Roadmap for CTP risk analysis

This road map will guide you through the risk analysis process, from identifying and describing the risks associated with the potential cash response options, to **ranking the risks according to their seriousness, and eventually deciding what action to take.** Also, it will suggest how to use the relevant resources from the toolkit. In an emergency context, you will not always be able to follow all the sub-steps in the sequence proposed but you should, at least, comply with the minimum standards set for the process.

In the toolkit, you will find a set of tools for each sub-step. They are purposely general and should be adapted to your context and needs. If you need more detailed guidance for risk analysis, consult the reference documents suggested at the end of this road map.

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| **TIPS**   * Risks should be considered throughout the response analysis process. **Risk analysis** can help **determine the feasibility** of cash options and can provide valuable information for **the comparative analysis** of different options. * Considering the high number of risks associated with each response option, you may want to **focus the analysis on the risks you consider to be more important**. When time and resources are limited, you may conduct a thorough risk analysis for only the three or four most likely response options. * Risk analysiscan be enriched by the **participation of a diverse group of stakeholders** (including members of the assessment team, volunteers, staff members from the programme, logistics and finance units). * Creating space for **community participation in risk management and monitoring** can increase the responsibility taken by community members; this ensures the integrity of the intervention and, ultimately, reduces risks. |

## Identifying and describing risks

Risks associated with each response option should be listed and clearly described. Their causes and potential effects should be identified. To do so, you can use the tools Risk Matrix template and Risk Register template. The IFRC CBP SOPs also provide a detailed Risk Management checklist. Risks can be contextual, programmatic or institutional. The table below provides you with some examples.

| **Types of risk** | **Examples** |
| --- | --- |
| Contextual  *External to the organization: political, economic, environmental, etc.* | * Vagaries of climate (floods, droughts) * Conflicts and displacements * Political instability and social unrest * Global financial crises * Price increases due to global/national inflation |
| Programmatic  *Failure to meet programme objectives and/or potential harm caused to others* | * Inability to obtain funds for cash interventions when and where needed * Inflationary risks caused by the programme: more buyers and limited supply can cause price increases * Cash not spent on intended needs: diverted to unanticipated or unwanted goods (alcohol, drugs, weapons) * Identification errors (beneficiaries don’t come to distributions, ghost beneficiaries, duplications) * Security risks for beneficiaries and staff |
| Institutional  *Internal to the organization: fiduciary issues, financial losses due to corruption, etc.* | * Security problems with financial transactions * Large-scale fraud and reputation risk for the organization * Inconsistency with key actors’ responses (transfer value, delivery mechanism, targeting, etc.) |

## Ranking risks according to their seriousness

The seriousness of a risk is determined by two factors:

* the likelihood (probability) that a risk will occur
* the impact (consequences) of the risk, when it has occurred

Ranking risks according to their seriousness will help you decide which of them can be accepted, which can be mitigated, and which should be avoided. You can do that using the suggested ranking matrix below.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Impact**  **Likelihood** | **Negligible (1)** | **Minor (2)** | **Moderate (3)** | **Severe (4)** | **Critical (5)** |
| V. unlikely (1) | 1 | 2 | 3 | 4 | 5 |
| Unlikely (2) | 2 | 4 | 6 | 8 | 10 |
| Mod. likely (3) | 3 | 6 | 9 | 12 | 15 |
| Likely (4) | 4 | 8 | 12 | 16 | 20 |
| Very likely (5) | 5 | 10 | 15 | 20 | 25 |

Seriousness = Impact score x Likelihood score

|  |  |  |
| --- | --- | --- |
| Low 1-7 | Medium 8-14 | High 15-25 |

## Deciding what action should be taken

Decisions will depend on the amount of risk that the organization is prepared to take. Risks of low seriousness (in green) usually will be accepted or will demand minimum mitigation. Risks of medium seriousness (in orange) usually will be mitigated. Risks of high seriousness (in red) will demand significant mitigation measures or will be avoided. All risks, independent of their seriousness, should be monitored throughout the implementation of the programme.

You need to understand whether it is possible to implement mitigation measures to reduce the risk to an acceptable level. Also, you can decide to transfer the risk (e.g., by contracting an insurance company or sub-contracting partners that operate with a lower risk). If none of this is possible, you might want to avoid the risk and resort to other options.

Mitigation measures, primarily, should address the causes of the risks. More than one mitigation measure can be considered for each risk. The table below describes a number of market-related risks and potential mitigation measures.