HOW TO INCORPORATE RISK MANAGEMENT INTO GOVERNANCE PRACTICES

Funders should consider embedding best practices for risk management into their governance and decision-making structures. This document provides specific guidance on how funders can modify their governance approaches with specific policies and procedures to address risk and offers sample bylaw language for funders to adopt or adapt.

1. Ensure your bylaws establish a fast-acting decision-making committee. This committee, whether synonymous with the executive committee or some other group, is often necessary to respond to risks and contingencies in a timely manner. When risks arise, neither funders nor grantees can wait until the next pre-scheduled board meeting. Your bylaws should clearly explain who serves on this committee, how it makes decisions, and the process by which one would convene a session. Ideally, this committee would meet on an as-needed basis when an urgent request from a grantee arises that requires immediate action.

2. Consider granting your executive director and/or program directors authority over some contingency funding. Giving staff members more authority to make decisions and manage contingency funding will make them partners in risk identification and management throughout project implementation. It also creates more ownership among staff members to determine when contingency funding is critical for preserving impact. Funders may also decide that some contingency funding should remain under the authority of the board or an organization-wide committee to deal with unexpected risks that may arise. The appropriate division of contingency resources depends on your risk profile, whether different programs operate at different risk levels, and whether there are specific types of risks about which you are most concerned. If staff members are involved in these decisions, make sure that risk management is part of annual performance evaluations and that program officers are incentivized to address risks proactively throughout project implementation. Possible approaches include:

> *Example A:* The executive director is authorized to disburse up to 10 percent beyond the original budget of the project for contingencies. Contingencies that need greater than 10 percent or $50,000 must go to the fast-acting decision-making committee for approval.
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> *Example B:* The executive director has sole authority over a $100,000 contingency fund each year to use for grantee contingencies. While the ED holds sole discretion over disbursement, these funds may only be used according to the contingency criteria laid out by the board.

3. Include contingency funding as part of your organizational and grant budgeting processes. Consider setting aside a portion of your grant-making budget to deal with the inevitable but unexpected challenges that your grantees will face. You can establish contingency funds at the project or portfolio level as either a set dollar amount or a percentage. Ultimately, the size and scale of your contingency resources depends on your risk profile, the type of organizations and projects in your grant-making portfolio, and the scale of your grant making. See How to Set Aside Contingency Funding for more guidance on how to set a contingency budget.

4. Establish clear criteria and decision-making protocols for evaluating requests for contingency funding. Having specific criteria and guidance in place for your staff members and grantees will ensure that you treat each request fairly. If staff members are empowered to play a role in these decisions, such clarity will help them evaluate different requests equitably. Possible criteria may include: urgency of request, the level of impact at risk for the project, the likelihood that contingency funding preserves desired impact, grantee's operational and administrative performance to date, confidence in grantee's ability to manage future risks, and the level of alignment with the type(s) of risks that you are willing to cover. Decision-making protocols should address who the main decision makers are, the voting procedures, the timeline for making a decision, and responsibility for communicating decisions back to grantees.

5. Deploy contingency resources in a way that aligns with your own processes. For example, if you are a large institutional funder and want to minimize bureaucratic hurdles, you may be best served by considering contingency funding to be a supplemental grant rather than a new grant and by treating the contingency funding more as operational support rather than programmatic support. Other options may include: 1) transferring the contingency funds to a third party at grant execution, or 2) providing contingency as part of a grantee's individual budget, which it could then repurpose as operating reserves if it does not end up needing the funds during project implementation. Remember that contingency can take other non-monetary forms, such as no-cost extensions, technical assistance, connections to other funders, and borrowing/seconding staff members, which may be easier for you to deploy. For more, see How to Implement Non-Financial Risk Mitigation Strategies.

6. Build processes to reflect on risk after the fact. Funders should reflect both internally and with grantees on risks that occurred during grant cycles and consider whether the risks were predictable/preventable or not. This may include engaging in a risk audit or post-mortem discussions with grantees about whether either party could do anything differently next time. In addition, funders should discuss internally the risks that arose in their portfolio so they can identify patterns, such as recurring risks overall or with a particular grantee. Sharing these trends with the board and organization as a whole will also help hone your risk profile.

Risk Management in Practice: Budget & Finance at the Rockefeller Foundation

At the Rockefeller Foundation, the board and staff have created a flexible contingency budget structure in two ways. First, every year the board authorizes the president to go above the annual budget by as much as five percent to ensure the success of the foundation's initiatives. This discretionary contingency fund allows the foundation to move quickly in order to support grantees and initiatives that may be facing unexpected obstacles. Second, by working within an initiative-based strategy, the board also approves multi-year initiative budgets, which allows Rockefeller's executive team and CFO to manage the budgets in a portfolio rather than a grant docket approach. This enables the foundation staff to respond to unexpected needs and shift funds from one area to another.