PROJECT RISK AND IMPACT
A CASE STUDY FROM INTERNATIONAL DEVELOPMENT

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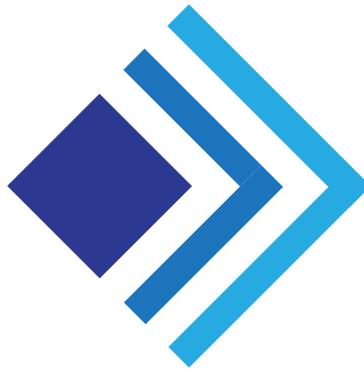
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Executive Summary

All social sector programs face risk. Risk, (i.e. the likelihood of disruptive events occurring), can derail plans, cause delays, and result in budget shortfalls. When these disruptions do occur, programs fail to live up to expectations and opportunities for maximum impact are lost.

In 2014 Open Road Alliance commissioned an independent researcher to conduct a case study of a large health-oriented international development non-profit organization (hereafter known as "NPO-Health") to better understand the ways that risk affects social sector programs.

The researcher conducted eleven in-depth interviews with a range of programmatic staff working across multiple portfolios and geographies. Risks were discussed in the context of a project cycle leading from proposal to contract to execution to close out.

The survey results provide a basic taxonomy of types of risks along the project cycle, including staffing, partner communication, logistics, and currency risks (see table below). Any of these potential roadblocks can result in mid-implementation budget shortfalls, which cannot easily be addressed by the established funding and project cycles.

The results of this study begin to define a framework for identifying types of risks inherent in a project before unforeseen events occur. The research further suggests that by not bluntly discussing and planning for these risks, NPOs and funders unnecessarily diminish the positive social impact of their combined effort. Through this research and survey, Open Road hopes to begin to present a framework for NPOs to define and quantify some of these common challenges so that they can inform their own planning processes and also inform how funders can better develop and structure the RFP process.

Common disruptive events can be grouped into two categories

1. **Challenges where risks can be managed through the planning process:** The NPO has found that risks associated with these obstacles can be managed through effective planning.

2. **Challenges where risk is less predictable or manageable and requires contingency planning:** NPO-Health has found that even though these risks can be anticipated, they have little control over them. These challenges require that contingency funding be built into implementation budgets.

Events disrupting program implementation	
Politics and Security	Political events such as a change in government policy or the replacement of government officials or entire governments is not uncommon but can disrupt every other aspect of project implementation.
Currency	Inflation and fluctuation in exchange rates can disrupt the entire funding model of a project.
Weather and Natural Disaster	The impact of storms and earthquakes is magnified in areas with poor infrastructure and weak state services.

Key Findings

◈ Mid-implementation challenges and roadblocks are common when implementing projects in the developing world. These challenges lead to delays, budget shortfalls or in dire cases, termination of the project.

◈ The most common challenges fall into two groups: those that can be mitigate with appropriate planning and those that are beyond the control of the organization and must be addressed with funder-supported contingency plans.

◈ When incremental funding is needed, NPO-Health addresses the challenge in four ways:

  ▷ **Seek additional funding:** NPO-Health appeals to the original funder or other funders. Often these resources are not available from the original funder, leaving the organization scrambling to identify new sources of funds.

  ▷ **Divert funds from other programs or general fund:** A common occurrence but not always available, especially for organizations smaller than NPO-Health. Another common occurrence is to divert funds from operating or discretionary funds.

  ▷ **Seek no-cost extension:** This option is often extended to NPO-Health but incurs cost implications as the project runs longer with no additional funding to support on-going costs.

  ▷ **Reduce scope:** This is NPO-Health's least preferred option. Reducing scope has the potential to limit the impact of the project and the intended return on the funder's investment.

◈ Currently, there is no systematic risk assessment undertaken as a regular part of the proposal process. Like its peers, NPO-Health does not collect or analyze systematic data on the frequency or causes of delays or budget shortfalls during project execution.

◈ As a general taxonomy of risk facing many NPOs in the social sector, these findings also present an opportunity for a larger conversation and sharing of information about risk among similar organizations across the social sector.

The problems faced by NPO-Health are experienced by many NPOs working in the developing world. While NPOs have opportunities to plan more effectively by quantifying and assessing the potential impact of disruptive events on an organizational level, funders must also incentivize more effective planning and budgeting. Together, NPOs and funders can build strategies and tools to address risk through transparency and the open flow of information. Open Road Alliance presents the following general recommendations for NPO-Health and other similar organizations operating in the social sector.

Recommendations

◈ NPOs similar to NPO-Health should conduct assessments to identify and determine the likelihood and severity of potential risks. This assessment should be an essential part of the project cycle from RFP through close-out.

◈ NPOs should collect and analyze systematic data on the frequency and causes of delays or budget shortfalls during project execution.

◈ NPOs should seek greater transparency with funders that would promote discussion of potential project risks, during the RFP processes, in order to minimize the likelihood of mid-implementation disruptions and thereby maximize anticipated impact.

◈ Funders should recognize that their philanthropic investments carry risk, and should be prepared to support risk assessment, mitigation, and contingency planning during the RFP, budgeting and implementation processes.

Glossary

Different terms sometimes describe various entities and activities in the social sector. Therefore, to avoid confusion the following terminology is used throughout this paper.

NPO: Any Non-Profit Organization that receives funding to carry out programs for social impact.

Beneficiaries: The population to be served by a program operated by an NPO.

Funder: The individual donor, philanthropy, corporation, or government agency that provides capital to NPOs to execute and manage projects to achieve social impact.

Partner: An independent person or entity contracted by an NPO to provide services as part of a funded program.

Project or program: A defined set of activities funded under one or more proposals having a single set of outcomes and expected impact.

Disruptive event: Incidents or obstacles that interfere with the successful conduct of a project or program being managed by an NGO or other grantee. As a result of disruptive events, programs may experience budget shortfalls and not live up to expectations.

Risk: The possibility and subsequent likelihood that a funder will lose some or all of the intended social impact of their investment as a result of disruptive events.

Introduction

The world is unpredictable. Unforeseen events occur that can jeopardize the success of otherwise well-conceived projects and programs. Awareness of this problem inspires the work of the Open Road Alliance, which provides one-time funding to meet the unforeseen obstacles that threatens the impact of promising social sector initiatives. Though providing this type of assistance is vital, the need for it suggests that both funders and NPOs would benefit from a more comprehensive understanding of the role of risk in the social sector.

As a first step toward that understanding, Open Road commissioned a case study that would examine the frequency of major disruptions, the general types, and how the staff typically managed these events. We approached a large health-oriented non-profit (NPO) (hereafter known as "NPO-Health") that had an extensive international portfolio, with a proposal to interview staff about their experiences dealing with risk in the programs they manage. NPO-Health was chosen because the range and complexity of projects in its portfolio would likely provide a multi-faceted view of risk. The results would not attempt to be exhaustive or applicable to all organizations, but would rather provide a useful starting point for a more extensive discussion of risk.

NPO-Health's management agreed to support the proposed research and arranged initial contacts, with the understanding that the organization's identity be kept anonymous in any published findings of the research. Eleven one-hour interviews were completed with staff representing a cross section of programs and roles across the organization. Staff members interviewed had a wide range of tenure at NPO-Health ranging from less than two years to more than twenty. All those interviewed had some level of direct responsibility for the management of funded programs and projects. All interviews were recorded with the subjects' permission; however, interviewees were promised anonymity in the final report in order to encourage honest responses.

Interviews addressed all aspects of the funding process as well as execution of funded proposals. Interviewees were asked to consider any aspect of project funding, management or administration that in the past had resulted in unplanned delays or funding shortfalls that impeded their ability to complete projects within the time frame or budget originally approved. This led to a wide-ranging discussion of both internal business processes as well as external events beyond NPO-Health's control. Without exception, all those interviewed were devoted to NPO-Health and its programs even when highlighting areas for improvement or lamenting an inability to resolve some of the issues discussed in the interviews. Those interviewed evidenced remarkable resourcefulness and creativity in finding ways to overcome obstacles, maintain the integrity of programs and deliver the results promised to funders.

The Funding Process

> "Everything that is not overhead
> is project work."

Though unique in some particulars, NPO-Health is in many ways representative of other non-profit organizations. The majority of its funding is for specific projects with set budgets and duration. Funding is received in response to proposals submitted to funders at the funders' request. Details of the proposed project and associated budget are negotiated with funders and ultimately a contract or memorandum of understanding is executed.

Moreover, because its programs target the developing world, it operates in the same international context as many other international development organizations. For all these reasons, the risks experienced by NPO-Health, while not specifically generalizable, are assumed to have a broad application to the social sector as a whole.

Project Types

Project types vary and any organization must assess risk in light of the specific category of projects or programs that it supports. For NPO-Health, these fell along a spectrum illustrated in Figure 1.

Research	Hybrid	Extension
Investigation & validation of new technologies or methods under controlled conditions	Devising or adapting new practices to directly impact health outcomes based on established research	Application of proven strategy to new/expanded setting to immediately achieve known predictable outcomes

Figure 1: NPO-Health Project Types

Because of its expertise in the field of public health, NPO-Health conducts pure research often in the form of clinical trials of new therapies applicable to developing countries. These trials form one end of the project spectrum, where strict research protocols must be followed and a variety of approvals are required from local governments. At the opposite end are projects that attempt to apply established methods for improving public health such as programs to encourage condom use or proper pre-natal care. These latter programs ordinarily benefit from the support of local health ministries but do not require the rigorous controls or regulatory approvals required of clinical trials. In the middle are a wide variety of projects that

attempt to modify or adapt known best practices to novel circumstances. These projects typically involve some measure of experimentation with established methods to test their efficacy in different contexts, but are not subject to the rigors of clinical trials.

These distinctions are significant because the consequences are very different when unforeseen events disrupt projects of different types. For example, if a clinical trial is unable to recruit the required number of participants, the results may be invalid, rendering the entire trial unsuccessful. But where the goal of a program is simply to increase vaccination rates for newborns, reaching fewer participants has a different result. It limits the impact of the program but does not render the entire effort invalid. In the case of hybrid projects, the impact of disruption can be greater or less depending on the extent to which the project aims to validate a particular innovation in strategy or methods. In such cases the impact of various types of disruptive events will depend for example on whether the goal of the project is to validate hypotheses concerning the effectiveness of methods employed, or merely to apply trusted methods to as large a group of participants as possible. Marking this distinction is therefore important to any risk assessment in order to judge the potential impact of various risk events.

The Project Lifecycle

Though there are exceptions, most funders finance NPOs in the form of grants or contracts for the completion of specific work described in a proposal developed by the NPO and approved by the funder. In such cases there is a well-defined four-phase life cycle as illustrated in Figure 2.
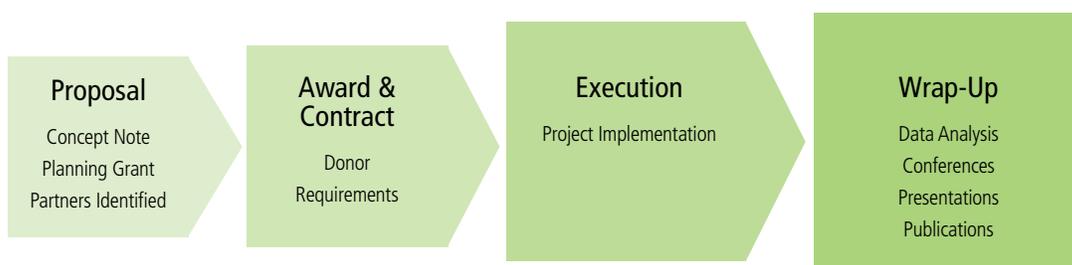

Figure 2: Program Lifecycle

Programs begin with a proposal that may be preceded by a concept note or planning grant. After an award decision is reached, there is often a period during which specific funder requirements are identified leading to a final contract for services. Particularly where the funder is a government agency, this phase can take significant time. Only when the contract is in place does actual program execution begin. This is normally the longest phase, leading to a concluding phase in which the program winds down, measurement and evaluation is completed, final reports are prepared, and publication or other dissemination of results takes place. Specific types of risks characterize each of these phases.

The Proposal

At the proposal stage there is normally a negotiation between funders and hopeful NPOs over the scope of work, time and budget. For different reasons, funders often request reductions in the budgets initially proposed. However, if the funders' expectations are not reduced along with the budget, and project scope is not adjusted, the project will be under-funded and at risk of being unable to deliver the expected results. For an organization heavily dependent on grant funding, there is inevitably pressure to under-budget. In the words of one interviewee:

> We are often so focused on winning an award that we think less critically about the resources and capabilities needed to implement an award. We're so worried about not getting it that we sign ourselves up for something we cannot possibly succeed at.

When resources are underestimated relative to intended outcomes, the project is obviously immediately at risk of failing to meet expectations or fully deliver on desired outcomes and impact. One staff member with first-hand knowledge of a large portfolio of contracts with USAID estimated that as many as 50 percent of all contracts required a no-cost extension[1] to complete the scope of work, suggesting that schedules were routinely underestimated.

Award and Contract

Once an award has been approved there is still the matter of a formal agreement or contract (sometimes called 'terms of reference'). Depending on the nature of the program this can take significant time, with legal reviews, compliance issues, and negotiation of various details. During this time the major problem for an NPO like NPO-Health is not that risks are added, but rather that there is no opportunity to mitigate risks through due diligence. For example, despite an award having been made and partners having been identified in the proposal, there is no budget allocated to conduct any due diligence to validate assumptions about the qualifications and capacity of those proposed partners. In the words of one staff member:

> As part of the proposal process, this is a time we should be out there doing due diligence, meeting with the partner, looking through, checking if they have the financial wherewithal to be able to receive the funds, use it appropriately. . . . That type of thing would generate better terms of reference. This would be the

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1. An extension of the time allowed to complete the work without any additional funding.

best time to be out there talking with the ministries of health to set up scopes of work in other countries to see if they are going to buy in, but we don't have funds, [so] there's no way we can do that.

In so far as many programs sponsored by NPOs rely upon the contributions or cooperation of third parties, the ability to perform due diligence before commencing actual program activity is a critical tool for reducing execution risk. However, provisions for this type of due diligence are rarely part of the funding process.

Execution

When an agreement is finally signed, the real program work gets underway. This is generally the point of maximum risk exposure, the time when everyone learns how well activities have been planned and how well risks have been anticipated. The degree of risk in the implementation phase has much to do with prior history. If working in a country where it has had a presence for some time, NPO-Health faces a much lower risk of unforeseen difficulties than when establishing operations for the first time in a new country. Similarly, if working with known partners the risks are lower than when engaging new ones.

Problems at the implementation phase can result in the termination of a project, but this appears to be extremely rare based on the interviews conducted. The more common result is that disruptive events cause delays that can be very long. During the period of delay there may be no progress towards impact, but there are frequently ongoing costs that continue to deplete the program budget. In one case a large vaccine trial in Brazil was delayed for more than a year while seeking government approvals. During this time project expenses continued at the rate of $50,000 per month.

As revealed in the interviews, NPO-Health's staff is generally very resourceful and often finds ways to work around the challenges they encounter. However, when delays or budget shortfalls occur, there are four typical responses (shown in order of preference).

1. **Seek additional funding.** More money is always preferred. NPO-Health will appeal to the original funder, then to other funders, and, as a last resort, use discretionary institutional funds, if available. As a practical matter, additional top-up funding from these sources is seldom available.

2. **Divert funds.** If there are multiple funded projects going at any one time, the scope of a particular award may be broad enough to allow NPO-Health to use funds from that program to supplement funding on another program that was not part of the original award. Though not often discussed openly, this practice is not uncommon in the social sector.

3. **Seek no-cost extension.** Funders will often allow NPO-Health extra time to complete a scope of work if progress has been delayed by events beyond NPO-Health's control. However, since no additional funds are provided to cover any additional costs caused by the longer implementation period, an extension often contributes to cost overruns.

4. **Reduce scope.** Based on the interviews conducted, reducing the scope of work is always the option least preferred by NPO-Health staff. As noted earlier, in many instances this will limit the impact of a project, but in other circumstances such as clinical trials, any reduction in scope may invalidate the entire program.

It is not inevitable that projects encountering difficulties will be compromised to the point of losing their value, but it is clear that when these strategies become necessary, a program is not living up to expectations. Any time that happens, the final wrap-up phase of a program is also at risk.

Wind Down and Wrap Up

Grants have a fixed term, and absent renewal or other additional resources, funded program activity winds down. At this point all the original award has been used. However, there are still a variety of tasks to be completed for which funding is typically not available. These include closing up offices, disposing of unused supplies, repatriating expatriate staff to their home countries, conducting final program evaluations, preparing reports to funders and disseminating results through publications and conference presentations. Perhaps because it is hoped and expected that projects will receive continuation funding when the original award ends, some or all of these activities are typically not addressed in an original proposal or budget. So when a program does end, there can be a difficult challenge to fund the wind-down activities.

One indirect risk at the wind-down phase is not to the current project, but to future projects. Because careful evaluation of past projects is the principle source of learning to guide future projects, the failure to fund wrap-up work including lessons learned and final evaluations sacrifices possibilities for future improvement. In the words of one staff member:

> The operations research looked to the donor like kind of a luxury, something that could easily be trimmed . . . [but] to be able to continue the intervention but not really measure it with the kind of rigor that we'd intended seemed a disservice to the donor . . . because you don't want to divert resources to such a program if it's not effective.

A Taxonomy of Execution Risks

Whatever their origin, it is during the implementation phase that risks are realized, often with negative consequences. Depending upon the nature of the project there are a wide variety of potential execution risks. The categories identified here were explicitly identified in the interviews as risks that NPO-Health encounters with some frequency. They are not necessarily exhaustive nor will they apply uniformly to all programs or organizations. They nonetheless capture a broad range of the types of disruptive events that do occur and constitute a worthwhile checklist for project planning.

Most important for the purposes of this analysis, these disruptive events fall into two categories: those over which an NPO has some measure of control and those which may be anticipated, but are beyond the control of the NPO. The former are appropriate subjects for mitigation steps, while the latter can only be dealt with through contingency planning.

Risks Subject to Mitigation

Approvals

Many projects undertaken by NPO-Health require one or both of two kinds of approvals. For projects that run for several years, funders (particularly government agencies) will often require annual review and approval of budgets and expenditures. When funders are slow to complete reviews and approvals or when a change in personnel or strategy at the funder level dictates that funds be redirected to other needs, ongoing work is subject to delay or even termination. Whatever their commitments, funders operate on the basis of annual budgets and the failure to provide timely approval of funds can cause significant problems. Some agencies, such as USAID, operate under stringent regulations that complicate this problem further. Though such agencies will award a grant covering perhaps three to five years, in reality this award is little more than a declaration of intent. Then there is an annual appropriation to the agency. Until appropriated funds are actually obligated, the recipient cannot spend against the award. The process of approving plans and budgets before funds are obligated can take months, during which work on a funded project may need to be suspended, often resulting in the need for a no-cost extension to complete the scope of work and resulting cost increases to retain staff during the period or recruit new staff later.

The second types of approvals are those that may be required from local governments, particularly when working in foreign countries. For a public-health focused NGO, this most often means securing approvals from local ministries of health (MoH) for programs such as vaccine adjuvant trials. Such programs are subject to strict protocols, which may need to be repeatedly translated back and forth between different languages during the process of negotiation with local officials. According to the interviews,

this problem was encountered in Southeast Asia when NPO-Health had a program to test methods to improve diabetes detection and treatment. The project was obligated to present the results at a particular conference and delays in gaining approval from the MoH were a significant issue.

These types of episodes illustrate that staff at funder agencies as well as local government officials have a variety of conflicting pressures such as annual budgeting or organizational politics that can reduce the incentive to provide timely approvals needed to further work that has already been approved for funding.

Staffing

"People are constantly getting poached or looking for more money."

It is not uncommon for NPOs to take on additional staff to support specific projects. Because the organization studied for this report operates projects in the health field and in underdeveloped countries, finding suitably qualified staff can be a significant challenge in many countries. An extreme example occurred in Myanmar. When the country opened up to international assistance after decades of closure, a host of international development agencies sought to set up programs there. Finding and keeping qualified staff proved to be exceedingly difficult and time consuming.

In addition to subject area experts, long-term projects require local staff to provide management, financial accounting, information technology, procurement or other business skills that are in short supply and high demand. In one instance in Kenya, it took more than a year to fill an important managerial position based outside Nairobi.

"In a lot of the countries where we're working fraud is common. So you have to plan for that, you have to be vigilant for that."

Financial management is a critical part of the projects that NPO-Health administers given that expenditures for projects run in foreign countries are often handled by local staff who approve individual invoices. While it can do something to monitor local operations from afar, planning for fraud risk in practice often comes down to retaining qualified and trustworthy financial managers who can establish and maintain the necessary internal controls. Staffing choices are therefore a significant risk with potentially significant consequences. And again, if qualified staff members are not already known at the time an award is made or a contract signed, the time it can take to recruit them must be anticipated in project schedules.

Partners

To maximize and sustain the impact of international development projects, many funders now require that projects employ local partners. This makes good sense, as local participants will often have detailed cultural knowledge, language abilities, and established networks of contacts, all of which can be essential to success. Yet, as noted earlier, it is often necessary to name these partners at the beginning of the proposal process either because it is required by the funder, or done by the NPO in order to enhance credibility and increase the chances of securing a grant. Unless NPO-Health has been operating in a country for some time and already has a local office and available staff, there is little or no opportunity to conduct serious due diligence at this stage in the process. As a senior program administrator noted:

> We work a lot with partners and sometimes we have issues . . . we find that when we engage them they don't have capacity in terms of management and you get into issues of mismanagement of funds and you have to terminate a sub-grantee.

Without adequate due diligence an NPO is often forced to rely on references or the existing reputation of a potential partner organization. Ultimately, they must also rely on representations from potential partners. Problems are common when partners, most often local NPOs eager for the funding, cannot perform as claimed.

> Finding organizations that can actually do the work is very difficult. The local organizations say 'we can do that, we can do that, we can take that much money we can do all the work' and then they can't [do the work] so they are constantly underspent.

In some cases, partners are not named in a proposal, but there is a commitment to find and recruit partners once a project begins. In one project in East Africa, the staff was committed to recruit more than 100 local organizations during the initial period of the grant. Field teams were sent to visit each of the potential partners but the examinations were necessarily cursory and some of the identified partners later had to be dropped from the project.

In another common scenario, due diligence would not be a solution to partner risks. There are often cases where there may be a single preferred partner but that organization lacks the skills that NPO-Health needs in a partner. One example mentioned in interviews concerns programs for HIV diagnosis and prevention. In many instances, there may be only a single national HIV network in a target country and working with them is vital because they alone have essential credibility and contacts with the community of victims or potential victims. Yet, because such an organization has originated simply as an advocacy group, it may lack the capacity to administer public health initiatives. Not anticipating the need for significant capacity building in the proposed partner thus risks successful outcomes. When the goal of the program is to increase capacity in local NGOs, this will be explicitly budgeted. In many other cases, however, capacity building is ultimately needed but not anticipated or budgeted, leading one interviewee to suggest that capacity building for local partners should be a budgeted component of every international development project.

Culture and Communication

An international development organization, is always working in and through cultures different from the United States. For many in the international development field, this is one of the great attractions of the work. When trying to support and administer projects that rely on local personnel from other cultures, there is always a risk that communication will break down to some extent. One staff member related the following example.

> I think people don't realize how important written communication is between headquarters and the field. Last week I learned that, although I have been telling a group of people [in country] verbally and in email that they are in charge of the project budget. Still they ask me 'can we do this' and my response has been, since October, you need to decide. You are in charge of that budget. They still do not believe that they are in charge of the budget because they have not seen it written down formally.

For Americans, accustomed to a culture that often operates informally and encourages individual initiative and responsibility, it is important to realize that many other cultures are by comparison very hierarchical. In those environments, subordinates are very reluctant to take decisions absent express formal authorization from their immediate superiors. Not anticipating these and similar cultural differences when supervising projects in the field can lead to disruptions and delays when actions are not undertaken as desired. Similarly, in the words of someone involved in securing approvals for a program in Asia, the problem is "how different cultures perceive timelines . . . my urgency is not their urgency. So if I have a presentation at an international congress that's supposed to present results, that's my urgency, it's not theirs".

Familiarity with local culture is a key aspect of securing adequate cooperation and maintaining good working relationships not only with local partners, but as well with the intended beneficiaries of program efforts.

Logistics

In developing countries, where transportation systems are unreliable and secure storage facilities are often limited, assuring delivery of critical supplies is a major issue. An especially thorny example concerns vaccines that must be imported and delivered to remote sites for use, while providing the required cold storage. In one instance, after staff ensured that refrigerators were available at remote sites, a project was suddenly disrupted by a shortage of propane to power the refrigerators. In another instance, the supply of firewood needed to test an innovative smokeless stove was found to be unusable because it was too large for the stoves, and the stove owners did not have the time or tools to re-cut the firewood to size.

These examples underscore the point that supply chains are complex and multi-layered. It is not only supply of the main articles (refrigerators or stoves in these cases) that must be assured, but of secondary resources (propane, firewood) as well. Additionally, customs regulations and procedures can be a significant barrier to timely delivery any time articles must be imported into a country. A requirement from the U.S. government that vehicles to be used in funded projects must be of American origin meant long waits and high costs for a project in Kenya, not to mention the difficulty of obtaining replacement parts for vehicles not otherwise in wide use in the country.

Risks Requiring Contingency Plans

Politics and Security

After NPO-Health began work in Ukraine several years ago, waves of protests toppled the government in Kiev. Local staff left their desks to join the protests, and the health ministry suddenly ceased to function normally. However, NPO-Health still faced ongoing expenses and a limited ability to deliver the results promised to their funders. In many developing countries, civil unrest is familiar if not common and can have both direct and indirect consequences for development initiatives. In Kenya a program to improve HIV awareness among the national police force was interrupted when many of the police were called away to deal with unrest following national elections.

Political events that disrupt programs are not always so dramatic as those in Ukraine or Kenya. A change in government policy or the replacement of government officials as the result of normal political processes can create sudden obstacles where none existed before. Anticipating these changes can be very difficult, notwithstanding that elections are a predictable event.

Currency

Currency risk in international development takes two forms. Because projects funded in one currency often must pay local expenses in another, exchange rate risks are inherent in all international development projects. Even when there is no corresponding change in exchange rates, price inflation in a local economy can destroy a budget. Therefore, an award that contains restrictions on permissible increases in wages can cause acute problems. In one case, a project in Ghana faced very high local inflation. Since the ability to increase salaries was capped by the funder, salaries for local staff lost value, causing them to look for work elsewhere.

Weather and Natural Disaster

Storms and earthquakes occur everywhere, but because of poor infrastructure and weak state services, the disruptive effect in developing countries is magnified. General weather patterns are well-known but extreme events that have widespread devastating impact. Floods that occurred in Pakistan several years ago caused NPO-Health to suspend a maternal health project for several months because access to remote villages was impossible.

Managing Risk
Risk Assessment

If there are risks associated with social sector programs, it's natural to ask what can be done to cope with them. In the classic formulation, managing risk is a matter of balancing three considerations:

1. The probability that a particular event will occur.

2. The likely harm resulting if such an event does occur.

3. The cost of avoiding the event or the harm.

Severity of Harm	Probability of Occurrence		
	High	Moderate	Low
Severe			
Moderate			
Low			

Figure 3: Prioritizing risk mitigation activities

In practice some risks will be so remote, or the consequences so minor, that it makes sense simply to ignore them. In other instances the costs of avoidance will be so great that, even where risks are potentially consequential, it still makes sense to accept them. Between these extremes, however, lies a large area where risks can and should be mitigated or avoided.

The simple matrix diagram in Figure 3 illustrates how risks can be categorized as an aid to prioritizing mitigation efforts.

Judging the probability and potential severity of risk events is partly an art, a matter of judgment based upon experience. But there is also an important role for systematic data to help answer such questions as

• What percentage of projects required supplemental funding or an extension of time?

• What are the most common causes of delay or funding issues?

• How often do projects fail to recruit the number of participants or reach the number of people that the proposal suggested?

• What types of mitigation steps are most effective to reduce risks?

NPO-Health has a long history in the public health area, with many projects completed in a variety of different environments. In the interviews, staff could easily identify the risks detailed above because they were a familiar feature of projects completed over the years. The same no doubt applies to most

organizations in the social sector, which all have a track record and institutional knowledge about what has not gone as expected in the past. The difficulty comes, however, when trying to assess the actual likelihood of a particular type of event occurring in the context of a specific project. To say that a particular event is foreseeable is not to say anything useful about how likely it is to occur or the probable consequences if it does.

In the interviews, staff members were generally very aware of different things that had occurred in the past, but had only a vague intuitive sense of what sort of risk they posed for any particular project in the future. When asked if NPO-Health conducted any sort of formal risk assessment as a regular part of its proposal development process, all interviewees confirmed that no such process exists currently.[2] This is not to suggest that risks are necessarily ignored, but that there is no consistent policy to explicitly inventory risks and make plans to address them. Certainly, one of the reasons that such assessments do not take place at NPO-Health or other NPOs is a lack of resources and donor priorities. Where the funder's risk is a matter of lost 'return on investment' (ROI), it would benefit the funder to help ensure maximum social return by funding and requestingand supporting risk assessments as part of the standard project cycle and proposal process.

A formal assessment process might be beneficial even if it meant nothing more than an explicit discussion and a sharing of opinions based on individual experience. But for a more accurate assessment of particular risks, some meaningful data is needed. With a large portfolio of similar projects undertaken in similar development environments, often with the same or similar partners, an effort to document and organize information about specific types of risk events and the circumstances under which they occurred would potentially provide very helpful guidance.

An essential beginning for the collection of valuable risk data is a systematic post-mortem at the conclusion of each project (or the conclusion of any phase funded by a single award, independent of whether the project continues with additional funding). As part of such a review, projects would be identified that

1. required a no-cost extension of time from the funder;

2. obtained supplemental funding (whether directly or through diversion of resources from another project); or

3. were forced to reduce the scope of the project (smaller geography served, fewer clients served, etc.)[3]

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2. NPO-Health does have a measurement and evaluation program that produces an annual report that documents the impact of projects undertaken. This program was not investigated as part of this research; however staff confirmed in interviews that the program does not document risk events or attempt any sort of systematic analysis of risk.

3. Limiting collection of detailed data to these types of projects reduces the burden of collecting data where minor operational adjustments occur but do not compromise project outcomes.

Then, for each selected project, capturing information in a regular structured form on the specific type of disruption or the causes of delay would allow NPO-Health to discover patterns that could inform judgments about what risks are likely in a prospective project.

At this time, NPO-Health is in the early phases of a multi-year project to collect and aggregate data on all sponsored projects. A set of specific project performance indicators has been developed that can ultimately aid project teams and management to assess the risk potential of future projects and track performance against designated project goals to identify patterns that will aid improved project planning.

Given that almost any NPO will have historical information about the risks impacting its own programs, the question arises whether there could potentially be benefit in some form of information sharing among different institutions operating similar programs or working in similar locations. To the extent that NPOs are not directly competitive this could be beneficial, even at the level of informal but honest disclosure of risk events. If, for example, two NPOs experience significantly different impact from risk events when operating similar programs or working in similar environments, that would suggest that there is something different in the operational processes of the two organizations that accounts for their different experiences. If a discussion among them brought to light such a difference in outcomes, and it did no more than prompt one or another of the organizations to revisit their internal processes, that would be a significant and worthwhile achievement. After all, prompting organizations to recognize deficiencies in their operations and look seriously into the opportunity for improvement is a large part of any effort to stimulate organizational change.

Mitigation

Assuming risks are identified, what to do about them? Here NPOs and funders are in very different positions. Where risks can be mitigated through adjustments in project plans, NPOs are in the best position to assume responsibility. On the other hand, when risks cannot easily be mitigated or where the costs of mitigation significantly outweigh the potential benefits, contingency plans are necessary. To the extent that such plans require additional resources it is only the funders who are in a position to assume responsibility for making this type of contingency funding available.

Risk mitigation steps will vary depending upon the nature of the program in question. For an organization like NPO-Health, the most important mitigation strategy would be to conduct adequate due diligence on partners and suppliers before making any commitment to rely on them. Occasionally, good partners will be identified but so will deficiencies in their organization that will need to be remediated. This points to a significant problem with the funding process, as it now exists. NPOs are often required to name their intended partners in grant proposals at a time when the amount of funding is uncertain and the cost of due diligence is uncompensated. According to one staff member interviewed for this report it occasionally happens that a funder will allow certain expenses incurred during the proposal development process to be charged to a grant once received. This procedure appears to be rare, however. Even so, any resources

expended on due diligence must come from very scarce unrestricted funds that may never be recovered if an award is not ultimately received.

A better approach would be to take account of the need for due diligence at the proposal stage. This could be done by providing a small guaranteed amount to cover the cost of due diligence undertaken during the proposal stage. It could also be done by allowing grantees to identify potential partners and suppliers in their proposal with the understanding that the grant period will include time and resources for adequate due diligence (and if necessary a search for alternates). The time and cost of due diligence will depend upon the amount of prior experience with proposed partners or suppliers and the amount of resources would be adjusted accordingly. Even in those situations where the funder requires an NPO to engage with specified partners or suppliers, due diligence at the proposal stage would still serve to help the NPO budget time and costs appropriately.

Contingency Planning

While many types of risks lend themselves to practical mitigation steps, others do not. Extraordinary weather events or natural disasters, disease epidemics, currency fluctuations or certain types of political turmoil, are examples. There is nothing an NPO can do to reduce the chances of such events occurring. Sustaining programs under such circumstances requires additional resources. In this situation an NPO must seek additional funding from the original funder or some other. Because such a request will be unanticipated, it will likely fall outside the normal funding cycle of potential funders. Because the need will be urgent, the time required for formal proposals and review will be much too long. What is needed is a readily available source of contingency funding. While not yet a common practice in philanthropy, there are several models, which could provide for this type of funding.

In some cases, NPOs themselves can maintain a separate fund for programmatic contingencies. Either in the form of operational cash reserves, or a more precisely dedicated fund for program contingency, NPOs that have the ability to create such a fund would be better prepared to address unforeseen disruptions directly. However, obtaining any kind of unrestricted funding is extremely difficult, and funds that are held for emergencies, likely even more so.

Funders, on the other hand, could easily set aside a portion of their annual budget to cover contingencies that threaten to disrupt programs they have already funded. Such funds could be rolled over from year to year if not needed, but would otherwise be available through an expedited approval process. To avoid overuse in topping up any kind of budget shortfall, such funds would be subject to clear and strict usage guidelines.

Another more tailored option could include budgeting for contingencies as part of the proposal or RFP process. In conjunction with identifying and analyzing potential risks at the beginning of an engagement, NPOs could include a specific budget line item for contingency. Designated for specific programs and

based on the specifics of that risk assessment, the amounts requested would vary by project and could be predesignated by the NPO and funder for specific purposes, as needed.

Additional solutions that build increased flexibility into current grant making structure could include creating fast-acting emergency grant committees, endowing foundation program officers with the authority to release up to a certain amount for emergencies, etc.

Conclusion

Risk is a part of all human activity. Seldom is there any guarantee that events will unfold exactly as anticipated or that plans will proceed to completion without some adjustment. For social sector programs, many types of events can cause delays, increase costs, and jeopardize the results and effectiveness of otherwise well-conceived programs. Acknowledging risks and planning for them is vital to protecting the investments that funders and NPOs make. This is especially true of programs that rely on novel strategies or target especially difficult problems or environments.

The risks that each organization or project faces will be somewhat unique, but the type of risks considered here will be much the same for many organizations and suggest the type of taxonomy that any organization should find useful. While the experienced staff members interviewed for this report have individually accumulated a general sense of certain kinds of risks, the organization as a whole does not have an established formal risk assessment process. The lack of such a process does not mean that risks are ignored, but means that risks do not receive the explicit and comprehensive consideration that they should. NPO-Health is by no means unique among its peer organizations in this regard.

Assessing risk involves synthesizing information from past experience with similar projects. A good risk assessment process requires that information be systematically collected and analyzed to identify trends and tendencies. Without systematic data, it's not possible to assess how frequently programs are disrupted and in what ways. Once a system to collect data is defined and in place, gathering the necessary data is primarily achieved through a process of post-mortem review of projects using a structured template to assure consistency in the form of information collected. The data does not have to be perfect for analysis to yield useful guidance in project planning and budgeting. Moreover, with reasonable systematic data available, the pressure to accept reduced budgets from funders can be met with credible well-supported budgets.

Managing risk must be a shared responsibility between funders and NPOs, which have respectively different capacities. NPOs are in the best position to mitigate risks through appropriate project planning. But regardless of the quality of planning, they are also still exposed to significant external events beyond their control and to cope with these events, contingency funding will often be required. Preparing to provide such funding should be a funder's responsibility. This will require a change of attitude as well as a change of process for many funders. A more enlightened approach acknowledges that risks are a part of projects and should be the subject of explicit consideration in funding. A process attuned to risk is prepared to provide supplementary funds when needed under an expedited process that may fall outside normal funding cycles.

In the near term, individual organizations, whether NPOs or funders, can acknowledge the role of risk in planning and funding programs. Over the longer term, there is an opportunity for a broader conversation and sharing of information across the sector. Where different organizations operate similar programs, there is a larger opportunity for improved impact when the collective learning of several organizations is available to all.

Appendix A

The checklist below is a suggested template for a form that might be used to document events that result in either a significant delay or a budget over-run for a project or program. For purposes of this documentation a single project or program is a single activity with a designated budget that is scheduled for completion in a specified time period. It might be funded from one or more grants so long as those are jointly supportive of the same activity with the same goal. Aggregating data on multiple projects using this data provides an important resource for assessing the potential risks associated with different projects under consideration.

1. Type of project

2. Location of service delivery (country, district, city, where applicable):

3. Start date of funding (the date when funding is received and available for use):

4. Funding period (the total period to be funded by the award):

5. Schedule end per proposal (the expected date for completion of all activity funded by the award):

6. Date all required activity completed (the actual date work is completed):

7. Original budget as specified in proposal(s) (the total budget amount only):

8. Final cost (including all direct and indirect costs attributable to the project):

9. Source(s) & amounts of any supplemental funding received:

   a. From unrestricted funds (regardless of source):

   b. From original funder:

   c. From new funder(s):

   d. From an existing project (include here any money originally allocated to another project which has been used to fund activities under this project):

10. Number of people targeted to participate or be served as described in the proposal(s) (do not include paid staff or contracted partners):

11. Number actually participating or served during the course of the project:

12. Disruptive events. Indicate any events or issues that contributed to delay or budget shortfall. Brief descriptions are helpful, detailed descriptions are not required.

a. Staff (employees of the organization receiving the funding)

    i. Recruiting challenges, qualified staff not readily available.

    ii. Staff turnover & retraining.

b. Partner(s) (persons or organizations providing services under contract to the funded organization)

    i. Lack of capacity to perform work. Partner did not have capacity to absorb funding and complete work on schedule as promised.

    ii. Inability to manage work. Partner lacked managerial capacity to coordinate and manage work efficiently.

    iii. Financial controls. Partner unable to maintain adequate internal controls or manage finances appropriately.

c. Currency

    i. Local costs increased due to inflation.

    ii. Local costs increased due to changes in exchange rates

d. Logistics

    i. Critical supplies unavailable when needed due to supplier default.

    ii. Supplies unavailable due to import restrictions, customs issues.

    iii. Incorrect or inappropriate supplies provided because required supplies not specified adequately

    iv. Cost of supplies higher than expected. (This is assumed if currency issues indicated above)

    v. Electricity or fuel unavailable

e. Approvals

    i. Delays due to required language translation

    ii. Lack of clear authority for granting approvals

f. Natural events preventing execution of grant activity:

i. Weather

ii. Earthquake

iii. Flood

iv. Disease outbreak

g. Political

i. Change of government, ministry staff

ii. Change of government policy (without change of political regime)

h. Security

i. Civil unrest

ii. Crime