

# Project Risk Management Framework

## Introduction

NCDD-S procedures for managing programme and project risks include:

- Risk Management Framework defined in the Standard Operating Procedures (SOP) Manual for Externally Assisted Projects;
- Risk analysis and mitigation measures in the IP3-III document;
- Project-level risk analysis and risk management procedures agreed with donors for stand-alone projects.

To meet the requirements for accreditation as a National Implementing Entity of GCF, NCDD-S is required to show that it has adequate internal procedures for managing project risks. This should include a project-at-risk system that is operationally independent from the Program Management Division / Project Management Unit (PMD/PMU).

## Proposed Risk Management Framework

NCDD-S will adopt a project risk management framework (RMF) which will be implemented for GCF funded projects and for other projects within NCDD-S AWPB that do not have explicit risk management provisions based on donor procedures.

The risk management framework will be aligned with the Standard Operating Procedures (SOP) Manual Section x: Project Risks and Mitigation Measures.

The risk management framework will include an independent project-at-risk (PAR) function.

The risk management framework will provide for flexibility to ensure that risk management procedures are appropriate to project size. Broadly, standardised risk measures will be used for grant-funded activities and very small projects (< \$250,000) while customised project risk analysis will be used for larger projects.

A simple database system will be created and managed by the M&E Unit to monitor project risks.

The RMF database will generate reports which demonstrate effective implementation of the PAR function and will be available for audit as required.

## Risk Analysis Matrix

All projects will have a Risk Analysis Matrix which will be prepared before project implementation. For each identified risk, the Risk Analysis Matrix will show:

- **Classification:** a simple risk classification of (1) Implementation Risks; (2) Fiduciary Risks; (3) Environmental and Social Safeguards Risks; and (4) Sustainability Risks will be used;
- **Impact:** the severity of negative impact that will result if the risk event occurs, assessed as High, Medium or Low;
- **Probability** that the risk event will occur: High, Medium or Low;
- **Mitigation Measures:** project design features that reduce the probability of the risk event occurring OR reduce the negative impact of the risk event if it does occur;
- **Threshold** indicators that will cause the risk to be classified as “red” or “yellow” status;
- **Updated status:** to be filled in during implementation, including date, status of risk as “red”, “yellow” or “green”; and explanatory comment.

The Risk Analysis Matrix includes nine general PAR indicators that will be monitored for all projects.

<b>PAR Indicator</b>	<b>Red</b>	<b>Yellow</b>
Slow Disbursement	Less than 40% of plan	Less than 70% of plan
Delayed Outputs	Achieved outputs less than 40% of annual plan	Achieved outputs less than 70% of annual plan
Poor Output Quality	Completed outputs are ineffective or not fit for purpose	Quality of completed outputs is so poor as to seriously reduce the impact of the project
Gender Mainstreaming (GM)	Major breach of GM policy	GM Plan not implemented / not documented
Poor Financial Management Capacity	Major error in financial management procedures identified	Financial reports not complete / more than 3 months late
Stakeholder Grievances	More than one stakeholder has notified a grievance to NCDD-S and the issue has not been resolved after 3 months	One stakeholder has notified a grievance to NCDD-S and the issue has not been resolved after 3 months, OR More than one stakeholder has notified a grievance to NCDD-S
Poor Procurement Capacity	Major error in procurement procedures identified	Required documents showing correct procurement procedure not available for inspection
Environmental and Social Safeguards	Major error in application of ESS identified	Implementation of ESS procedures not properly documented
Sustainability	Any change / event that mean that project benefits cannot be sustainable	Project design provisions for sustainability have not been implemented

For projects below \$250,000 and grants, these general PAR indicators will be sufficient. For projects over \$250,000, a risk analysis will be prepared as part of the design and identified risks will be added to the Risk Analysis Matrix.

The Risk Analysis Matrix will include mitigation measures for all risks that are (1) High of Medium Impact and (2) High or Medium Probability.

For all risks that are High Impact and High or Medium Probability, the RMF will show threshold indicators that will be monitored and used to classify the risk as Red / Yellow / Green status.

Generally, there should be no more than 6 custom risk indicators to monitor per project. If there are too many risks requiring monitoring, the project should be re-designed to reduce risk.

The RMF will be developed by the PMD/PMU as part of the project design process. The RMF will be reviewed by a member of the M&E Unit who will receive specialist training in this function. The finalised RMF will be entered in the Risk Management Database (probably an Excel workbook) in the M&E Unit.

### **Monitoring**

PMD/PMU will be responsible to report against indicators of project risk at maximum six-month intervals. PMD/PMU will report using a template which will be submitted to the M&E Unit.

The M&E Unit will classify a project as a Project At Risk (PAR) if:

- Status of any High Impact risk is “red”;
- Status of any three Medium Impact risks is “red”

- Status of at least one Medium Impact risk is “red” and at status of at least one High Impact Risk or three Medium Impact risks is “yellow”.

The general PAR indicators are considered as equivalent to High Impact risks for this purpose.

**Action taken if project is in PAR status**

In the case that a project is classified as PAR:

- Finance Unit will be informed, and no further funds will be disbursed to the implementing agency until corrective action has been agreed and implemented.
- If a project remains in PAR status for one year, the project will be cancelled, and NCDD-S will take steps to recover unspent funds from the Implementing Agency.

**Corrective Action**

When a project enters PAR status, the PMD/PMU will intervene promptly with the IA to:

- Notify the IA that PAR has been declared,
- Discuss and agree with the IA a time-bound action plan to resolve the PAR status;
- Agree conditions for removing the PAR status;
- Notify the M&E unit of the agreed plan and conditions;
- Follow up at maximum monthly intervals to verify that the agreed actions are being implemented;
- If PMD/PMU concludes that there is no realistic possibility that the project will recover from PAR status; notify the M&E unit and recommend to NCDD-S management to cancel the project and take steps to recover unspent funds.

Phnom Penh Capital, 24 July 2019

**Head of NCDDS**

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**NCDD-S Project Risk Analysis Matrix**

Risk or general PAR indicator	Impact H/M/L	Probability H/M/L	Mitigation Measures	Threshold		Updated Status	
				Red	Yellow	Date	Status / Comment
<b>1. Implementation</b>							
General: Slow Disbursement	H			< 40% of plan	< 70% of plan		
General: Outputs Delayed	H			< 40% of plan	< 70% of plan		
General: Output Quality Poor	H			Outputs not fit for intended purpose	Poor quality that will reduce impact		
General: Gender Mainstreaming	H			Major breach of GM policy	GM Plan not implemented / not documented		
General: Stakeholder Grievances	H			More than one grievance notified and not resolved after 3 mths	One grievance not resolved after 3 mths, or more than one grievance total		
<b>2. Fiduciary</b>							
General: Poor Financial Management Capacity	H			Major breach of FM rules	Financial reports incomplete / 3 months late		
General: Poor Procurement Capacity	H			Major breach of procurement rules	Procurement records not complete / available		
<b>3. Environmental and Social Safeguards</b>							
General: Environmental and Social Safeguards policy not applied	H			Major breach of ESS policy	ESS procedures not properly recorded		

Risk or general PAR indicator	Impact H/M/L	Prob-ability H/M/L	Mitigation Measures	Threshold		Updated Status	
				Red	Yellow	Date	Status / Comment
<b>4. Sustainability</b>							
General: Project benefits not sustainable	H			Any change / event that means project benefits will not be sustainable	Actions to ensure sustainability not implemented		