

Risk Management Guidelines

Final

October 8, 2015

List of Contents

1	Introduction.....	2
2	Purpose.....	3
3	Projects for which the tool should be used.....	3
4	When to analyse the risks	43
5	Who should analyse the risk.....	4
6	The Risk Management Tool	5
6.1	Assisting tools	5
6.1.1	Risk factors to consider	5
6.1.2	Definition of likelihood and impact of risk factors	76
6.1.3	Definition of overall risk	87
6.2	Context and benefits of providing support	87
6.3	Risk factors.....	98
6.4	Mitigating measures	1244
6.5	Formalities	1413
7	Benefits of providing support versus high risk	1514
	Annex A - Example method for how to conduct risk analysis during a workshop.....	1615
	Annex B – Other versions of the overall risk matrix.....	1716

1 Introduction

These guidelines describes the rationale for using a risk management tool and how to use it.

Identification of risks and assumptions has for many years been a standard component of any logframe which usually includes a box for Assumptions and Risks. Follow-up on these assumptions and risks has, however, mostly been patchy. With the use of a tool for risk management it is the intention that the identification of risks will lead to increased efforts to deal with (mitigate) these risks. Assumptions can in most instances also be analysed through the use of a risk management tool, i.e. by turning the risk 'around' to an assumption.

Besides allowing for a more pro-active approach to risk mitigation, proper management of risks is increasingly being demanded by donors. Danida, the main donor to Disabled People's Organisations Denmark (DPOD) and its members' development work is increasingly focusing on risk management and has developed a comprehensive risk management tool, available on <http://amg.um.dk/en/technical-guidelines/guidelines-for-risk-management/>. The tool presented here builds on the same principles, but is a simplified version intended to be easier to use.

It is important to have in mind that the risk management tool is not intended to discourage implementation of projects with high risks, but rather to ensure that the potential risks are known and to the extent possible mitigated. In some cases, however, a decision might be made not to go ahead with implementing the project due to high risks.

In this document the term project will be used to describe the 'action' that the risks will impact upon. Depending on the scale of the 'action', it can also be a programme or an activity depending on what is being implemented and what the level of assessment is.

The risk management tool presented here is used for assessing the overall risk of risk factors. Risk factors are events or circumstances that can cause risks to the project. Risk factors are typically divided into three categories:

- i) **Contextual** risks, e.g. risk that are largely outside the control of the project or organisation, e.g. elections, shortage of qualified staff etc., but which nevertheless have an impact on the project.
- ii) **Programmatic** risks are risks that impacts the delivery of the project, e.g. can lead to the objectives not being achieved or can do more harm than good.
- iii) **Institutional** risks are risks that can damage the institution, e.g. the reputation of the organisation implementing the project, financial loss etc. Most risks are closely interlinked, e.g. a failure to achieve the objectives can also damage the reputation

of the organisation, or financial mismanagement can lead to damage of the reputation of the organisation.

Risk management is about managing the risk factors causing these risks, either by reducing the likelihood that they occur or by reducing the impact they have on the project or organisation. Actions that will reduce the likelihood or the impact are called mitigating measures.

Risks should always be balanced against the benefits or providing support, or against the negative results of not providing the support. For example, in a given context there could be a high risk that the objectives are not achieved, but due to the importance of the potential benefits, the project will be implemented regardless; other projects might be less important and the willingness to implement a project with high risks might be less.

2 Purpose

The present risk management tool is a tool for identifying and possibly mitigating risks associated with implementation of DPOD and its member organisations' development projects. Considering that DPOD and its member organisations are mostly implementing comparatively small grants and are mainly implementing projects in relatively stable contexts - although some of the locations are fragile in some aspects due to sensitive political and security development, or due to being prone to natural disaster such as drought or earthquakes – a DPOD risk management tool should be relatively simple to use as not to overburden DPOD and its member organisations, and be commensurate with the benefits of using the tool.

The risk management tool is based on existing tools such as the Danida risk management tool described above, which in turns takes its point of departure in conceptual work done by OECD.

3 Projects for which the tool should be used

As a starting point the risk management tool will only be required for projects with a total budget of over DKK 5 million. It is, however, the intention that the risk management tool should gradually become an integrated part of all projects implemented by DPOD and DPOD member organisations.

For smaller projects, the risk management tool can be used as is, or it can be adapted as appropriate.

4 When to analyse the risks

The analysis of risks would normally best be done in conjunction with the development of the logframe or development of the context and justification sections of the proposal. If some of the mitigating measures are incorporated into the proposal as an activity or addressed to an extent where it is no longer considered to be a risk, it is, nevertheless, suggested that the risk and the mitigating measures are included in the risk matrix to prove to donors and others that a risk analysis has indeed been conducted.

The earlier the risks are analysed the better as this will allow consideration of risks and their mitigating measures during the development of the specific project activities, some of which can be designed specifically to mitigate the identified risks.

For larger projects (over DKK 5 million), the risk analysis should be updated yearly in conjunction with the development of status reports, or when there are major changes to the context that are likely to impact on the project. To ensure that the risk analysis is done regularly, organisations are encouraged to add a follow-up component to their usual monitoring format. A simple example of how this could be done is included below.

When was the risk analysis updated: _____

What were the main changes to the risk analysis: _____

5 Who should analyse the risk

As identification of risks is not an exact science (it is about predicting what will happen in the future) and involves a certain degree of subjective assessment of a particular risk depending on the experiences and risk appetite of the person conducting the assessment, it is generally advisable to involve more than one person in the risk analysis. Given the many differences between the DPOD members, there is no formula for who should analyse the risk.

It is recommended that that process of developing the risk analysis is done with the participation of the local partner(s), either jointly or in close dialogue. As described in the previous chapter this can be done in conjunction with a logframe/ToC workshop. Taking into consideration the differences between partners and the potential sensitivity of some of the risks, it might be necessary to analyse the risks in different meetings with attendance of different levels of partner staff. There is no prescribed

methodology for how to analyse the risks during a logframe/ToC workshop, but a suggestion is provided in Annex A (the method is better understood when you have read all of this guideline).

6 The Risk Management Tool

The risk assessment tool consists of three main components:

- i) An analysis of the context and the benefits of providing support
- ii) An assessment of the risk factors
- iii) Mitigating measures, including responsibilities.

To guide the assessment and to facilitate data entry, a number of tables and matrices, including three assisting tools have been developed:

- i) A list of typical risk factors to consider
- ii) Scales and definitions for defining the likelihood and impact of risk factors
- iii) A matrix defining the overall risk based on the likelihood that a risk factor will occur and the impact the risk factor will have on the project or the organisation. These three tools are presented below.

6.1 Assisting tools

The three tools in this section assist the development of the risk matrix presented in section 6.3.

6.1.1 Risk factors to consider

To assist with the identification of risk factors to consider, a list of risk factors that should be considered is included on the next page. The list is not exhaustive and there might in a given context be other more relevant risk factors.

Some of the risk factors are external and would as such typically be used for the assessment of the contextual risks. The likelihood of these external risk factors occurring can in most contexts not be influenced by the projects, but the impact of the risk occurring can be addressed. For example it is near impossible for a project to address high levels of corruption, but precautions can be taken to reduce the risk of corrupt practices within the project.

As the potential risk factors on the next page are very generic, it has to be considered how they affect the activities. For example, financial instability might not matter if it is due to a generally weak currency, but it will matter if the cost of implementation is likely to increase due to inflation. Similarly, levels of crime might be high, but if that is the normal status in the country, it might not impact implementation of activities.

When identifying and analysing the risk factors it can be useful to keep in mind the three categories of risks as described in page 2.

External

- Gender issues
- General capacity/quality of human resources
- Level of stigmatisation of disabled
- Environmental issues
- Elections
- Security concerns
- Access to supplies
- Conflicts/rebellions/war
- Financial aspects, e.g. weakening of currency, inflation, inequality.
- Levels of corruption
- Level of crime

Doing more harm than good:

- Contributing to inequality
- Discrimination/stigmatisation

Organisational:

- Capacity of staff
- Managerial capacity
- Political leadership
- Adherence to organisational rules and regulations
- Organisational culture
- Political or ethnic interests/biases
- Donor dependency
- Collaboration within the organisation
- Collaboration between organisations at local and national levels
- Staff turnover
- Financial management
- Logistical challenges/access to supplies
- Communication capacity

Legal risks:

- Local legislation
- Judicial system

Potential risk factors not included in the above list include natural disasters in areas with e.g. recurrent flooding, large-scale disease outbreaks, etc. Such risk factors would normally not be included in the risk matrix.

6.1.2 Definition of likelihood and impact of risk factors

To assist with assessing the likelihood of a risk factor occurring, the definitions in the table below are used.

Likelihood (the likelihood that a risk factor will occur):

Likelihood	Definition
Almost certain	Expected to occur in most circumstances
Likely	Will probably occur in most circumstances
Unlikely	Could occur at some time
Rare	May occur in exceptional circumstances

For assessing the impact a risk factor has on the project or the organisation if it occurs, the definitions in the table below are used.

Impact (the impact a risk factor has on the project or the organisation if it occurs)

Impact	Definition
Significant	Massive damage or disruption
Major	Major damage or disruption
Minor	Minor damage or disruption
Insignificant	Minimal damage or disruption

6.1.3 Definition of overall risk

To judge the overall risk, the matrix below can be used. The principle of the matrix is that a high likelihood that a risk factor will occur combined with a high impact, the higher is the overall risk. The overall risk is categorised as low (illustrated in green), medium (illustrated in yellow) or high (illustrated in red). A simpler table with the same information is provided in a table below the matrix.

Overall risk matrix:

<i>Impact</i>	<i>Significant</i>	Medium	Medium	High	High
	<i>Major</i>	Low	Medium	Medium	High
	<i>Minor</i>	Low	Low	Medium	Medium
	<i>Insignificant</i>	Low	Low	Low	Low
		<i>Rare</i>	<i>Unlikely</i>	<i>Likely</i>	<i>Almost certain</i>
		<i>Likelihood</i>			

To assist people that are visible impaired, the information provided in the above table is presented in different formats in Annex B.

6.2 Context and benefits of providing support

To ensure that the context is well understood, a context analysis is required. Such analysis will typically be part of a proposal if already developed. If the analysis has not already been developed it will be necessary to do so as this will help to assess the risks. If the context analysis has already been developed, or if other sources are available, the risk assessment can make use of these.

The proposal or, as a minimum, the first initial thoughts on what a proposal might look like, will also typically include considerations on the benefits of engaging with the partners/supporting the project, and might also consider what will happen if support is not provided. If a proposal has already been drafted or developed, the risk assessment can simply refer to/use the proposal.

If there is a need to strengthen or emphasise the context analysis or the description of benefits of providing support, perhaps in instances where there are high risks, e.g. when many risk factors carries a high risk, this can be done using the form on the next page. The description should be maximum one page.

Context and benefits of providing support

Refer to the text in the proposal, or - if the proposal has not yet been developed or if there is a need to strengthen or emphasise the context analysis or the description of benefits of providing support - describe in maximum half a page the benefits of providing support. Other sources of information can also be referred to for the conflict analysis. Maximum around one page.

Example 1:

For the context analysis and the description of the benefits of providing the support, please refer to the proposal.

Example 2:

For an analysis of the context please refer to the document developed by the local NGO Mango (Disabled in Utopia, 2014 available on their website). Main developments since the publication of the NCA context is the upcoming elections that were announced on May 12, 2015.

The political climate in Utopia are at the moment favourable for supporting the rights of the disabled, and with the upcoming elections there are opportunities for advocating politicians to take a clear stand on these issues.

Furthermore, the capacity of the umbrella organisation (DPOU) in Utopia have now reached a crucial level and provides a unique opportunity for providing the additional support that will enable DPOU to be a prominent player in the promotion of rights for the disabled.

If support is not provided there is a risk that the already developed capacity of DPOU is lost as there are no indications that other actors are ready or able to support DPOU to maintain or further develop their capacity.

6.3 Risk factors

The starting point of the actual risk assessment is the identification of potential risk factors. A typical process for identification of risk factors is described in section 4. The potential risk factors listed in section 6.1.1 can be used as inspiration.

Risk factors include contextual risk factors that are typically external to the project in the sense that the likelihood of them occurring cannot easily be controlled by the project. Often the assumptions traditionally used in logframes can be "turned around" and included as risks. An example: If it is an assumption that the government will support the fulfilment of the rights of the disabled, the corresponding risk could be that the government will not support the fulfilment of the rights of the disabled. Assumptions are typically conditions that are almost certain, but if they do not materialise might carry a big risk to the project.

It is important to include only element that are of relevance to the planned activities.

For each risk factor, the likelihood of them occurring is assessed. In order to facilitate review of the assessments, a brief background to the assessment of the likelihood is required. Likewise, the potential impact of each risk factor is assessed along with a brief background to the assessment.

The rating of the likelihood and impact is done as per the tables in section 6.1.2.

For each risk factor, the overall risk is indicated through the use of the overall risk matrix provided in section 6.1.3 on page [87](#), or through the use of the alternative versions in Annex B.

A risk matrix is used to enter the above information. It is suggested that the cells with the overall risk is color-coded as per the colours used in the overall risk matrix in section 6.1.3, or through the use of the numerical values included in Annex B. It is important also to write the overall risk, e.g. low, medium or high as colours might not be printable on all printers.

An example of a contextual risk matrix is provided on the next page. The number of risk factors should normally be between 5 and 25 depending on the context and the type and scale of the project. Generally, the smaller the unit of analysis, i.e. if it is an activity or if it is a small project, the fewer the likely risk factors.

It might be useful to group risk factors in the risk matrix as per the three categories of risks as described on page 2: contextual, programmatic and institutional, possibly with a sub-heading for each group.

Please note that risk factors that will obviously rarely happen and will have limited impact do not need to be included. This is not to say that risk factors that will carry an low overall risk should not be included as this is often not known until the analysis is undertaken, and it can be important for accountability purposes to illustrate that these factors have also been considered.

Risk matrix:

Risk factor	Likelihood	Background to likelihood assessment	Impact	Background to impact assessment	Overall risk
<i>Risk factor</i>	<i>Rare, unlikely, etc.</i>	<i>Describe how/why the likelihood is assessed to be xxx</i>	<i>Insignificant, minor, etc.</i>	<i>Describe how/why the impact is assessed to be xxx</i>	<i>Medium</i>
The crime rate continues to increase making it difficult to operate and thus to achieve the objectives	Likely	The past decade has witnessed a continued increase in crime rates	Insignificant	Measures have already been put in place to mitigate the increased crime rate	Low
Not all local government partners will or can prioritise a collaborative approach which leads to objectives not being achieved	Likely	Due to the social problems, political instability and corruption, human rights are not high on the government's agenda	Minor	Most local government partners understand the importance of rights and will continue to prioritise rights based activities	Medium
Conflicts between partner organisations leads to non-achievement of objectives	Almost certain	Historically there has been many conflicts between the three partners due to disagreements on how to distribute funds	Major	The progress of activities is complicated by the in-fight	High
High staff turnover amongst partners leads to non-achievement of objectives	Unlikely	There is normally only minimal staff turnover	Major	Due to the small size of the offices, the loss of one person can lead to delays in implementation	Medium
Misuse of funds by partners leads to reputational damage	Unlikely	The weak administration of the partners and the widespread corruption means that it could happen	Major	Misuse of funds can lead to internal conflict and loss of trust from the donor	Medium

Risk factor	Likelihood	Background to likelihood assessment	Impact	Background to impact assessment	Overall risk
Misuse of funds by partners leads to objectives not being achieved	Unlikely	The weak administration of the partners and the widespread corruption means that it could happen	Minor	Misuse of funds will leave fewer funds for implementation of activities; it is, however, unlikely that the misuse will be substantial.	Low
Due to cultural difference, it is not possible to engage as many women as anticipated and not all beneficiaries will be reached, leading to non-achievement of objectives	Unlikely	Previous collaboration with the partner has shown that it is possible to engage a sufficient number of women	Minor	The overall objectives of the project will still be achieved even if less women are targeted	Low

6.4 Mitigating measures

For all high (red) and medium (yellow) risks identified in the above two sections, mitigating measures have to be developed. Mitigating measures can either reduce the likelihood that a risk occurs or reduce the impact it has. Mitigating measures can be implemented immediately/before the activity begins, or it can be an on-going process implemented simultaneously with the project, e.g. capacity development.

If the mitigating measures are implemented prior to initiating the project, the risk is likely to have reduced to e.g. low. An example is provided in row 2 of the below table with mitigating measures. The risk matrix can be updated to reflect this; however, it can also be left as it is in order to illustrate to others what risks have already been considered.

For most high risks, it should be considered whether the project can only be implemented if mitigating measures are in place that will reduce the risk to medium or less.

It has to be clarified who is responsible for implementing mitigating measures, and deadlines for their implementation need to be established. For some of the mitigating measures there might be no end-line as such – instead it might be an on-going process, e.g. increased financial support and monitoring.

A table with examples of mitigating measures is included below. The mitigating measures should be fairly detailed, e.g. not just write “Develop the capacity”, but also how the capacity should be developed, e.g. through training.

Mitigating measures:

Risk factor	Overall risk	Mitigating measure	Responsible	Deadline
<i>Insert the high and medium risk factors from the risk matrix</i>	<i>Copy also the overall risk and colour the cell accordingly</i>	<i>Describe the mitigating measures to be implemented, including specifics.</i>	<i>Who is responsible for implementation of the mitigating measures</i>	<i>Provide details of the deadline for implementation of the mitigating measures.</i>
Not all local government partners will or can prioritise a collaborative approach	Medium	Careful selection of locations for implementation of activities where local government partners are assessed to have the will and capacity to prioritise collaboration	Director of local partner and Danish partner	Was done during the proposal development and planning phase and is expected to be less at the onset of the implementation
Conflicts between partner organisations lead to non-achievement of objectives	High	Strengthening of coordination between partners through increased meeting frequency	Director or local partner	June, 2016
High staff turnover amongst partners leads to non-achievement of objectives	Medium	Build the capacity of all staff - through training - to ensure they can take over if one staff leaves	Project coordinator of Danish partner	November, 2016
Misuse of funds by partners leads to reputational damage	Medium	Close monitoring of expenditure and disbursement of monthly payment of only DKK xxx. Improvements of partners’ financial management systems through establishment of a new financial management system	Finance manager of local partner	Establishment of new financial management system initiated by 1/11-2015 and completed by 1/11-2016

6.5 Formalities

Due to the differences in organisational structures of DPOD and DPOD members as well as their partners, there is no uniform approach to who will conduct the risk assessment, who will be responsible for developing and implementing mitigating measures, and who will approve the risk assessment.

An optimal time for developing the risk matrix would be in conjunction with the development of the logframe/ToC for the activities. Due to the subjectivity of the exercise it is generally advisable that as many people as possible are involved in development of the risk matrix. If one person develops it, at least one other person should review it.

To ensure that the risk assessments are used and relevant, procedures for who should approve the risk assessment can be established. Especially if there are high overall risks, the decision to go ahead would often require approval from higher levels. Mitigating measures might also incur costs that need approval. It is therefore proposed that a form for filling in such information is developed. Below are three examples that can be adjusted to the organisational structure of the organisation (or organisations in case of joint activities). A signature can contribute to ensuring accountability. DPOD will use this system, but member organisations are free to choose their own system.

What	Title	Location	Date
Programme/project title			
Risk assessment conducted by			

What	Title	Name	Date
Programme/project title			
Risk assessment conducted by			
Risk assessment approved by			

What	Title	Name	Date	Signature
Programme/project title				
Risk matrix developed by				
Risk assessment reviewed by				
Risk assessment approved by				

7 Benefits of providing support versus high risk

If the overall risks are high, it is important to have in mind that the benefits of providing the support as identified in section 6.2 might outweigh the risk. To this effect the below form can be used, the justification for providing support regardless should be maximum one page. The form is compulsory in case of several high risks.

Benefits of providing support versus risk

If there is a high risk overall, the justification for going ahead with the project can be described here. It must be substantiated that the benefits outweighs the risk. Maximum one page.

Example:

Despite the substantial risk associated with the implementation of the project (support to DPOU) due to the uncertain political situation and the relatively low financial management capacity of DPOU, there are at this time clear opportunities for supporting a substantial shift in the policies of the government of Utopia. It is therefore recommended that the project is implemented, including the implementation of the identified mitigating measures

Annex A – Example: Method for how to conduct a risk analysis during a workshop

If the risks to a project/organisation are analysed during a workshop the below method can be used. Other methods are probably equally good.

Following an introduction to risk analysis as per these guidelines, the first step is a brainstorming session aimed at listing all the possible risk factors. This can be done by participants noting their suggestions for risk factors on small cards. Some of the risk factors might be very similar and can probably be combined into one risk factor. It is important to understand what the risk factor will impact on.

Once the relevant risk factors are agreed upon, they can be ranked according to their perceived importance. This can be done in plenary.

The assessment of likelihood and impact of each risk factor can be done either in plenary or - depending on the number of risks and the number of participants - in smaller groups.

Once all the risk factors have been assessed they are listed and the overall risk is determined.

For the medium and high risks suggestions for mitigating measures, deadlines for these, and who is responsible for the implementation are developed in plenary.

A list of the inspirational risk factors and the risk matrix described later on together with small cards for listing the risk factors can be useful tools.

Annex B – Other versions of the overall risk matrix

The table below contains the same information as the overall risk matrix on page 87.

Overall risk table:

Likelihood	Impact	Overall risk
Rare	Insignificant	Low
Rare	Minor	Low
Rare	Major	Low
Rare	Significant	Medium
Unlikely	Insignificant	Low
Unlikely	Minor	Low
Unlikely	Major	Medium
Unlikely	Significant	Medium
Likely	Insignificant	Low
Likely	Minor	Medium
Likely	Major	Medium
Likely	Significant	High
Almost certain	Insignificant	Low
Almost certain	Minor	Medium
Almost certain	Major	High
Almost certain	Significant	High

A different way of presenting the information is by allocating numerical values to the scales of likelihood and impact instead of unlikely, likely, minor, major, etc. In other words: rate the likelihood that a risk factor will occur on a scale from 1 to 4 with 4 being the most likely, and the impact on a scale from 1 to 4 with the most significant being 4. By doing this, it is possible to calculate an overall risk by multiplying the likelihood with impact, and produce a number for the overall risk¹. The table above would then look like the below.

Overall risk table:

Likelihood	Impact	Overall risk (numerical)	Overall risk
1	1	1	Low
1	2	2	Low
1	3	3	Low
1	4	4	Medium
2	1	3	Low
2	2	4	Low
2	3	6	Medium
2	4	8	Medium
3	1	3	Low

¹ This is not done by default as it implies a certain objectivity to the assessment of likelihood and impact which rarely is the case.

3	2	6	Medium
3	3	9	Medium
3	4	12	High
4	1	4	Low
4	2	8	Medium
4	3	12	High
4	4	16	High

From the table it can be inferred that an overall risk of up to 4 is considered low, an overall risk from 6 to 9 is considered medium, and an overall risk of 12 or more is considered high.