

## OPERATING POLICIES AND PROCEDURES

### Chapter 4

#### Risk Management Policy and Procedures

1 September 2013

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#### 1. Policy

- 1.1 The PIDG Members require a strong risk awareness and risk intelligence culture in all PIDG Participants. Recognising the responsibility for good stewardship of public and private funds at all levels, the PIDG Members are unequivocal in their view that the management of risk, in particular the misuse of public funds, across all areas of the PIDG should be treated with the utmost vigour.
- 1.2 Damage to any part of the PIDG is damage to the whole, and anything that undermines the credibility or integrity of a part of PIDG undermines the PIDG as a whole.
- 1.3 The places where PIDG Participants operate gives rise to considerable risk along all parts of the value chain, especially in the field. Accordingly PIDG Participants have to be even more vigilant than may otherwise be the case.
- 1.4 Recognising that it is impossible to eliminate risk in its entirety, the PIDG Members seek to understand the levels of their risk as far as possible, in order to make an informed decision about appropriate levels of risk acceptance. A robust risk reporting control mechanism is required in all PIDG Facilities.
- 1.5 In all cases, the possession of risk intelligence should be optimised. Reporting of risks from all PIDG Facilities is deemed both essential and fundamental to strong risk management.
- 1.6 A key part of risk management is the adherence to robust operating policies and procedures. The expectation is that through adoption of this Risk Management Policy and Procedure as a minimum, all PIDG Participants will mitigate risk. PIDG Participants may, of course, choose to develop additional and/or equivalent controls.
- 1.7 Risk profiles will vary according to the circumstances and location of the PIDG Facility.

#### 2. Procedures

- 2.1 Each PIDG Participant has a duty to disclose all material risks to the PIDG Members through the PMU, and in the case of the PMU, the Chair's Office. 'Material' in this context means all issues of possible fraud or corruption, any financial issues of personal improbity to whatever value, transactional inaccuracies of US\$300 or more and any possible transactions that may be open to misrepresentation or misunderstanding. Any risk to the reputation of PIDG Members is considered material.

- 2.2 All PIDG Facilities should be able to demonstrate appropriate independent risk governance, for example through a risk or audit committee, or equivalent. All PIDG Facilities must hold appropriate documentation to evidence their effective risk management, and to evidence their self-awareness of retained risks.
- 2.3 The directors of all PIDG Facilities are responsible for assessing the risk appetite and likely returns, both social and economic, of the PIDG Facility.
- 2.4 An example of a risk matrix for the PIDG Facilities is shown in Appendix I. This is not intended to be exhaustive or prescriptive, but any risk management systems currently in use would be expected to include at least a review of each of the issues that apply to the PIDG Facility. All PIDG Participants will have fit for purpose risk management processes, and report their risks as they perceive them as soon as they arise and then provide a quarterly summary to the PMU in their quarterly report.
- 2.5 Each PIDG Facility will conduct its own internal review of risk management as considered appropriate by the directors and report to their funding PIDG Members on the outcome of such reviews and generally on risk management issues as agreed from time to time with their funding PIDG Members.
- 2.6 The general approach to risk management should seek to avoid being purely mechanistic. PIDG Participants are encouraged to take time out to consider the question of risk in a wider context than merely the completion of routine paperwork (important though this is). For example, best practice would include taking time away to discuss the issues of risk on a “what if?” or “what could go wrong?” basis. During such conversations PIDG Participants should seek to review the level of contingency plans they may have in place, especially where high levels of retained risks have been accepted or identified. The question “What keeps you awake at night?” with regard to PIDG-wide issues should be asked widely on a regular basis. Any issues around potential conflict of interest or any related party transactions are especially important and should be managed.

**Appendix I**

**Example of PIDG Facility Risk Matrix**

Appendix I – PIDG Facility Risk Matrix

Primary responsibility in all cases - PIDG Facility

Suggested pro forma only - individual facilities free to use their own layout.

Risk area	Risk area - detail	Risk Event - Examples	Impact* H/M/L	Probability/Likelihood* H/M/L	Mitigations	Reporting	Specific actions planned	Responsibility	Retained risk* H/M/L	Change since last quarter	Comment
<b>Over-arching / Strategic level Risks</b>											
	Mis-use of public funds including fraud & corruption	Innocent, negligent or reckless mis-use Fraud			<ul style="list-style-type: none"> <li>Integrity &amp; Due Diligence Committees</li> <li>Whistleblower Mechanisms</li> <li>Audit Internal &amp; External</li> <li>Due Diligence Process</li> <li>Risk Management Process</li> <li>Compliance With Operating Policies &amp; Procedures</li> <li>Results Monitoring Framework</li> <li>Disbursement Process</li> <li>Travel &amp; Expense and staff reimbursement policies</li> </ul>	Annual and ad hoc reporting of any mis-use of funds in accordance with anti-corruption and integrity procedure and other DPPs.					
<b>Finance Risks</b>											
	Credit risk	Individual investments reviewed for potential difficulties of possible funding, performance or credit risks. Issues of debt-subordination and ranking			<ul style="list-style-type: none"> <li>Clear Facility business plan established at outset and regular ongoing performance reporting against agreed kpi's;</li> <li>Directors and managers with strong credit experience;</li> <li>Reporting of portfolio on regular and timely basis, with emphasis on early identification of issues;</li> <li>Specific portfolio at risk (PAR) reporting;</li> <li>Specific project reporting of detailed issues and concerns by exception;</li> <li>Strong financial controls and cash flow reporting;</li> <li>Review of audited accounts and auditor management letter issues;</li> <li>Investment policies and limits by sponsor, sector country</li> </ul>	Individual Facility Boards to manage facility credit risk, and notify PIDG PMU of material credit issues asap;					
	Exchange risk	Evidence of understanding of fx risks at Facility level;			<ul style="list-style-type: none"> <li>Ensure board competencies;</li> <li>Management reporting</li> <li>Appropriate fx protection, e.g. hedging strategy;</li> </ul>	External independent audit specific fx examination					
	Risks of not attracting additional private sector capital	PPP is key to PIDG Mission, Vision, Values, and ultimate success; Review of lack of 'good news story' to attract private funding			<ul style="list-style-type: none"> <li>Clear marketing and communications strategy in place and executed;</li> <li>Transaction structures used at facility level are attractive;</li> <li>Sufficient equity from donors</li> </ul>	Shared with PIDG Members;					
	Interest Rate Risk	Evidence of understanding of interest rate issues and risks fully documented;			<ul style="list-style-type: none"> <li>Evidence of the "what if" LIBOR +/- 3% questions thought through;</li> <li>Evidence of continuing monitoring and reporting of any unprotected positions;</li> <li>Appropriate mitigation tools utilised e.g. interest rate swaps in place as needed;</li> </ul>						
	Liquidity Risk	Risk of default on current or subsequent phases of facility investment;			<ul style="list-style-type: none"> <li>Strong disciplined transparent monthly reporting evidenced;</li> </ul>	Manager reporting to board on monthly basis established					
	Finance Risk	Adherence to all banking covenants, e.g. interest cover, gearing, net worth etc.			<ul style="list-style-type: none"> <li>Strong disciplined transparent monthly reporting evidenced;</li> </ul>	Manager reporting to board on monthly basis established					
<b>Leadership and Governance Risks</b>											
	Control risk	Risk of voting rights not appropriately distributed or falling into the wrong hands.			<ul style="list-style-type: none"> <li>Legal protections in place such that ownership changes approved;</li> <li>Donor consent required for any change in voting rights</li> </ul>						
	Leadership risk	Lessening appetite from investors, sponsors governments or supporters for original intent; Change of ownership; Board constituency & competence			<ul style="list-style-type: none"> <li>Legal protections in place such that ownership changes approved;</li> <li>Clear marketing and communications strategy in place and executed;</li> <li>Donor funding predictability</li> <li>Effective results monitoring;</li> </ul>	Direct quarterly reporting to donors on performance					
<b>Reputational Risks</b>											
	Reputational Risks (Donor)	Overall suitability of target investments; Mis-use of public funds and fraud and corruption; Ethical standards of suppliers or government may not be acceptable; Risk of tax haven issues; Low/no development impact Conflict of interest not disclosed Escalation process failure;			<ul style="list-style-type: none"> <li>Evidence of full and intelligent review before commitment in all cases;</li> <li>Policies and procedures developed and respected; Evidence of whistle-blower policies, integrity and anti-corruption policies, procurement policies;</li> <li>Clear evidence that these not only documented but understood by all stakeholders and practical implementation.</li> <li>Evidence of ongoing investor relations / shareholder communications strategy in place and fully functioning.</li> <li>Development of possible efficiency / performance measures, and communication thereof?</li> </ul>	Board to receive quarterly reporting, and to report major risks to PMU on an immediate basis for serious risks - perceived or actual					
<b>Macro-level Risks</b>											
	Government Risk	Risk of government change and therefore rule change; inappropriate legislative framework;			<ul style="list-style-type: none"> <li>Evidence of connectedness of facility into overall operating environment;</li> </ul>	Ongoing close monitoring of political map by board and manager					
	Regulatory Risk	Sudden & material change to financial regulatory frameworks environment e.g. nationalisation; fx			<ul style="list-style-type: none"> <li>Finely-tuned political antennae</li> <li>Due diligence process and experience of directors</li> </ul>	Ongoing close monitoring of political map by board and manager					
	Environmental & Social Risk	Principle of do no harm; NGO pressure; Green issues; Externalities, force majeure issues of unrest or conflict, climate etc.;			<ul style="list-style-type: none"> <li>Evidence that these taken seriously and of independent expert opinion as needed;</li> <li>PIDG Facilities required to apply IFC performance standards</li> <li>Progress reviews</li> </ul>	[Disclosure of ESIA's]					
<b>Operational Risks</b>											
	Operational Risk	Projects running behind schedule with associated diminution of impact or failure; EBITDA unsatisfactory; Changes of key personnel; Business Continuity			<ul style="list-style-type: none"> <li>Due diligence;</li> <li>Experience of Directors</li> <li>BCP in place at project level;</li> </ul>	Reliance on individual facilities; Exception reporting					
<b>HR Risks</b>											
	HR Risks	Perception of incestuous appointments process Blend of skills at Board level Resourcing and skill levels of executive;			<ul style="list-style-type: none"> <li>Strong HR Processes developed and in place;</li> <li>Strong induction processes;</li> </ul>	Reliance on individual facilities					
<b>Legal Risks</b>											
	Legal risks	Ring-fencing of appropriate entities structured to protect on liability issues; Legal deal construction fit for purpose; Jurisdiction clear – E+W Law, or other?			<ul style="list-style-type: none"> <li>Document sign-off;</li> <li>Use of specialist market and infrastructure law firms;</li> <li>Clear approval processes and delegation of authority for execution;</li> </ul>	Potential litigation reporting					
<b>Other Risks</b>											
	Other	Are we doing enough? Are self-awareness levels high enough across the PIDG? Risk process tokenistic, box-ticking rather than fully effective and resourced accordingly; Headspace for the out of the box thinking, including: o What could go wrong? o What have we missed?			<ul style="list-style-type: none"> <li>Specific board away-day / time evidenced on the 'what keeps you awake at night?' issues;</li> <li>Risk management given significant Board priority and key independent specialist skills engaged;</li> <li>Listening – especially grass roots</li> </ul>	All stakeholders					
	Compliance	Facility Board able to confidently assure compliance across all policies and procedures			<ul style="list-style-type: none"> <li>Regular independent validation and verification including use of external specialists;</li> </ul>						

Possible areas for further consideration

- Regular quarterly self-certification checklist process from Boards, confirming "that to the best of our knowledge..."
  - Regular and ad hoc incident or allegation of fraud or suspected fraud as it occurs
  - Annual incident summary reporting
  - Full policy manuals completed, and authorised.
  - No fraud issues
  - No facilitation payments
  - No conflict of interest
  - We have whistleblower policies in place, they are fully understood and that there were none;
- Monitoring of external environment (e.g. Euro crisis, African political landscape etc.)
  - Role of independent audit teams
  - QA / procedural completeness
  - Financial, credit risks, cash flow etc
  - Procurement spot checks