

Enterprise Risk Management
Examples of Financial loss quantification

Quantification of the financial impact is not a straightforward exercise. Qualitative **data analysis** as well as in depth **understanding of the context** are important factors when calculating risk's financial loss. These include key stakeholders' tolerance to identified risks, source of risk and when it occurs, as well as its likelihood and impact.

According to our ERM policy, financial consequence is defined **as “the amount of fund that the organization needs to commit to rectify the situation once the risk materialized.”** In that regards, financial consequence is **not:**

- The “opportunity loss” that the organization suffers when the risk materializes; for instance, if a risk undermines the possibility to mobilize resources, the realization of the risk will impact the possibility to achieve development results but it will not translate in a financial impact equal to the resources which were not mobilized.
- The cost of prevention and risk mitigation measures; or
- Monetized amount of loss of productivity (e.g. staff time, running cost, etc.)

Below are examples that were extracted randomly from different Country Offices (Cos) risk logs while adding some assumptions on the impact and financial loss. **Plases remember that these are simplified examples and Impact/consequence differs based on office mitigation and the context on which the event is happening.**

1- **Category: social and Environmental**

Second category: working conditions

Event: Potential impact of natural disasters (flooding)

Cause: Natural disasters

Impact:

- 1- May cause significant setbacks in programme implementation and imposes a capacity to quickly redirect programme and human resources to address the impacts of these disasters.
- 2- staff safety and security - relocation/evacuation
- 3- inability to access the premises

Probability: Moderately likely

Consequence:

Financial: Low

Should this happen, what is the financial impact of this event?

Example Assumptions:

- ✚ CO would need to assess the relevance of their existing programme to be fit for purpose
- ✚ CO would need to reinforce human resources Capacity to respond to crisis
- ✚ CO would need to evacuate non-essential International Professional (IP) staff to X country for one month. Currently the office has 10 non-essential staff
- ✚ DSA Rate of X Country is 200\$
- ✚ DSA rate at country office is 150\$
- ✚ Crisis may be prolonged for further 3 months

what is the financial impact on the Country Office?

- I. Cost of Hiring 2 consultants at P4 to assess existing programme and assist in its realignment. The estimated cost is 7000\$* 3 months * 2 consultants = \$ **42,000**

- II. Cost of deploying surge capacity to support the CO to response to the crisis (e.g one early recovery specialist and operations advisor both at p3 level) plus DSA.
 - a. Salary costs = 6000\$*3 months*2= \$36,000
 - b. DSA= (\$4500 DSA * 3 months * 2) = \$27,000
 - c. **Total= \$63,000**

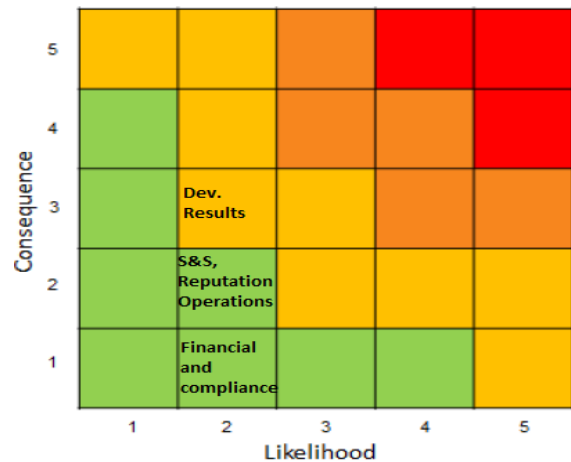
- III. Cost of International Staff (IP) staff evacuation.
 10 staff * 30 days*200\$ = **\$60000**

Best case: 0

Best guess: \$165,000

Worst guess: should this event continues for another 3 months; this would cost the office \$330,000/-

- Reputation: n/a
- Safety and Security: Moderate
- Operations: Moderate
- Compliance: Low
- Development result: high



Risk mapping – Example 1

2- Category: political

Second category: change of government

Event: Change in government leadership and/or priorities

Cause: New Government or changes to key senior government personnel

Impact: Slowdown of programme implementation

Probability: Not likely

Consequence:

- Financial: Low

Should this happen, what is the financial impact of this event?

Example Assumptions:

- ✚ New Government has limited knowledge of UNDP programmes and require full time UNDP presence in the Ministry of Planning
- ✚ Change in government will not suspend any existing programmes
- ✚ Continuous and close dialogue with the government may push programme implementation
- ✚ SB5 Salary is \$ 70,000/year

what is the financial impact on the Country Office?

- I. Cost of hiring a project coordinator at SB5 level to be embedded in the ministry of planning to ensure continuation of project implementation and provide necessary guidance, and orientation of UNDP programmes to new key actors. (\$70K)
- II. Cost of two days' workshop to engage the new government counterparts on UNDP current programme priorities which were based on national priorities to gain government commitment and will to continue programme implementation (\$20K)

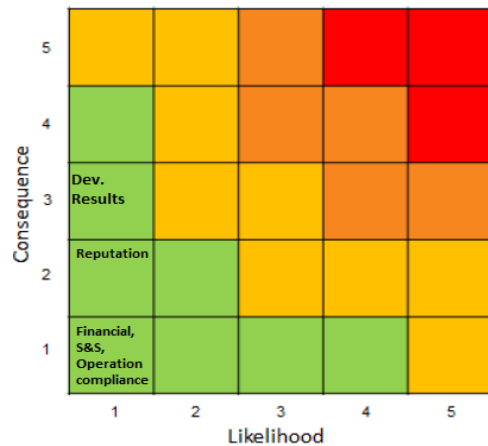
Best case: 0

Best guess: \$90,000

Worst guess: \$100,000 (10% increase of best guess cost incase workshop cost is higher due to higher number of participants)

- Reputation: Moderate
- Safety and Security: Low
- Operations: Moderate

- Compliance: moderate
- Development result: Significant



Risk mapping – Example 2

3- **Category: Financial**

Second category: external factor

Event: Exchange rate loss on the Euro accounts receivables

Cause: Economic uncertainty globally and political developments in key DAC constituencies. Consequent inward national shifts in policy (due to high unemployment, debt, migration and refugees) with swings to the right in the electorate with deprioritisation of multilateral organizations and solutions.

Impact: Inability to deliver all planned activities

Probability: Likely

Consequence:

- Financial: Low

Should this happen, what is the financial impact of this even?

Example Assumptions:

- ✚ **50 Million Euro** is expected to be received this year based on a signed agreement. At the time of signing the agreement, the exchange rate to dollars was (1.35) making the expected income to **\$67.5 Million**.
- ✚ As the current exchange rate has dropped to (1.1), the anticipated income has been decreased by **\$ 12.5 Million** i.e. projected income \$67.5 – actual received \$55M = \$12.5M.
- ✚ The funding gap to implement the project is **\$12.5 Million**.

what is the financial impact on the Country Office?

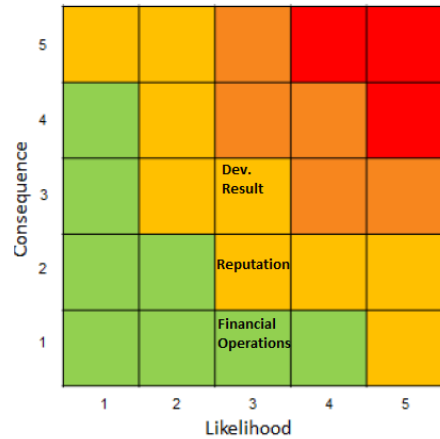
Best case: 0

Best Guess: 0

Worst guess: 0

It is important to highlight that the loss generated from the exchange rate will **not be the financial loss for UNDP***.

- Reputation: Moderate
- Safety and Security: n/a
- Operations: Low
- Compliance: n/a
- Development result: High



Risk mapping – Example 3

* please refer to Finances section https://intranet.undp.org/unit/pb/resmob/rmtoolkit/financing/SitePages/6.1.7_BeforeSigningAreement.aspx

*The example doesn't cover any EC ineligible expenditure/pre-financing implications

*UNDP's projects and programmes funded from other (non-core) resources are dependent upon contribution from donors. According to the decision of the Executive Board, UNDP's regular (core) resources should not be used to subsidize projects funded by other (non-core) resources. Therefore, if there is a deficit in the project funds owing to fluctuations in exchange rates, inflationary factors or other unforeseen circumstances, UNDP will approach the donors to use their 'best endeavours' for obtaining additional finances. If that is not available, UNDP will try its best to obtain resources from other sources. If this also fails, UNDP will be forced, due to circumstances beyond its control, to reduce, suspend or terminate assistance to the project. There is no mandatory requirement for the donors to give the additional funding; what is reflected in the agreement are the steps UNDP will take to obtain additional funding in case such a situation arises.