM 5/4) was considered by the fifth session of CWGRM (April 2011) which<sup>1</sup>:

- .1 agreed with the conclusion of the Correspondence Group that it is desirable to expand the application of the Framework across all elements of the SP and HLAP, in particular because the Guidelines on the application of the Strategic Plan and the High-level Action Plan of the Organization (the "GAP"), contained in resolution A.1013(26), include explicit linkages to the Framework in paragraphs 3.4, 5.6.4, 8.1.4 and 8.6.11 thereof, and the requirements of the GAP have, in turn, been progressively incorporated in the Guidelines on organization and method of work of the various IMO organs;
- .2 noted, however, that, for the purposes of assessing risks in the sense envisaged by the GAP, the methodology of the Framework would need to be adjusted; and
- .3 accordingly, decided to:
  - .1 invite the Meeting of Chairmen (held in the margins of MSC 89) to advise on what criteria would be desirable/helpful to enable the assessment of risks in the sense envisaged by the GAP;
  - .2 recommend to the Council that its *ad hoc* Working Group on the Organization's Strategic Plan, which had prepared the GAP, should be tasked, at its twelfth session (CWGSP 12), with developing an appropriate methodology for the aforementioned purposes, taking into account the advice of the Meeting of Chairmen; and
  - .3 encourage Member States to make relevant submissions to CWGSP 12 in order to facilitate discussions and a satisfactory outcome.

3 The Meeting of Chairmen considered the request of the CWGRM and concluded that such expansion would help with the prioritization of work and the allocation of resources. However, the Meeting did not develop specific advice on the matter but considered that the Chairmen, Vice-Chairmen and Secretaries of IMO organs would need to play a pivotal role in the identification and analysis of risks in this particular context. Accordingly, MSC 89 strongly urged the Chairmen of all IMO organs to attend the current session of the Working Group and to contribute actively to the work of both the CWGSP and the CWGRM.

4 In the light of this discussion and the decision of the 106th session of the Council (June 2011) that CWGSP 12 should develop such a methodology, this document:

- considers the extent to which the RMF is already being applied within the meaning of the GAP;
- identifies elements of such application where additional guidance or a revised methodology may be required; and
- provides options to address such elements.

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<sup>1</sup> C 106/3(b), paragraph 8

**Applying the Risk Management Framework within the meaning of resolution A.1013(26)**

5 The risk management process included in the Risk Management Framework and set out in diagrammatic form on page 10 of part C of the annex to document C 100/3(b), is not inconsistent with the requirements of the GAP and the specific references to risk management made in the latter. More broadly, it is consistent with the cycle of establishing, delivering and reviewing the Organization's SP and HLAP as it has been operating for three biennia. To some extent, therefore, the questions of 'who', 'when' and 'how' the Organization might apply the Risk Management Framework more broadly have already been addressed, as shown in the table overleaf.

RMF step		Methodology	Responsibility/Timing	Reference
<b>Establish context</b>		-	-	Not addressed
<b>Risk event identification</b>	Planned Outputs	Development of a list of proposed Planned Outputs, each addressing a risk to the Organization.	Council and the Committees, as part of the development of the SP/HLAP	A.1013(26) para 5.5; diagram 2
	Unplanned Outputs	Identification of needs not addressed by existing Planned Outputs and development of proposal for an Unplanned Output	Submitting party, during a biennium	A.1013(26) paras 8.1 and 8.2
<b>Risk analysis</b>	Planned Outputs	Determine 'the potential adverse impact of a decision as to whether or not to include an output on the ability of the Organization to meet its objectives'.	Council and the Committees, as part of the development of the SP/HLAP	A.1013(26) para 5.6; diagram 2. Methodology not addressed.
	Unplanned Outputs	Determine 'the potential adverse impact of a decision as to whether or not to accept a proposal for inclusion of an unplanned output on the ability of the Organization to meet its objectives.'	Submitting party, during a biennium	A.1013(26) para 8.1. Methodology not addressed.
<b>Develop risk management options/risk treatment selection</b>	Planned Outputs	Currently, risk treatment in each case is to complete the proposed Planned Output. Committees, and then the Council and Assembly must therefore review all proposed Planned Outputs for a biennium and: <ul style="list-style-type: none"> <li>• prioritize that list in the light of the risk analysis and resource input required for each; and thereby</li> <li>• determine which risks might be tolerated rather than treated for the coming biennium – that is, determine which proposed Planned Outputs cannot be undertaken in the light of the other constraints set out in A.1013(26) para 5.6.</li> </ul>	Initially conducted by each Committee, with subsequent review by CWGSP, the Council and the Assembly	A.1013(26) para 5.6; diagram 2, although formal risk analysis is not currently available to support evaluation.
	Unplanned Outputs	Risk treatment is to complete the proposed Unplanned Output. In considering the risk treatment selection – that is, whether to tolerate the risk or undertake the Unplanned Output – the relevant IMO organ will conduct the assessment set out in A.1013(26) para 8.6-8.12.	As established in A.1013(26) paragraphs 8.6 to 8.12	A.1013(26) paragraphs 8.6 to 8.12
<b>Implementation</b>		Deliver approved Planned/Unplanned Outputs through Committee/Council work	Relevant IMO organ	Present practice
<b>Monitoring and review</b>		<ol style="list-style-type: none"> <li>1. Reporting on status of Planned/Unplanned Outputs by Committees and the Council consistent with current arrangements</li> <li>2. Reporting on the Organization's KPI/PI framework</li> <li>3. Development of next HLAP taking into account 1 and 2.</li> </ol>	Prepared by the Secretariat based on outputs from the Committees and the Council Reported to Assembly through the Council, specifically through CWGSP	Terms of Reference of CWGSP – see C 106/WP.4

6 While the foregoing table shows that, to some extent, the broader application of the Risk Management Framework has already been addressed, it also shows that there remain two significant issues which have not been addressed:

- how, when and by whom the context for these broader assessments might be established; and
- how the Council and the Committees might conduct a risk assessment on proposed Planned Outputs for a coming biennium, and on Unplanned Outputs emerging during that biennium.

7 Options for addressing each issue are set out below.

### ***Establishing context***

8 The Risk Management Framework sets out the purpose of establishing context as being to identify “the scope and focus of the risk management process.”<sup>2</sup> The methodology requires that a context document be developed by the Secretary-General, drawing on the Strategic Plan and the Risk Management Policy. The most recent risk management context document, used for the 2010 iteration of the risk management process, is attached as annex 2 to document C 106/3(b). The focus of that document is consistent with the scope of the risk management exercise undertaken, in that it is limited to risks relating to those Planned Outputs which are the responsibility of the Secretary-General and, for ‘corporate governance’ risks, this has proved to be an effective starting point for the process.

9 The context for a risk management process which considers the Organization’s output as a whole is necessarily wider than that considered in the existing context document, and there is no clear methodology for developing a document with such a broad scope. Two options, which the Group may wish to consider, are given below.

#### *Option 1 – extension of existing context document*

10 The Secretary-General might be requested, when preparing the risk management context document, to expand the scope of that document to include risks affecting the Organization as a whole.

11 This approach is consistent with that currently taken when applying the risk management process to the limited scope of ‘corporate governance’ risks. It also has the advantage of simplicity, in that there would be a single context document from a single source to inform all risk work throughout the Organization.

12 It does not, however, address the difference in nature between those risks confronted by the Organization as a whole – that is, those relating to ‘Organizational status and effectiveness’ – and the more limited scope of ‘Operational’ and ‘financial’ risks which are the primary responsibility of the Secretary-General; neither does it capture the insight which might be provided into the identified risks by the membership and other key stakeholders.

13 Further, the application of the Risk Management Framework as envisaged in the GAP establishes clearly how and where risk management techniques might be applied in prioritizing possible Planned Outputs for future biennia, and in considering proposed Unplanned Outputs during a biennium. This work is necessarily at the detailed Planned

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<sup>2</sup> C 100/3(b) annex page 11

Output level, however, and there is no explicit place within the GAP to address the broader context of 'horizon scanning' or existential risks. Maintaining the *status quo* with regard to the context document does not address this issue.

*Option 2 – integration with Strategic Plan and the strategic planning process*

14 The Organization currently conducts its 'horizon scanning' exercise as a part of developing, or updating, its Strategic Plan. In particular, the section of the SP covering 'Trends, Developments and Challenges' looks at the state of the environment in which the Organization operates, identifying the implications for the Organization of changes in the wider UN system, technological and other changes in the shipping industry and global trade and the priorities of all other stakeholders. Indeed, because of the "context" so identified, this section of the SP is specifically attached as an appendix to the present context document.

15 It would therefore be possible to expand this section to consider 'trends, developments, challenges *and risks*' and thereby directly incorporate a 'horizon scanning' for high-level risks into the strategic planning process. This would have the advantage of explicitly involving the membership in the identification of high-level risks, beyond those at the detailed level of the Planned Outputs, and thereby improve the Organization's ability to identify and, consequently, take steps to mitigate such risks. A worked example of this option is attached at annex, taking the section on 'Globalization' from the most recent SP (resolution A.1011(26)) and using track-changes to show modified/new text. In this regard, the Working Group may note that a part of the existing of that section text is already, in fact, an identification of a risk.

16 A single context document might be maintained in this case also, but it would be able to draw on a Strategic Plan which explicitly sets out 'key factors to consider' beyond those relating to corporate governance.

*Resource constraints as a risk and a mitigation*

17 Under Option 2, it would also be possible to identify, analyze and address high-level risks relating to the effective operation of the Organization as a whole through the very same exercise and, most notably, the question of capacity and resource constraints. It has previously been established during discussions in CWGRM that the Organization's goals include the delivery of high-quality regulation arrived at through a participative process. While there is, through the GAP and as set out in the table under paragraph 5, a mechanism for considering, individually, the case for doing or the impact of not doing particular work items, there is not presently a mechanism to consider the Organization's capacity for delivery as a whole, and the constraints on this capacity. At its starkest level, an increase in meeting weeks beyond a certain point is highly likely to result in a lowering of participation in individual meetings as Member States are required to prioritize their own internal resources and, consequently, a mechanism is required to balance the need to address important issues (with a recognition that capacity is not unlimited and resources are constrained), and the fact that an increase in quantity of delivery may, beyond a certain point, lead to a decrease in quality. This is tacitly acknowledged, at present, through the establishment of constraints on meeting weeks and budgetary controls imposed by the Council, but there may be value in explicitly acknowledging this high-level risk and the response to that risk through the setting of limits on workloads, in the Strategic Plan or the High-level Action Plan.

18 Having established such constraints, the Council (through CWGSP) and the Assembly would then be able to evaluate the high-level risks relating to constraint of resources against the individual 'potential adverse impact of a decision as to whether or not to include an output on the ability of the Organization to meet its objectives', for those

potential Planned Outputs which could not be accommodated within the given resource constraints. The Group may wish to note that this approach is consistent with its revised Terms of Reference set out in the annex to Circular letter No. 3218, specifically paragraph 1.1.5 which requires that the Group, *inter alia*, confirm, having examined the proposed HLAP and corresponding results-based budget for a future biennium, “that a reasonable match exists between the Organization’s work plans and the resources to deliver them, which are proposed in the draft RBB”.

### **Risk analysis**

19 The second issue relates to risk analysis – that is, assessing the impact and likelihood of the identified risk events. The methodology for this step is addressed in part in the Guidelines – it is clear that the Committees and the Council will conduct the risk analysis for Planned Outputs, and those submitting Unplanned Outputs would conduct an initial assessment, the former coming at the time of submitting and then reviewing the list of potential Planned Outputs, the latter at the time of preparing the submission for the proposed Unplanned Output. However there is little guidance on the appropriate scale to be used when assessing and scoring ‘risks’, and it is consequently difficult to ensure that a consistent approach will be taken and that there could be a comparison between the risks associated with different Outputs.

20 The RMF offers, in the table below paragraph 18 of part C of the annex to document C 100/3(b), a means of assessing the impact of risk events of different types on a common scale, but this table is not itself directly transferrable to risks beyond those related to ‘corporate governance’. Some options in providing a suitable scale for a consistent assessment of risk levels are presented below, for the Group’s consideration.

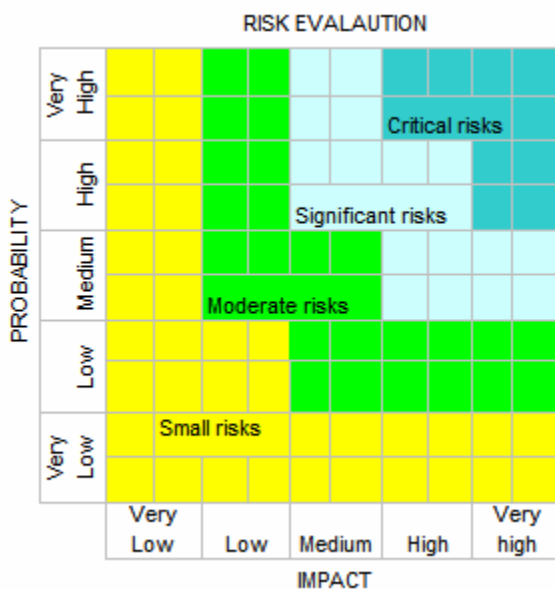
#### *Option 1 – assess risks considering ‘Political Impact’ only*

21 The existing Risk Management Framework provides a scale for assessing the impact of a risk event in the context of its ‘Political Impact’. That scale is shown below:

<b>Impact</b>	<b>Political Impact</b>
1 – Very Low	The embarrassment is restricted to within the Organization, the public remain unaware.
2 – Low	Industry and public made aware of ‘embarrassment’ through specialized media.
3 – Medium	Complaints raised with Member State or a political representative of that Member State.
4 – High	Widespread adverse publicity reaching national press, radio and television. Questions likely to be raised in Member State or other UN body.
5 – Very High	Widespread adverse publicity with calls for the Secretary-General to resign or Organization to be reviewed.

22 This might then be combined with the existing ‘probability’ table in the Risk Management Framework to arrive at an overall ‘score’ communicating an assessment of the risk level associated with not undertaking that particular Planned or Unplanned Output. That table and the risk evaluation matrix combining impact and probability (both, as revised by CWGRM 5 and C 106) are shown overleaf:

Probability	Chance of occurring in time frame
1 – Very low	1%
2 – Low	3%
3 – Medium	10%
4 – High	30%
5 – Very high	99%



*Option 2 – assess risks by considering impacts on external stakeholders*

23 The Organization does not exist in a vacuum, and while the focus on ‘corporate governance’ risks necessarily concentrates on internal procedures and controls, adopting a risk management approach in reviewing proposed outputs of a more general nature is, naturally, a matter of dealing with proposed outputs which are designed to have a positive effect on one or more of the Organization’s stakeholders, whether Member States directly, seafarers themselves, the maritime industry, or the general public either directly or through interest groups.

24 With this in mind, it would not be unreasonable to attempt to evaluate and prioritize a list of proposed outputs based on the effect each might be expected to produce on affected stakeholders. Some proposed outputs might be expected to reduce deaths or serious injuries amongst seafarers by a certain amount, thereby having a positive effect on that stakeholder group. Other planned outputs might affect more than one group, for example a proposed output which is expected to reduce certain types of pollution would have a positive effect from the perspective of the general public but may also have economic impacts (positive or negative) on the shipping industry as a whole.

25 While some effects would necessarily be difficult to estimate, each proposed output would have effects, since no output is an end in itself but a means to achieve overall outcomes.



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*Option 3 – assess risks considering their expected impact on the Organization's Performance Indicators/Key Performance Indicators*

26 The concept set out in the preceding paragraph, that outputs are not ends in themselves but are designed to have a positive outcome, leads naturally to a third option for assessing the impact of risk in the broader context of Planned and Unplanned Outputs. The Organization measures its success and identifies areas of concern by means of a set of Performance Indicators (PIs) and Key Performance Indicators (KPIs), most recently considered in document CWGSP 12/3. In principle, these provide a framework for measuring the Organization's effect on its various stakeholders and, consequently, the effectiveness of the Organization's work. By doing so, they in fact provide a ready-made framework by which to measure the expected positive effects of undertaking a proposed output – if the PIs and KPIs measure what is important to the Organization and a proposed output would not affect those indicators, this strongly suggests that the proposed output is not a necessary part of the Organization's work.

27 Those responsible for applying the principles of the Risk Management Framework within the meaning of resolution A.1013(26) might therefore do so by considering the likely impact of completing the proposed output on one or more PIs/KPIs. This also has the effect of turning the question posed by the GAP around – not solely “what is the risk of not doing this work?”, but “what is the expected positive result of doing this work?” – thereby providing a means of determining the contribution of each proposed output to the delivery of the Organization's objectives.

28 This does not lead to a mathematical model for prioritizing proposed outputs – outputs will affect different indicators in different amounts, leading to questions of priority; some may lead to effects over varying timeframes; and there are varying degrees of uncertainty when determining likely effects – but it does provide a context for discussion and a prioritization exercise which is inherently consistent with the Organization's overall Strategic Plan. It should also, in due course, lead to a further review of the PI/KPI framework itself.

29 The table overleaf summarizes the advantages and disadvantages of the foregoing options:

<b>Option</b>	<b>Advantages</b>	<b>Disadvantages</b>
<i>Option 1 – assess risks considering ‘Political Impact’ only</i>	<ul style="list-style-type: none"> <li>• Relatively simple to understand.</li> <li>• Single scale allows comparison between proposed outputs.</li> </ul>	<ul style="list-style-type: none"> <li>• Scale is not appropriate to all proposed outputs.</li> <li>• Scale is not directly related to the Strategic Plan or the Organization’s objectives.</li> <li>• Apparent simplicity makes an assessment very difficult in practice.</li> <li>• No means of recognizing complexity of likely effects.</li> </ul>
<i>Option 2 – assess risks by considering impacts on external stakeholders</i>	<ul style="list-style-type: none"> <li>• Recognizes broader context of proposed outputs – not simply an internal measure.</li> <li>• Allows for measures consistent with the proposed output, recognizing complexity.</li> <li>• Requires consideration of the effect (or outcome), not just the outputs, of each proposed piece of work.</li> <li>• May draw on analysis already required for unplanned outputs (A.1013(26) paras 8.6.5 to 8.6.7).</li> </ul>	<ul style="list-style-type: none"> <li>• No single framework for such assessments, making comparison and, therefore, evaluation, very difficult.</li> <li>• Determining effects can be complex – there is a need to reflect the level of uncertainty in such an assessment.</li> <li>• Effects on stakeholders are not necessarily consistent – some outputs may have positive effects for some stakeholder groups and negative for others.</li> </ul>
<i>Option 3 – assess risks considering their expected impact on the Organization’s Performance Indicators/Key Performance Indicators</i>	<ul style="list-style-type: none"> <li>• Recognizes broader context of proposed outputs – not simply an internal measure.</li> <li>• Allows for measures consistent with the proposed output, recognizing complexity.</li> <li>• Requires consideration of the effect (or outcome), not just the outputs, of each proposed piece of work.</li> <li>• Provides a framework for assessment consistent with the Strategic Plan.</li> </ul>	<ul style="list-style-type: none"> <li>• Determining effects can be complex – there is a need to reflect the level of uncertainty in such an assessment.</li> <li>• Effects on PIs/KPIs are not necessarily consistent – some outputs may have positive effects for some indicators and negative for others.</li> </ul>

30 Regardless of the methodology adopted in assessing risk for proposed outputs, the final step in the process is then:

- for Planned Outputs, to evaluate and prioritize the full list of proposed outputs, determining which might be included as Planned Outputs for the coming biennium and which postponed for future consideration – that is, the exercise outlined in paragraph 5.6 of the GAP; and
- for Unplanned Outputs, to determine whether these might be included in biennial agendas, using the evaluation conducted to respond to the question set in paragraph 8.6.11 of the GAP – “would a decision not to accept the proposal pose an unreasonable risk to the Organization’s overall objectives?”

31 In both cases, the position for the proposed outputs as a whole must also take into account the overall 'capacity risk' addressed in paragraphs 17 and 18 above – that is, at what point do the risks identified with not doing the 'rejected' items exceed the risk to the Organization of taking on a workload which will reduce quality and limit participation? This leads to consideration of whether the Organization should:

- tolerate the risks of not doing the 'rejected' items in order to focus on those of higher priority;
- increase the resources available in terms of meeting week capacity (and consequent financial resources) and thereby tolerate or otherwise manage risks to quality and participation; or
- in the case of Unplanned Outputs, accept that the new item might take the place of an existing, lower priority, item, thereby delivering the unplanned item without an impact on resources.

32 In many cases, and as outlined in the table following paragraph 5 above, this review is already taking place – the application of the RMF within the meaning of resolution A.1013(26) simply provides additional data and a context for this decision-making which is consistent with the strategic planning process as a whole.

33 The process is, in fact, in some ways analogous to the discussion on 'high-hanging fruit' during the current biennium, with the Council initially rejecting some of the proposed changes in working practice, before further consideration by CWGRM concluded that the risk of not taking such steps, in view of pressures on the budget and the financial position in general, outweighed the immediate risks associated with each rejected item. The Council is, consequently, scheduled to reconsider its position with a view to adopting some or all of those items previously rejected.

34 The integration of the RMF and the SP/HLAP in this way also points more clearly towards an ultimate joining of the CWGRM/CWGSP as a single body with responsibility for advising the Council on setting future direction with an understanding of the risk environment, and monitoring implementation of mitigations and changes in that risk environment over time.

#### **Action requested of the Working Group**

35 The Working Group is invited to take note of the information provided and decide as it may deem appropriate.



## ANNEX

### EXTRACT FROM THE STRATEGIC PLAN'S "TRENDS, DEVELOPMENTS AND CHALLENGES", INCORPORATING A HIGH-LEVEL VIEW OF RISK

#### Globalization

2.2 Today's globalized world is characterized by freer movement of people, goods, services and information. It is a more interconnected world, in which the actions taken in one place have implications elsewhere. As commerce has expanded, shipping has taken on greater importance as the major facilitator of global trade. Globalization has also given rise to new players in the maritime arena. For instance, through the process of consolidation, shipping conglomerates and alliances, as well as global terminal operators, wield increasing influence on global trade, the maritime transport sector and shipping matters at large. There is concern that shipping standards might be compromised by the forces of liberalization and competition sweeping through the maritime sector. At the same time, there has also been increased interaction between IMO and other intergovernmental organizations, as well as non-State actors such as industry and special interest groups, in response to the need for a more comprehensive and inclusive approach to shipping matters.

*The challenge for IMO is to:*

- .1 be proactive in identifying trends and developments affecting shipping;*
- .2 adopt a comprehensive and inclusive approach to shipping matters;*
- .3 provide an effective and efficient response to shipping trends, developments and incidents, ~~and in so doing, stave off regional or unilateral tendencies which conflict with the Organization's regulatory framework;~~ and*
- .4 involve the whole of the IMO membership in the development, formulation, adoption and implementation of policy.*

*The risks faced, should IMO not meet this challenge, include:*

- .1 increasing levels of regional or unilateral response to specific issues which conflict with the Organization's regulatory framework;*
- .2 reduction of participation in the development of policy, leading to failure to consider key issues with resultant changes in legislation which do not then reflect the needs of the full membership and other key stakeholders;*
- .3 decreasing engagement by stakeholders in the work of the Organization, leading not only to a narrowing of focus during the development of legislation but also increasing the possibility that legislative changes or changes in policy and practice are not universally implemented; and*
- .4 reduction in the perception of IMO amongst its stakeholders as the primary forum for matters of maritime safety and security, efficiency of navigation and prevention and control of pollution from ships.*