



Managing risk: A practical guide for nonprofits

What every nonprofit should know about risk

We know you're reading this because something is keeping you awake at night. Maybe it's the sudden shift in funding; maybe it's donors who each have different reporting requirements; maybe it feels like your organization is always one crisis away from serious trouble.

You're not alone. At Humentum, our teams have worked with hundreds of organizations in the nonprofit and global development sectors around the world, and we've heard the same concerns.

The good news? There are practical steps you can take — starting today — to make your organization stronger and more secure.

This guide combines three essential areas that work together: managing your risks, recovering your true costs, and building fair partnerships. We'll show you how these pieces fit together to create a foundation you can trust.

Part 1: Taking control of your risks

The question that changes everything

Here's a simple question that can transform how you think about your work:

Are you managing your risks, or are your risks managing you?

If you feel like you're always responding to crises, always putting out fires, always scrambling to meet unexpected demands — your risks are probably managing you.

But it doesn't have to be this way.

Why risk management matters

Every day, you make decisions that involve risk. When you hire new staff, when you sign a contract with a new donor, when you launch a new program — you're taking calculated risks to achieve your mission.

The goal isn't to avoid all risks (which would be impossible). The goal is to take the right risks in the right way.

Think of it like crossing a busy street. You don't avoid crossing streets, but you do look both ways, choose your timing, and move with purpose.

The 5-step process that works

Step 1: Know where you're going

Before identifying risks, an organization has to first understand where it is heading. You can't manage risks if you don't know what you're trying to protect.

Start with these basic questions:

1. What is our main mission for the next two years?
2. What would success look like?
3. What are we definitely not willing to compromise?

Write this down in simple language (one page is enough).

Step 2: Ask "What could go wrong?"

As a leader, you may have your own list of risks. Ideally, many people do. To make risk management as effective as possible, you'll need multiple perspectives.

One way to do this is to invite a variety of people from different departments to a working session. It's vital to include individuals with different job roles, seniority, and length of time with the organization. Otherwise, you'll be missing key data or falling into "confirmation bias," where you're surrounded by people who look at the organization through the same lens.

Here's a simple framework to use:

- State the purpose: 2 minutes
- Individual Reflection (15 minutes): Each person writes down known risks
- Small Group Sharing (30 minutes): Groups of 3-4 discuss and consolidate
- Large Group Reporting (45 minutes): Each group shares their top risks
- Categorization (30 minutes): Sort risks into categories and identify patterns

Categories of risks with examples



Step 3: Understand each risk (get [the risk register template here](#))

The next step is to assess the likelihood and impact of each risk. Use a 3x3 grid.

For each risk, ask two questions:

1. How likely is this to happen? (High, Medium, Low)
2. If it happens, how bad would it be? (High, Medium, Low)

This helps you focus on what matters most. A high-impact, high-likelihood risk needs immediate attention. A low-impact, low-likelihood risk can wait.

Step 4: Choose your response

Once the group has agreed on each risk's placement on the grid, you can either accept, mitigate, transfer, or avoid the risk.

Accept (The "We can live with this" approach)

- For low-impact risks that are expensive to mitigate
 - Example: Minor variations in exchange rates
 - Action: Monitor and have a contingency fund

Transfer (The "Someone else handles this" approach)

- For risks others are better equipped to manage
 - Example: Property damage
 - Actions: Insurance, outsourcing, partnerships

Mitigate (The "Reduce the damage" approach)

- For risks you can't eliminate, but you can minimize
 - Example: Staff turnover
 - Actions: Improve HR practices, create knowledge management systems, cross-train staff

Avoid (The "We're not doing that" approach)

- For catastrophic risks that could destroy your organization
 - Example: Operating in an active war zone
 - Action: Don't engage in that activity or location

Step 5: Check and update regularly

What you have now is a risk log. It can either be a pretty document or it can be a useful tool. The key is to take the action you agreed on, and then regularly review and update your risk log to make sure it remains relevant. (And don't neglect communication: keeping stakeholders informed about what you're doing – or not doing – and why is vital to smooth operations and funding.)

Set up a monthly 30-minute meeting to review your top risks with a cross-sectional group. Talk through what's changed, what's working, and what new risks you see.

A risk log is only as good as the input and action you take. Simply having something "on paper" isn't enough to actually manage the risks any organization faces.

Risk Log (see an example [here](#))

Risk	How likely?	How bad?	What we'll do	Who's responsible
Main donor cuts funding	Medium	High	Diversify funding, build reserves	Executive Director
Key staff member leaves	High	Medium	Cross train team, improve retention	HR Manager

Monthly risk check agenda (using the log)

1. What's our biggest worry this month?
2. What risks are better or worse than last month?
3. What new risks do we see coming?
4. What one thing can we do this month to be stronger?

Part 2: Getting paid for your real costs

The hidden crisis

Here's a truth that many nonprofit leaders know but rarely talk about: Cost recovery is the backbone of any successful organization. If you only have funding to cover programs, you can't sustain the organization that delivers the programs.

(To learn more, see Humentum's research on [Administrative Costs](#).)

But here's the problem: Many organizations are slowly starving their infrastructure because they can't recover the true cost of their operations. And that's why cost recovery is part of risk management.

(To see what gaps your nonprofit may have, here's a [cost recovery checklist](#).)



What cost recovery really means

The term refers to recovering overhead costs that are not directly tied to a specific project but support the organization's overall functioning.

The 5 Essential steps

Step 1: Track everything

Start by thoroughly tracking all expenses throughout the year, to make sure you're measuring what's truly being spent instead of assuming (which can happen when you group costs together too broadly).

For three months, track every expense and every hour of staff time.

Example of Cost Categories to Include:

- **Administrative Costs:** Finance, HR, leadership, legal, audit
- **Facility Costs:** Rent, utilities, maintenance, insurance
- **Technology Costs:** IT support, software licenses, equipment
- **Support Costs:** Communications, fundraising, reporting

Categorize each as either:

- Direct (specific to one program)
- Indirect (supports the whole organization)

This gives you the real numbers you need. Then, use that data to determine what your cost recovery rate needs to be.

Cost recovery calculation (you can find a [cost recovery worksheet here](#))

Step 1: Calculate total direct costs

Program staff salaries: \$ _____
Program-specific expenses: \$ _____
Total direct costs: \$ _____

Step 2: Calculate total indirect costs

Administrative staff salaries: \$ _____
Facility costs: \$ _____
Technology costs: \$ _____
Other organizational costs: \$ _____
Total indirect costs: \$ _____

Step 3: Calculate your rate

Indirect cost rate = (total indirect costs ÷ total direct costs) × 100

Your rate: _____ %

Example: \$50,000 indirect costs ÷ \$200,000 direct costs × 100 = 25% cost recovery rate

Step 2: Create a policy

Once you know your costs, create a cost recovery policy, outlining how costs are treated and funded. It should be based on non-negotiable requirements.

Keep it simple. Write down:

- What costs you will recover (be thorough)
- How you calculate your rate
- How you explain your policy to donors
- When you will review and update the policy

Step 3: Plan and budget properly

While tracking past expenses is key, so is building a future-focused budget. A budget serves as a roadmap to guide financial decisions and resource allocation.

Build cost recovery into every budget from the start. Don't treat it as an afterthought.

Step 4: Securing buy-in

Improving cost recovery requires the commitment, buy-in, and cooperation of all stakeholders, from management to staff members and funders.

Your whole team needs to understand why this matters. If your finance manager doesn't believe in cost recovery, you'll never get the data you need or build effective budgets. If your program managers see it as "stealing from programs," you're missing vital ambassadors. If your donor relations team thinks funders will walk away from cost recovery, it's like setting the table for guests and then not inviting them. You have to get not just agreement, but a true understanding of the necessary role of cost recovery.

Step 5: Talk openly with donors

Instead of simply applying a rate, management should take the time to engage funders and explain the basis of the rate. This promotes transparency and educates funders on the real costs of doing the work.

Many leaders avoid this conversation because they're afraid of being told "no" or being viewed as asking for too much. But donors who understand your real costs are better partners than donors who expect you to work for free. And again, you simply can't sustain an organization on program costs.

Frame the ask with context. Instead of putting in a line item for cost recovery, explain its role by saying: "For example, to deliver the results and accountability you expect, we need strong financial systems, monitoring processes, and organizational resources. This cost recovery rate ensures we can provide those to maximize program outcomes."

Part 3: Building fair partnerships

Status quo isn't sustainable

Traditionally, risk is passed down from the funder to the grantee and then to the sub-grantee. That's inefficient. How do you turn risk management into less of a burden and more of a resource everyone finds valuable?

The traditional approach:

- Risks cascade downward through the funding chain
- Compliance requirements are one-size-fits-all
- Local organizations bear disproportionate risk with limited resources
- Risk management is seen as a necessary evil

The equitable approach:

- Risks are shared based on organizational capacity and expertise
- Compliance frameworks are tailored to organizational size and context
- All stakeholders contribute to risk mitigation based on their strengths
- Risk management becomes a collaborative tool for resilience

Making the shift

Equitable risk sharing is about working together to manage risks collectively. It involves a systematic process of distributing risks among funders, international, and local nonprofits, based on their organizational capacities, expertise, and resources to manage and mitigate those risks.

Think of it like a hiking group where everyone needs to carry all the supplies. You wouldn't hand out packs based on position in line. You would give people what they are most capable of carrying, so you can all have a successful journey.

This shift requires us to see risk not as something to be feared, but as part of the work itself. When you understand risks, you can plan for them, address or mitigate them, and sometimes even turn them into opportunities.

What this looks like in practice

Trust-based funding

Adopting funding models based on mutual trust allows risk management strategies to adapt. Flexible funding allows recipients to allocate resources where they are most needed, which is crucial for quickly addressing emerging risks.

Ask your donors for:

- Flexibility to move money between budget lines when needed
- Contingency funds for unexpected situations
- Multi-year funding that lets you plan properly

Collaborative risk assessment

The Risk Sharing Framework, introduced in the 2023 Grand Bargain, highlights the importance of conducting joint risk assessments at the start of development initiatives.

Instead of each organization doing separate risk assessments, work together so that:

- All partners help identify risks
- Each organization shares what they can handle well
- Risks are assigned based on capacity, not hierarchy
- Everyone works together on solutions

Building your capacity

Strengthening organizational capacity to manage risks is crucial for achieving equitable risk sharing. This involves dedicating funds for the development of risk and compliance skills, investing in risk and compliance management systems, providing support for system development, and making sure tools and technologies are accessible.

Don't be shy about asking for what you need, including (for example):

- Training for your staff on risk management
- Money to improve your systems
- Technical support to meet compliance requirements
- Tools and technology that help you work better

Starting the conversation

Transparent communication between funders and engaged organizations regarding risks is crucial. You can't create a collaborative environment when some people know the full details and some don't.

Here are some sample scripts to get you started:

For introducing cost recovery:

"We want to make sure we're good stewards of your investment. To deliver the results you're expecting, we need robust systems for financial management, monitoring, and organizational oversight. Our organizational rate supports these systems to deliver quality results while maintaining full accountability."

For discussing risk sharing:

"We believe in transparent partnerships where risks and responsibilities are shared fairly. Based on our respective capacities and expertise, we'd like to propose a risk-sharing arrangement where [specific proposal]. This approach ensures the best outcomes while protecting all parties involved."

For requesting flexibility:

"Given the complex environment we're working in, we'd like to build some flexibility into our agreement. This might include [specific examples] which would allow us to adapt to changing circumstances while maintaining our commitment to impact and accountability."

Putting it all together: Your 90-Day action plan

Days 1-30: Foundation

- ☐ Hold a team meeting to identify your top risks
- ☐ Start tracking all your costs for cost recovery calculation
- ☐ Write a simple, one-page organizational strategy (or make sure you're all looking at the same strategy, if you already have one)

Days 31-60: Building systems

- ☐ Create a simple risk register (a list of risks and what you're doing about them)
- ☐ Calculate your true cost recovery rate
- ☐ Set up monthly risk review meetings
- ☐ Have your first honest conversation with a donor about fair risk sharing

Days 61-90: Strengthening partnerships

- ☐ Share your risk register with key partners
- ☐ Propose joint risk assessment for a new project
- ☐ Include proper cost recovery in your next proposal
- ☐ Document what's working and what needs to change

Quick actions you can take this week



1. Choose one risk that keeps you awake and write down three things you could do about it
2. Schedule two hours with your leadership team to list your biggest worries
3. Start a simple spreadsheet to track all organizational costs
4. Identify one donor who might be open to discussing fair partnerships

Final thoughts: You can do this

We know this could feel overwhelming. We know you and your teams are already stretched thin. We know that adding "risk management" and "cost recovery" to your endless to-do list feels impossible.

But here's what we've learned from working with nonprofits around the world: The organizations that take small but consistent steps to manage their risks and recover their costs are the ones that survive and thrive.

Progress is better than perfection — risk doesn't wait for everything to be "done right." You don't have to implement everything at once or have all the information. You just have to start.

Your mission matters. Your community needs you. And you deserve to have the systems and support that let you focus on that mission instead of constantly worrying about survival.

Start small. Be consistent. Ask for help when you need it.

We're here to support you on this journey.

This guide represents practical wisdom from hundreds of nonprofits worldwide. Adapt these ideas to fit your situation. The best risk management system is the one you actually use.

For more support and resources like this, visit [Humentum's Solutions Hub](#).

Humentum's new membership gives you the tools, strategies, and support to strengthen your organization from within. Through leadership coaching sessions, peer connections, curated templates, and 200+ professional development courses, the Solutions Hub equips you to sustain, scale, or pivot in today's complex environment — all at a cost-effective price point.

