Risky Business: Removing Barriers to Effective Partnerships for Development

Risk Management for the Broker's Toolbox

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Summary

All relationships are inherently risky. Risk arises from uncertainty and is anything which will prevent an organisation (or partnership) from achieving its objectives. Partnerships for development by their nature operate in relatively high risk and uncertain environments. This paper proposes that the application of straightforward risk management processes, adapted from the corporate sector, to the Partnering Process Cycle will greatly enhance the opportunity for partnerships to achieve their objectives and result in a more transparent, sustainable partnership. A sample process, which has been piloted in developing country contexts by the author, is presented as a potential tool for Partnership Brokers.

1. Risk Management and Sustainable Development

All relationships and businesses have inherent risk. *Risk is anything which will prevent an organisation (or partnership) from achieving its mission or objective.* Taking risk is an important element of the corporate world, and allows growth and innovation. It can be seen as a positive as long as it is understood and managed appropriately. Risk taking in international development, while not always desirable, is inevitable. Risk arises from uncertainty and operating in often rapidly changing and unstructured environments. Partnerships in the developing world are by their very nature risky: providing challenging social outcomes to at-risk people. Yet risk has been very successfully managed in developing country conflict and emergency contexts by international agencies and corporates for many years, initially informally, and now in a more structured manner – very often through highly effective partnerships: for example, the Red Cross and the UN working with governments, NGOs and private firms to help recover from natural disaster or address pressing humanitarian needs in times of war or civil conflict.

Risk management as we know it today derived from the international aviation, insurance and finance industries and lent itself readily to disaster situations. However, the leap to applying risk management to a development (and sustainable) context has been much slower to gain currency, and has more recently been driven as a result of a focus on improving: 1) corporate governance in the non government sector and 2) aid accountability and effectiveness.

The risks involved in a tri-sector development partnership may be multiplied threefold, or more likely, may be mitigated or reduced by the very convergence of partnerships, through sharing of risk. Indeed, this is one of the very attractive aspects of multi-sectoral partnerships for development, along with the multiplier effect of pooling resources and working together to achieve shared benefits which may not have been secured by individual parties.

A widely vilified concept, beloved of bureaucrats and (unfairly) dreaded by entrepreneurs equally, effective risk management need not be a complex, time consuming or empty activity as part of development of a partnership. Conversely, it can greatly assist to remove potential barriers and pitfalls which might otherwise arise in the course of the partnership and which would prevent the partnership achieving its objectives.

Benefits of risk management for Partnerships

- Greater openness and transparency through shared understanding of the constraints facing both the partnership as a whole and the individual partners[1]

- Greater chance of achieving partnership objectives through identification, discussion and management of risks

- Improved opportunities for achievement of the partnership objective

- Enhanced likelihood of the partnership itself being sustainable through systematic examination and management of barriers and opportunities

- Fewer costly or unwelcome surprises in the course of the partnership, through preventing what is undesirable from occurring.

Ken Caplan, in 'The Purist's Partnership' notes 'cross sector partnerships hold enormous promise, but only if we start from an honest assessment of what they are, how they function, and what we should expect from them'.[2] Caplan continues, 'If a business case for each partner (more broadly than in strictly financial terms) cannot be made convincingly, then forget it'. Risk assessment is an increasingly important aspect of any business case for many sectors. The Queensland (Australia) State Government, for example has a detailed, publicly available risk management process in place for all its public-private partnerships, though the focus remains financial. Donor governments and agencies, such as AusAID,[3] are also increasingly requiring aid recipients to have effective risk management processes in place.

This paper proposes an adaptation of corporate (Australia/New Zealand Standards) business risk management processes which can be applied to the Partnership process. These processes are quite straightforward and in the field have had the added benefit of being a very effective team-building tool. The information-sharing which results from round-table discussions around risk enhances relationships and builds trust, though clearly the scene setting already undertaken by the Broker in the lead up to the risk workshop is key.

A more formal approach to risk management, as presented here, is consistent with the move towards formalizations and institutionalisation of partnerships, particularly larger, formal and more complex ones, as described by Tennyson.[4] Such processes will be familiar to the many corporates wanting to be involved in partnerships and may help to reassure them in the partnership building stages. These processes have been successfully implemented in the international development arena by a major health NGO and are adapted from the Australian Risk Standards (AS/NZ4360:1999) which can be applied to the Partnership process.

A Caution to Partnership Brokers

1. There is a misconception that risk management = not taking risks and stifling innovation. This is **not** the case and would be quite contrary to the spirit of multi-sectoral partnerships which by their nature are often created to enable innovation and operating 'outside the box'. The role of the broker may extend to reassuring partners that this will not eventuate, though this will become evident to them as they work through the risk matrix. Some risk treatments for example might include a decision to *increase* the level of risk to try and achieve a particular outcome. However, as a broker, it is essential that you are aware of personalities or background amongst partners which might encourage them to use risk management as a way to 'dumb-down' or make the project 'safe'. Using a tool such as the one proposed here, with agreed definitions helps avoid this in a way that a generalized discussion of 'risk' does not.

2. The tool proposed here typically takes half to one day to complete if all partners are involved in a round table discussion. It is time very well spent and can often make further partnership negotiations run a lot faster and smoother as it is a very structured way of facilitating partners to identify underlying interests and concerns. While this time commitment is appropriate for large and complex partnerships, it maybe too onerous for much smaller or less formal partnerships, and Brokers may opt to 'slim down'.

3. Providing a 30 minute training in the tool to partners prior to completing it is a good investment of time by the Broker. A copy of a training powerpoint presentation which has been successfully used in developing country contexts with a variety of audiences (govt, NGOs, corporates), is attached at Appendix A.[5]

2. Risk Management in the Partnership Process

It is suggested that identification and management of risk would be of real benefit in all three stage of the Partnership Process Cycle, as defined by PBAS:[6]

1. Partnership Exploration (identification of potential partners; assessment of whether a partnership is an appropriate response)

2. Partnership Building (incorporation into the Partnership Agreement)

3. Partnership Maintenance (tracking performance and assessing relationships)

2.1 Partnership Exploration

A straight forward risk assessment might appropriately be undertaken by the initiating party when identifying potential partners for the proposed initiative (PBAS Partnering Process: Stage 3). In my own experience this is a very important step to undertake and can save wasted time further along the partnership journey. It also became a useful tool during my period of professional practice when, as an internal broker, I was able to reassure a corporate partner that the partnership they had chosen was in line with their appetite for risk, and would not negatively impact on business. Developing a risk matrix with the bilateral partners was a key factor in achieving this. This could be conducted either by the initiating organisation or more beneficially, by an external broker who was more able to move between the stakeholders. Major hurdles such as inconsistent organizational cultures, lack of capacity etc can be identified and addressed as part of the risk process at this stage. The process may also help to bring out underlying and strategic interests of the partnership which will assist with the Partnership Building Stage. Once the partners have been selected and the partnership starts to formulate itself, a risk workshop conducted with all partners at the stage of identifying the design parameters (Stage 2) of the partnership initiative, would logically flow from mapping the resources and competencies of the partnership (Stage 4).

2.2 Partnership Building

As part of the negotiation of the Partnering Agreement, where the risk processes have been used and risk register/matrix developed, they should be incorporated into and through attachment, form part of the Partnering Agreement

2.3 Partnership Maintenance

For a risk management system to be worth the time and paper invested in it, it is imperative that it is monitored and reviewed on a regular basis. This is particularly so in partnerships operating in rapidly changing environments, or where key factors have changed. Regardless it is good practice to review risks on at least annually, as a partnership and this can be incorporated into the review of partnership performance. In my own experience it may take as little as 15-30 minutes, particularly if the original risk matrix was developed with consultation and commitment. During a review it is usual that many risks will remain the same, though the level of risk may often be lessened due to the control measures originally put in place. New risks may arise as a result of a change in the operating environment. These trends can all be simply documented at the review stage.

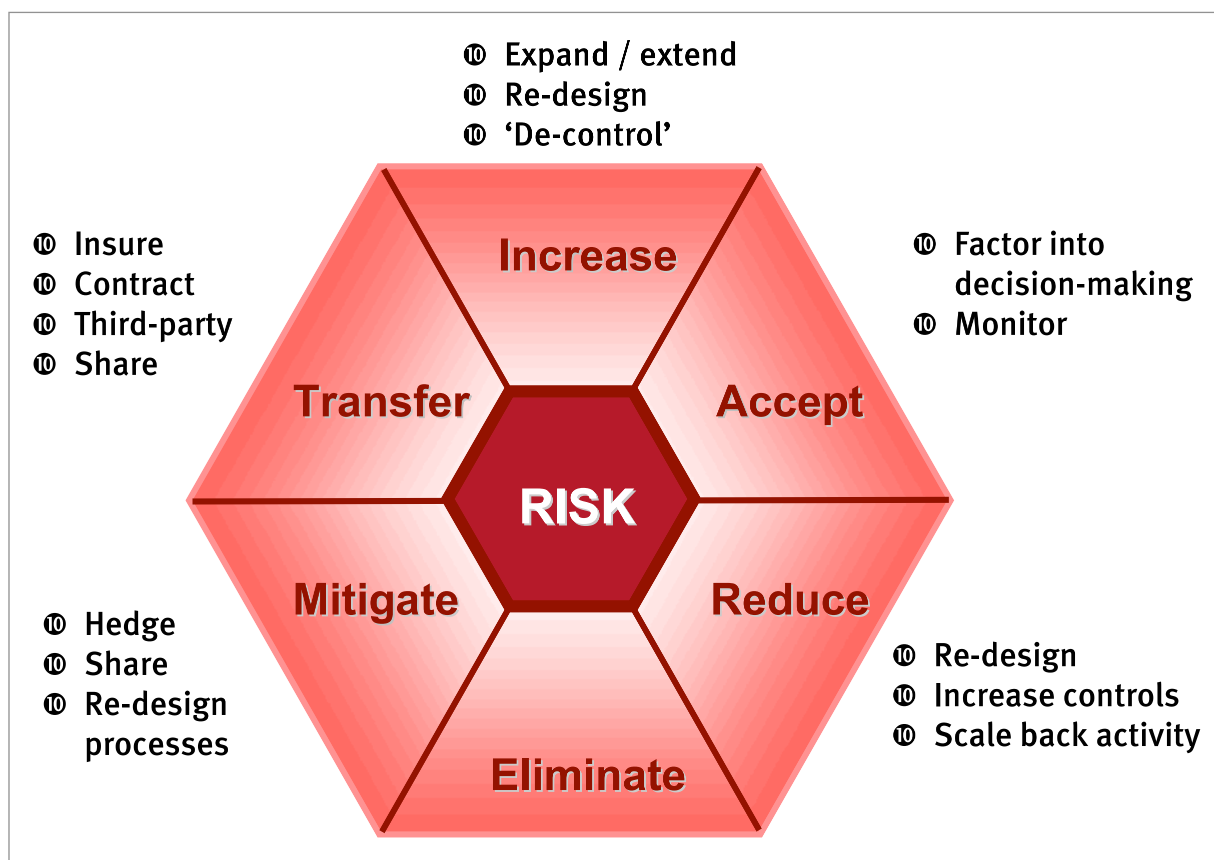
3. Risk Management

Risk management is the culture, processes and structure which can come together to optimise the management of potential opportunities and adverse effects. In the rest of this paper, I outline an example of a Risk Management Process model which can be applied to partnerships in developing country contexts. There are undoubtedly a variety of excellent risk models in place in various sectors around the world. I have found the following to be robust, logical and clear when using it amongst groups of diverse stakeholders, though it does assume a good level of literacy and the ability to conceptualise. It may not be appropriate when partnerships are made up of non-literate community representatives for example. In this case, it may be appropriate, through a guided discussion of risks, for a broker to use a more simple framework such as the AusAID matrix and then formulate and present the risk register to the group for discussion. In this case, it is still important that the 5 main categories of risk (strategic, operational, legal, financial, political/cultural), are identified.

The objectives of risk management are to:

- Understand and manage partnership risk effectively
- Institutionalise the management of risk within the partnership
- Enable partners to make informed decisions about their participation in the partnership: aware of both opportunities and risks of the partnership
- Provide a simple, internationally accepted technique to document risk management

There are different ways to treat risk, not just to work to eliminate it, as outlined in the following diagram.



3.1 The Principles of Risk Management

Underlying risk management are some key assumptions:

- A philosophy that underlines the fact that individual partners will take on a level of risk in line with their 'appetite' for risk. Commercial and even development successes often result from successful risk-taking, the aim is to manage and control risk appropriately, NOT eliminate it.

- Fostering a partnership culture – given the environment in which many partnerships for development exist, which accepts risk is fundamental to the partnership, particularly where the partnership is aiming to be pioneering and innovative, but appreciates that risk identification and control are indispensable for the continuing strength of the Partnership (and in some cases securing donor funding)

- A commitment to institutionalisation and standardisation – a common approach to risk management & reporting is adopted to promote consistency and shared understanding in the managing, monitoring and reporting of risk leading to greater transparency and accountability within the partnership.

- A willingness by all parties to assume ownership for risk – ultimate responsibility for the management of risk lies with the Partnership – not the Broker!

3.2 Obligations of the Partnership:

For the partnership to achieve its objectives, it needs to ensure that the all extreme/high risks have been identified and *simple and effective* processes and structures are in place to deal with them. Lower-level risks are also considered, but priority should be given to high and extreme risks.

This can be achieved by:

- Incorporating a Risk Management statement into the Partnership Agreement (or for more complex, or larger partnership, a risk management charter to attach to the Partnership Agreement), which also reflect roles and responsibilities of each of the partners;

- Completing a Risk Matrix and Risk Register, which can also form an attachment to the Partnership Agreement;

- Providing an executive summary to the Partnership decision makers, highlighting Extreme/High risks and Control Implementation Plans;

- Reassessing risks and Control Improvement plans on an annual basis, as part of Partnership Maintenance Cycle.

4. A Risk Management Process for Partnerships

The model outlined below is adapted from that recommended in the Australian/New Zealand Standards (AS/NZ4360:1999) and modified to meet partnership, not-for-profit and developing country circumstances.

Step 1: Risk Assessment

The objective at this stage is to *identify risks* to the partnership and then analyse them by distinguishing between major risks and minor acceptable risks. This will then help the partnership to prioritise the risks and only focus their energies on the most critical risks.

Risks can be grouped into categories appropriate to the partnership. For example, NGOs or donors may choose to look at:

- People
- Place
- Property
- Political environment
- Goodwill (reputation)
- Finance/Revenue

Goodwill is particularly important for the not for profit sector, as involvement in a partnership which may put at risk their reputation and standing with local communities, governments, regimes or donors must be carefully considered.

The Australian Standards on which the proposed model is based suggests the following 5 key categories of risk, and I have found this a useful categorisation:

- Strategic (including reputational)
- Operational
- Legal
- Financial
- Political and cultural factors

Identification of risks in each area requires the use of judgement, assumptions and in many cases institutional knowledge and experience of the various organisations and operating environment. This can be done in a fairly short brainstorming session, either using the category heading as a prompt, or free flowing generation with risks later grouped into categories. I have found the less structured approach works better with less experienced stakeholders.[7]

Once risks are identified, estimates of *likelihood* (of the risk occurring) and *consequences* (what will happen if it does occur) are made. This is a critical step which assists in prioritising the risks, as they impact on the partners, and ensures that valuable time is not wasted on a seemingly endless litany of minor risks of little consequence which are unlikely to occur. From this discussion, a prioritised list of risks is generated. The Partnership can then decide if the risks are acceptable in light of existing ‘controls’, or need to be ‘managed’.

Step 2: Evaluate the Risks

To evaluate the significance of Risk two factors are considered:

- The *likelihood* that the risk may occur
- The *consequence* the risk would have for the partnership if the risk were to occur

To make it easier for everyone to have a shared way of evaluating the risks, common definitions should be agreed with partners which objectively outline the likelihood of the risks occurring in a quantitative way, as in the following table. This shared understanding usually leads to increased consensus and greatly facilitates the workshop discussions.

Likelihood Ratings Definitions (*Example*)

Likelihood	Rating	Description
5	Almost Certain	It is expected to occur in most circumstances Risk has more than 75% chance of occurring Risk will occur within the next 6 months
4	Likely	Will probably occur in most circumstances Risk has a 50-74% chance of occurring Risk will occur within 18 months
3	Possible	Risk might occur at some time Risk has 25-49% chance of occurring Risk will occur within 36 months
2	Unlikely	Risk might occur at some time Risk has 25-49% chance of occurring Risk will occur within 36 months
1	Rare	May only occur in exceptional circumstances Not likely to occur in the next 5 years

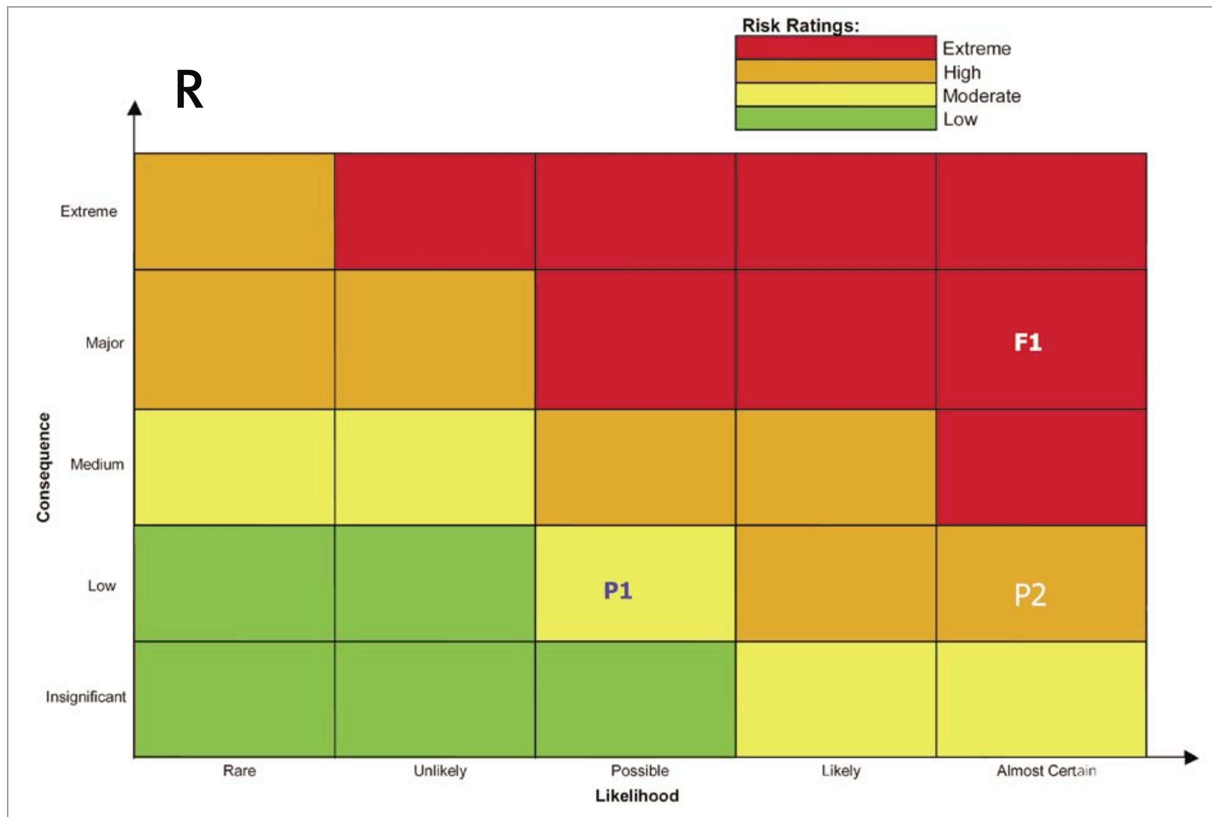
The same is true for developing a set of definitions for each partnership being assessed, which defines the seriousness of the risks:

Consequence Ratings Definitions (*Example*)

Consequence	Rating	Description
5	Extreme	• Partner 1 (Govt) Loss of economic investment in country • Partner 2 (NGO) Permanent damage to environment will result, making affected areas uninhabitable. Donor funding cancelled. • Partner 3 (Corporate) Will result in ceasing of operations in country and incur costs in excess of $200,000
4	Major	• Partner 1 (Govt) Loss of economic investment in region • Partner 2 (NGO) Medium term damage to environment will result and major impact of community livelihoods. Donor funding for project reduced. • Partner 3 (Corporate) Will result in suspension of operations in country for more than one month and incur costs of more than $50,000
3	Medium	• Partner 1 (Govt) Loss of economic investment in district • Partner 2 (NGO) Short term damage to environment resulting in temporary loss of livelihoods. Donor demanding evaluation. • Partner 3 (Corporate) Will result in suspension of operations in country for more than one week and incur costs of more than $10,000
2	Low	• Partner 1 (Govt) Economic and political disruption in the immediate district • Partner 2 (NGO) Livelihoods under threat, community members anxious about futures. Donor concerned. • Partner 3 (Corporate) Industrial relations and operational difficulties incurring costs of more than $1000
1	Insignificant	• Partner 1 (Govt) Intervention required by officials • Partner 2 (NGO) Livelihoods secure, community members have questions which can be answered satisfactorily. Routine questions from donors. • Partner 3 (Corporate) Minimal IR issues, costs of less than $1000 incurred as a result.

Step 3: Prioritise the Risks (Develop Risk Profile)

Once the risks have been identified and evaluated, they can be simply plotted onto a risk profile, which is a very simple and visually striking tool to help partners quickly identify priority areas of attention.



For example, a financial risk (F1) identified for a partnership may be that funding for the initiative is to run out in 6 months. The Partnership may assess the likelihood of this as being 'Almost Certain' and the consequences 'Major'. Plotting this onto the risk profile immediately highlights this as an 'Extreme' Risk and so worthy of attention. On the other hand, a political/cultural risk (P1) that the sexual health services being provided by the partnership clinic may offend local clergy, may have a likelihood ranking of 'Possible', but a consequence rating of 'Low' (if the clergyman was not particularly influential in the community served, for example), so this risk would be ranked as only a 'Moderate', and so on.

Once all identified risks have been plotted on the profile, the partnership has a very clear understanding of where it needs to focus its attention, for the next step.

Step 4: Manage the Risks (management strategies approved and implemented)

The next stage is to focus on those risks the partnership has assessed as being High or Extreme, and to decide whether or not the existing control strategies are adequate or need improvement. If they need improvement, then the partners agree a control plan and assign responsibility for this.

Controls and management strategies identified to manage risk should be assessed according to the following measurements:

Over
The cost of the control exceeds the likely cost of the risk
The control is duplicated such that one or more of the controls do not reduce the risk exposure

Adequate
The control provides reasonable assurance that the risk event will not occur

Requires Improvement
The control in place does not provide assurance that the risk will not occur.
There is a need to review the current controls/processes in place to manage the risk.

If the controls are assessed as Requires Improvement a 'Control Improvement Strategy' should be agreed and documented. The control improvement strategy will depend on the 'Risk Appetite' of the Partnership.

With this information, the Broker has the building blocks to fill in what is called a Risk Matrix, or Risk Register, which can be a simple one page document, or reach to a number of pages, according to the complexity of the project and the level of risk in which it operates. Ideally, this is the simply formatted table which is used throughout the process to document what has been discussed and agreed. It provides all the information required in one easy glance and can be simply attached to the Partnership Agreement. For example:

Risk	Description	Control	Risk rating: Likelihood	Risk rating: Consequence	Risk rating: Overall	Control Quality	Control Improvement Plan	Accountability
Financial F1	Funding will run out in 6 months	Have submitted request for more funding to same donor	Almost Certain	Extreme	**Extreme**	Needs Improvement	1. Submit proposal to government and other funders, review costs 2. Obtain free medical supplies 3. Provide free rent for clinic	1. NGO 2. Company 3. Community / Govt.
Cultural/ Political P1	Local clergy offended by our project activities	Meet clergy once a month to inform him of activities	Probable	Low	**Moderate**	OK	Not required	
Political P2	Local elections may disrupt service provision	Planning to close clinic for election week	Almost Certain	Low	**High**	Needs improvement	1.Hire security staff to protect property. 2.Ensure Ante natal check ups held at alternate location	1. Company 2. NGO

*Trends: ↑= risk increasing; →= risk remains constant; ↓=risk decreasing

It is important that the Extreme and High risks and suggested controls are approved by the decision makers of all members of the partnership.

Step 5: Monitor and Review

As with any management tool, the Risk Management process becomes a waste of time if it is not monitored. This does not need to be a time consuming process and can be incorporated into annual Partnership Monitoring, though in the event of a rapidly changing situation (ie a natural disaster, coup, withdrawal of one partner etc.) the risk process can be used as a management tool as and when required. The following table presents again, a simple and visual report of a review of the Partnership Risks, and has the added benefit of noting what the anticipated trend for the risk is, which helps long term planning: is it getting worse, much worse, better, remaining the same? Attached to the updated Risk Matrix, the documents present a clear and concise analysis of the risk associated with the partnership.

Date of review: (eg. Jan 2007; Year 2 of project cycle)				
Risk Category	Current rating	Trend	Action Status	Prior Rating
Strategic				
Political/Cultural				
P1	L	▶	NA	L
P2	L	▼	NA	H
Operational				
Financial				
FI	E	▲	A	E
Legal				

Key:

Risk Rating | Trend | Action Status

E	Extreme Risk	▼	risk likely to reduce	A	Action
H	High	▶	risk likely to stay the same	NA	No Action
M	Moderate	▲	risk likely to increase	?	Closely monitor
L	Low	▲	risk likely to significantly increase		

Appendix A also suggests an outline for a typical partnership risk workshop.

6. Conclusion

In this paper I have attempted to outline the arguments for institutionalising risk management into the Partnering Process. On the basis of my own professional practice, I have presented an adapted model of risk management suitable to use as a tool for both partnerships and developing country contexts. As multi-sectoral partnerships become more commonplace, so they become more sophisticated, with increased responsibilities and remit, and a concurrent increased need for transparency, good governance and accountability. Moves in the aid sector are already underway to bring development activities in line with commercial activities in terms of attention to risk issues. Proactively adopting a straightforward risk management approach and process will enable partnerships to provide long term solutions, and enhance, not restrict, the ability of partnerships to pursue innovative, flexible responses to some of our world's most challenging social issues. An added benefit is the openness and trust which develops as part of the risk workshop process when good facilitation by a broker can ensure concerns about risks are explained and shared and solutions developed as a partnership team. There is a lot of truth in the old saying, 'a problem shared is a problem halved', and this approach may help remove future potential barriers to partnership effectiveness.

Author's Note

The Risk Management process outlined here has been piloted by the author and her national and expatriate colleagues in Australia, Viet Nam, Fiji, the Philippines, China, Myanmar and Mongolia. In most cases they have been applied to bilateral partnerships for development, but in at least 2 cases applied in a multi-sectoral context. Blank templates of all the tables outlined in this paper are available to anyone who wishes to try this approach in their own brokering.

Appendix A

A typical risk workshop might include the following steps

- Step 1: Decision: Partnership team – who should be involved?
- Step 2: Training: overview of risk management (40 minutes)
- Step 3: Decide on likelihood and consequence definitions for each partner and/or the partnership as a whole
- Step 4: Complete Risk Matrix:

    Identify Risks

    Evaluate risks (Likelihood/consequence)

    Prioritise risks, record on Risk Profile (if desired)

    Agree on risk management strategies(control improvement) plan and assign responsibilities

- Step 5: Record/document on Partnership Risk Register (if desired – good visual tool)
- Step 6: Present Extreme/high risks and their management strategies to Partner decision makers for approval
- Step 7: Incorporate into Partnership Agreement

- Step 8: Monitor and reassess (including risk trends) as required