AAAG
AFRICAN ASSOCIATION OF ACCOUNTANTS GENERAL

POSITION PAPER

THE COST OF RISK: STRATEGIC RISK MANAGEMENT IN COMPLEX PUBLIC PROJECTS

JULY 2025

EXECUTIVE SUMMARY

Public projects across Africa are growing in complexity and sizes and often involve long-term commitments, high-value contracts, and significant borrowing to finance these initiatives. Yet beneath the surface lies a silent cost: risk. This cost does not often appear in traditional budgets or ledgers, but it shapes almost every government decision. Risk often inflates costs through interest premiums, procurement markups, delayed delivery, unanticipated and unpredictable liabilities such as climate induced disasters.

This Policy Paper calls on African governments to face this hidden burden head-on: We must move

from reactive crisis management to a more strategic, proactive approach. By embedding risk assessment into public finance systems, we can expose these silent costs, reduce inefficiencies, mitigate the risk of non-delivery, and deliver greater public value. The paper draws from and is based on real-life examples and cases, international best practices, and input from PFM leaders to advocate for a pragmatic, practical, and. people-centred approach to managing the cost of risk in complex public projects.

1. Introduction

The hidden cost that African governments can't afford to ignore

Think about this: a very significant road project, initiated by a government to improve transport and trade, is delayed by two years. In the eyes of the public, this is simply another show of laxity on the part of government manifesting in incomplete infrastructure. But for the National Treasury, this means increasing costs beyond the budgeted bill of quantities. Contractors, on the other side, see reputational and financial risk and raise their prices. Now, scale that across every project, every contractual obligation, and every cent of public financing. This is the cost of risk: silent but deeply embedded in the way we manage public money.

In today's Africa, where fiscal space is tightening and public demand is rising, ignoring this cost is no longer an option. We must shift towards a more streamlined and strategic approach to managing risk in order to build more resilient institutions, attract better investment, and deliver on the promises we make to our people.

2. Context

Where risk hides and why it matters

Governments across the continent are undertaking bold, transformative projects. From infrastructure and health systems to energy pipelines and digital platforms, these projects require partnerships, loans, and long-term contracts. But risk is everywhere:

- Lenders charge extra when they perceive instability.
- Contractors charge exorbitant costs and premiums when faced with unclear (and somewhat weak) laws, unpredictable processes or corruptible systems.
- Communities lose trust when promises fall short of the expected target; and timelines are severely overshot due to poor planning, political shifts, poor oversights or unpredicted liabilities.

The cost of risk rarely shows up as a line item in a budget but is real and substantial. According to experts, risk premiums and inefficiencies can account for 10–30% of total project costs. Governments often absorb these costs unknowingly, until budgets overrun or lawsuits arise.

The Problem

Strategic blind spots in public finance

Despite the scale and impact of risk, most governments fail to formally assess or account for it while designing or executing major projects. Budget are primarily developed based on known or expected costs and do not, in most cases, cater for uncertainties. On the other hand, procurement teams evaluate bids but do not question why suppliers and contractors sometimes inflate prices. The risk is then amplified by the fact that there are no risk officers and where they exist, they often are disconnected from budget planners and finance personnel – creating a disconnect that exacerbate the cost of risk.

This creates four critical blind spots:

i. **Unpriced risk**: Governments commit to obligations without knowing the true cost of hidden risk.

ii. **Fragmented responsibilities**: Finance, procurement, audit, and legal teams rarely coordinate risk mitigation.

iii. **Lack of visibility**: Decision-makers do not receive timely information about risks or their costs.

iv. **Reactive culture**: In most cases, Governments manage crises after they happen instead of preventing them.

Obviously, these gaps amplify the cost of risks: projects stall, budgets blow out, citizens lose trust, and the consequences (financial and political) are huge.

3. Policy actions

To uncover and reduce the true cost of public assets, we propose four strategic shifts:

a) Make strategic risk management a core government function

Governments should no longer treat risk as a side or minor issue. Ministries of Finance, the Offices of the Accountant General, and key implementing agencies must:

- Establish risk management units or task forces.
- Adopt internationally recognized frameworks like ISO 31000 or COSO Enterprise Risk Management (ERM) Frameworks to identify, analyse, treat and respond to risk
- Integrate risk planning into decision making processes from project design, contracting, budgeting, and implementation.

b) Quantify the cost of risk

Governments should make every effort to:

- Estimate how risk affects borrowing costs, procurement premiums, and project execution timelines (potentially causing delays).
- Include contingent liabilities and risk-adjusted estimates in budget.

- Use tools like risk registers and dashboards to track risk exposure and seek informed redress.

c) *Align budgets and procurement with risk analysis*

Embedding risk thinking into financial decisions right from the planning can build and strengthen resilience.

Thus, Governments can:

- Direct funds toward mitigating high-risk areas (e.g., insurance, due diligence, oversight).
- Reward suppliers who demonstrate robust risk plans.
- Include risk-based performance indicators in contracts.

d) *Build a culture that sees risk as opportunity, not just threat*

It is important to undertake comprehensive change on how governments and people within government institutions think about risk: Ensuring that everyone is equipped to recognize that that managing is a shared responsibility will ensure that they contribute to managing it effectively.

Therefore, leaders need to:

- Train finance and audit professionals in practical risk management approaches and strategies.
- Encourage active collaboration, knowledge sharing, and peer-learning across ministries, agencies, and institutions.
- Hold regular workshops to uncover risks and co-create solutions.

4. Collaboration for risk management

We all benefit when governments manage risk well. But each stakeholder has a unique role to play:

- **Accountants General** can champion risk visibility in financial reports.

- **Ministries of Finance** can embed risk intelligence in macro-fiscal planning.
- **Auditor Generals** can validate risk disclosures and help close loopholes.
- **Procurement teams** can shift from price-only to value-plus-risk evaluations.
- **Citizens** gain trust when governments deliver on time, within budget, and without scandal.

5. Lessons from Uganda

Uganda's Petroleum Authority: A Risk-Conscious Model

Uganda's extractives sector offers a valuable blueprint on cost of risk mitigation. The government of Uganda faced the challenge of managing billions in oil and gas investments which came with a huge potential to transform the country economy but equally carried massive risks. To that end, the country sought to mitigate the risks through a series of actions:

- **Role separation while ensuring coordination and strong collaboration:** Policy matters were allocated to The Ministry of Energy while the Petroleum Authority of Uganda regulates, and the National Oil Company manages commercial interests. This reduced overlap and political interference (and the risk that may come from blurred lines on responsibilities)
- The Government of Uganda used **production sharing agreements** (PSAs) with stabilized terms to reduce fiscal unpredictability.
- The government sought and required environmental and social risk assessments up front, not after the fact.

As a result, these actions culminated into greater investor confidence, fewer legal disputes, and a more transparent use of public resources.

6. Conclusion and Recommendations

Africa's future depends on bold, well-managed public investments. But ambition without strategy is expensive and risky. Countries must institutionalise strategic risk management to build stronger projects, smarter budgets, and more trusted governance systems.

To manage risks, countries must:

1. **Initiate and Pilot a Risk Assessment Process** in a major infrastructure project.
2. **Add a "Cost of Risk" section** in annual budgets or project appraisals.
3. **Provide tailored and strategic training to at least 100 PFM professionals** every year across sectors in strategic risk practices this year.
4. **In collaboration with AAAG, organize a high-level forum** for Ministries of Finance and Offices of the Accountants General to commit to risk-informed governance and decision-making.

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