



## Risk analysis

To answer the critical questions in strategic financial planning: *Where are we now?* and *How will we get there?*, we need to undertake a review of the organisation's situation in its operating environment and identify its strengths and weaknesses. In particular, we need to identify potential risks to the organisation's financial resources and assets.

One approach to risk analysis is the SWOT technique. Best undertaken as a team activity, the organisation's **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats are systematically reviewed. Conclusions are recorded on a SWOT sheet, as illustrated in **Table 1**.

**Table 1 SWOT Technique Working Sheet**

		<b>Strengths</b>	<b>Weaknesses</b>
INTERNAL ISSUES		Physical resources 'Technical' know-how Financial reserves (trends over last few years) 'People power' (Staff/trustees' skills, experience, connections)	
		<b>Opportunities</b>	<b>Threats</b>
EXTERNAL ISSUES		<u>'STEEP'</u>	
		Sociological (demographics, changes in lifestyle & values) Technological (innovations, new equipment, scientific advances) Economic (growth, inflation, etc. affecting NGO, donors, beneficiaries) Environmental/ethical (esp. for lobbying NGOs) Political (policy, legal infrastructure, international reputation, strategic importance)	

Typically, a review of strengths and weaknesses will include a critical look at the organisation's capacity, skills, funding base, equipment, programme delivery and stakeholder support – these are all *internal* issues. A review of opportunities and threats will appraise the social, economic and political environment that the organisation operates in, and is influenced by – that is, the *external* issues.

The results of the SWOT will inform the strategic planning process and assist with devising strategies for the future. For example, how to building on strengths, how to reduce weaknesses, how to make the most of opportunities and how to minimise threats.

# Risk Mapping

Having identified key risks using the SWOT analysis technique, the next stage is to assess their relative importance so that a risk strategy can be devised. One simple approach is *Risk Mapping*, which uses a scoring system to identify the *likelihood* of the risk occurring and the degree of *impact*, should it occur.

## How does it work?

Each identified risk is assessed using a simple scoring system as follows:

### A. Likelihood of the risk occurring:

Points	Likelihood	Notes
3	Likely	Expected to happen, to a more than even chance of happening
2	Possible	Quite possible that it will occur, to an even chance of it happening
1	Remote	Just possible it might happen but very surprising, to extremely unlikely

### B. Impact of the risk if it should happen:

Points	Impact	Notes
3	Critical	Impact can make a material or significant difference
2	Major	Impact can make a difference
1	Manageable	There is an impact but it is deemed to be manageable

After awarding a score for 'likelihood' and 'impact', the two figures are multiplied to give a numerical assessment of risk. Each risk is then entered in the appropriate box on a table known as a *Risk Map* (see **Table 2**).

**Table 2 Risk Matrix**

	REMOTE (1)	POSSIBLE (2)	LIKELY (3)
CRITICAL (3)			
MAJOR (2)			
MANAGEABLE (1)			

In the risk map above:

- The dark shaded area represents the highest risk result (9 points).
- The lightly shaded areas represent medium risk results (4 or 6 points).
- The un-shaded areas represent lower risk results (1, 2 or 3 points).

Once all risks have been identified and entered onto the risk map, the management team must concentrate on devising an action plan to counteract all of the risks appearing in the shaded boxes.

To ignore these risks would be irresponsible and could result in the NGO's collapse.

### Example Scenario 1

NGO X receives 95% of its income from Donor ABC, whose funding cycle with partners works on a 3 to 5 year basis. As year 3 is approaching, NGO X identifies the risk of the lack of continuity of funding from their donor. The likelihood of failing to get an extension of funding for two more years is assessed.

#### **Assessment:**

- A. **Likelihood** of a failed extension-funding bid is assessed as REMOTE because the NGO has developed a very good working relationship with the donor. *1 point awarded.*
- B. **Impact:** if extension funding is not received this would be CRITICAL for the NGO as it has no other sources of funding. *3 points awarded.*

**Result:** 1 x 3 = 3 points. This risk would therefore appear in the top left box on the risk map matrix.

### Example Scenario 2

NGO X now imagines itself to be in year 4 and re-assesses the risk if it does not take action before then.

#### **Assessment:**

- A. **Likelihood** of no further funding from Donor ABC is assessed as LIKELY because it awards grants for a maximum of 5 years. *3 point awarded.*
- B. **Impact:** if extension funding is not received would be CRITICAL for NGO X as it has no other sources of funding. *3 points awarded.*

**Result:** 3 x 3 = 9 points. This risk would therefore appear in the top right box on the risk map matrix, which is the highest level of risk and therefore requires urgent action.