Risk Analysis and Risk Management

Within a project cycle, risks are defined as the effects of insecurity that may affect the success of the project. All projects have weaknesses and/or exist in an environment which may present threats to the project. Weaknesses and threats are addressed in project planning and have to be dealt with (for example by including activities in the project that eliminate or reduce them). Remaining uncertainties that could not be eliminated remain as risks. Poverty, or political insecurity, for example, may not constitute a risk per se, but are contextual facts that should be described in the contextual analysis.

As with conflicts (conflict of interest, in negotiations, etc.), risks are inherent in development projects, and should be dealt with openly and with the participation of many. Controlling the risk with countermeasures, monitoring the risks and evaluating the risks together with other facts of the projects should be made routine by project management.

The risk analysis implies a structured process during which various risks are identified, measured and planned for, which allows for the project owners to manage and take decisions to mitigate the risks. Some basic steps for discussion by the project owners may be suggested to be able to thoroughly discuss the probable risks to the success of the project:

- Identify the risks – what has stopped the union(s) from succeeding in their aims before? In formulating a baseline (or a SWOT) for the project, some of the obvious weaknesses may stand out but some additional questions may also reveal others (see below);
- Analyze the risks identified – putting them in order according to the baseline, earlier experience or experience from others;
- Manage the risks – prioritizing the risks according to the identification and analysis and plan for management of them;
- Communicate risks, keep information updated.

Some examples of risks and guiding questions to discuss them

Internal risks:
Internal risks can be more manageable than external since they, at least in theory, are based inside the organization. However, they may also imply more sensitive discussions about the organization, management and control of the organization(s) to be developed.

a) Corruption may be the most common risk to take into consideration. Corruption is understood as the abuse of power by acts that generate illegal profit either by a person or a group, which seriously affect legitimacy, confidence and trust among partners and prevents the achievement of goals of the project;

b) Staff turnover or lack of staff: if only one project leader is responsible for the project, or if not sufficient knowledge is spread in the project, if only one person is responsible for administration and that person disappears;

c) Infrastructure: is there material enough for the planned activities - internet, connections, possibilities to travel for meetings, etc.;
d) Conflicting project goals – does the project agree with the political structures and goals of the organization?
e) Cultural risks – will the suggested goals and methods agree with the values of all project partners? A sensitive issue but valid.

External risks:
External risks may not be as manageable as internal and may also be more unexpected. However, if proper identification and analysis has been made, there may also be strategies to mitigate the risks.
a) Sudden political changes that affect the possibility of social dialogue or negotiation
b) Hostile takeover of a business that has earlier been positive to Trade Unions
c) Bankruptcies and financial crises
d) Violent conflict
e) Changes in legislation

Some guiding questions to identify and discuss risks
These questions are originally from the COSO model for quality assurance. They may be used for discussion on some of the risk examples above:

1.- Control Environment
- What are the capacities and knowledge in the organisation?
- What rules and regulations are established?
- What does leadership look like?
- What is working environment like?
- Which values and principles are we striving to achieve?
- Is there a clear organisational structure?
- Are roles and responsibilities clear?
- Are we working in a multicultural environment and how is this affecting the project management?

2.- Risk analysis
- Why and for whom are we making a risk analysis?
- If we identify more risks, does this mean we have less capacity or competence? (prestige)
- Do we have resources for a risk based management?
- Can what we want to achieve and what we do actually be risk factors for ourselves or for others?

3.- Control activities
- Why and for whom are we performing control activities like monitoring and evaluations, audits, etc (are they already part of our organizational routines)?
- How do we perform control activities?
- Is it always the donor who needs to request or perform control activities?
- Do we have resources to perform control activities?

4.- Information and communication
- Do we have all necessary information?
- Are our channels of communication clear and open to all relevant people?
- Do we have resources to find and manage information?
- What is our level of transparency ("upwards" and "downwards")?
5. Monitoring and Evaluation
- Why is monitoring and evaluation needed?
- In which way is the organisation using all of the above (capacities, risk analysis, control activities, information and communication)?
- Are there conditions for learning (individual and organisational)?

The use of matrixes:
There are various suggested matrixes to discuss and measure identified risks. A matrix may be helpful in structuring risks and prioritizing risks management by giving a numerical value to the risk. Please be aware of that the use of a matrix may lead to biased assumptions depending on who discusses them. It should not be used in an absolute manner, but rather as a tool for discussion.

A risk matrix may include:
- **Probability**: Answering the question: What is the probability that a risk to the project will occur?
- **Danger**: Answering the question: How much will the risk affect the success, or the implementation of the program or project?
- **Risk management**: All actions or activities that are aimed at avoiding or mitigating the risk
- **Monitoring**: Adopted measures or actions should be monitored and improved.
- **Evaluation**: To assess whether the actions were efficient

Grades of measurement

**Probability 1-5**
Not probable (Occurs in exceptional situations) 1
Slightly probable (occurs but is not common) 2
Possible (May occur sometimes) 3
Probable (Occurs in a majority of situations) 4
Almost certain (is basically expected to occur) 5

**Danger 1-5**
Not dangerous (Established routines are sufficient to control the risk) 1
Slightly dangerous (will threaten some of the activities of the program) 2
Moderate impact (would require adjustments of the program) 3
Major impact (will affect some of the goals and impacts of the program) 4
Threat to the program (If they occur the program will cease to exist) 5

RECOMMENDATION
- Use more time to finding valid management of the most dangerous and/or probable risks identified,
- Risk management may also be pro-active, taking place before or even though the risks don’t occur,
- Pro-active measures should be cost-effective in terms of the level of risk they are addressing
- If emergency actions are established, there should be a decision on when to implement them. E.g. in case of worsening of a violent conflict, or sudden changes in political leadership in order not to lose time in the project. Half term evaluations or baseline studies or other information may be used for indicators to this end.