Donor Approaches to Risk in Fragile and Conflict Affected States

Synthesis Report

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List of Acronyms

ARTF	Afghanistan Reconstruction Trust Fund
BOGs	Basic Operating Guidelines
CBTF	Capacity Building Trust Fund (South Sudan)
DDR	Disarmament, Demobilisation and Reintegration
DFATD	Department of Foreign Affairs, Trade and Development (Canada)
DFID	Department for International Development (UK)
DRC	Democratic Republic of Congo
EDF	European Development Fund
HACT	Harmonised Approach to Cash Transfers
IGAD	Intergovernmental Authority on Development (East African Regional Organisation)
INCAF	International Network on Conflict and Fragility (OECD-DAC)
G7+	Grouping of fragile and conflict affected states
GIZ	Gesellschaft für Internationale Zusammenarbeit (German Cooperation)
I4S	International Security and Stabilisation Support Strategy for Eastern DRC
ICT	Information and Communication Technologies
JICA	Japan International Cooperation Agency
M23	Rebel group in North Kivu Province, DRC
MDTF	Multi Donor Trust Fund (South Sudan)
MONUSCO	Mission de l'Organisation des Nations Unies en République Démocratique du Congo (UN Mission in DRC)
NATO	North Atlantic Treaty Organisation
NGO	Non-governmental Organisation
OCHA	Office for the Coordination of Humanitarian Affairs
ODA	Official Development Assistance
OECD-DAC	Organisation for Economic Cooperation and Development – Development Assistance Committee
ORAF	Operational Risk Assessment Framework (World Bank)
PFM	Public Financial Management
SSR	Security Sector Reform
RMO	Risk Management Office (Nepal)

RMU	Risk Management Unit (Somalia)
STAREC	Stabilisation and Reconstruction Plan for Eastern DRC
UNDP	United Nations Development Programme
UNICEF	United Nations International Childrens Emergency Fund
UNMISS	United Nations Mission in the Republic of South Sudan
USAID	United States Agency for International Development

Executive Summary

This report is a comparative study of donor of approaches to risk management in fragile and conflict affected states. The findings are based on evidence from four case study countries: Democratic Republic of Congo, South Sudan, Somalia and Nepal (and additional examples drawn from Myanmar, Afghanistan and Haiti). The study was commissioned by the INCAF Task Team on Implementation and Reform, which identified a need to complement ongoing policy level work on risk management with evidence from the field on how donors manage risk in practice and identification of innovative practices. The research set out to address three questions:

(1) How do donors act in response to various categories of risk, and how does this affect the impact of aid programmes?

(2) What factors explain why they respond to risks in these ways?

(3) What examples can be found of effective risk management practices in different countries and what explains their success?

How do donors act in response to various categories of risk?
The case study evidence highlighted the connections and trade-offs between different categories of risk, and resulting tendencies for donors to avoid high risk programming choices. Two main trade-offs were observed: First, aversion to programmatic risk and pressure to demonstrate short term results and value for money has often led to programmatic choices (e.g. direct service provision by non-state actors) that are less suited to supporting long-term statebuilding and peacebuilding. Second, aversion to fiduciary risk has often dissuaded donors from using country systems to manage aid funds. Both of these tendencies can limit donors' ability to mitigate contextual risks by supporting state functions. This could undermine the impact of aid over the long term. Donors' avoidance of using country systems creates risks of doing harm by undermining government institutions and establishing parallel systems.

In line with previous studies, the case study evidence confirms that risk aversion is a common tendency. However, numerous exceptions were observed, which suggest that donor responses to risk are quite varied. Examples of higher risk programming (which potentially offer higher rewards) include the payment of government salaries in South Sudan and Somalia, large scale support for institution building in Afghanistan, and increasing focus on institutional reform in Haiti.

What factors explain why they respond to risk in these ways?
Risk behaviour is influenced by numerous factors that push donors in different directions. Risk aversion appears to be strongest where donors face strong domestic reputational and political pressures, where their country knowledge is limited, and where organisational incentives create pressure to demonstrate short term results. Other factors encourage donors to engage in more calculated risk taking enabling greater engagement in processes of peacebuilding and statebuilding that are likely to offer greater results in the long term. The most important of these risk enabling factors include: (1) foreign policy, international security pressures and humanitarian imperatives that cause donors to take a greater interest in supporting political stabilisation and institution building, (2) clear appreciation of the risk of increased fragility and state collapse, (3) donor commitments to cross-cutting objectives such as gender equality, justice and human rights, which appear to broaden their perspective beyond short term results, (4) investment in country analysis and knowledge (including appropriate staff training and valuing staff's country knowledge), (5) long engagement and experience in the country, (6) risk sharing between donors in the context of pooled funds and other coordinated approaches.

What examples can be found of effective risk management practices in different countries and what explains their success?
The case studies revealed numerous examples of specific practices, tools and instruments used by donors to manage risks. These are discussed under ten headings below with corresponding recommendations for donor action:

1) **Improving understanding of contextual risks and building a strong country and regional knowledge base**
Good analysis of contextual risks is found to be essential for understanding how programme performance may be affected by contextual risk, and to inform strategies for statebuilding and peacebuilding that aim to mitigate contextual risk. Several promising examples of contextual risk analysis are discussed in the paper, including analysis of the effects of the recent oil shutdown in South Sudan, and conflict analyses in Nepal and DRC.

2) **Mainstreaming conflict sensitive programming**
Conflict sensitive programming provides a means to mitigate contextual and programmatic risks by helping donors to design and implement programmes that reduce socio-economic and political tensions, and to include safeguards in programme design to avoid doing harm. Good examples of conflict sensitive programming tools were encountered in Nepal (e.g. Nepal Peace Filter and Basic Operating Guidelines), but were less evident elsewhere.

Recommendations:
Strengthen the analysis of contextual risks. Research and analytical tools should be used more extensively to structure country knowledge and understanding of contextual risk, including greater use of political economy analysis, conflict assessments and scenario analysis. These need to be accompanied by long country presence, sectoral experience, and staff incentives that reward country knowledge, language skills and field exposure.

Pilot joint risk assessment methods. Joint risk assessments provide an opportunity to improve understanding of contextual risks, avoid analytical duplication, and identify common interests in risk management that may be shared between donors and/or governments and donors (as in Fragility Assessments required under the New Deal). However, there is limited experience in managing these processes. Further donor practice and pilot testing in this area is warranted, with an initial focus on countries where common interests between donors and governments are more likely to be found.

3) **Finding synergies between development, humanitarian and peacekeeping missions**
Examples from the case study countries indicate that good coordination between peacekeeping and development agencies can help to manage contextual, programmatic and security risks. There are opportunities for joint working on security sector reform, disarmament, demobilisation and reintegration, and the sharing of security information and security resources. However, such synergies are not always adequately developed.

Recommendation:
Require stronger coordination and joint working between development, humanitarian and UN peacekeeping missions. Conduct reviews of coordination between UN peacekeeping missions and development and humanitarian programmes at country level. The specific areas of focus will vary by country, but are likely to include joint working on mitigating contextual risks (including joint actions on security sector reform, disarmament, demobilisation and reintegration) and joint approaches to managing security risks (e.g. sharing information on security risks, policies regarding sharing of services provided by peacekeepers, including transport and logistics, escorting and safe havens).

4) **Using fast disbursing and flexible instruments in combination with longer term development programming**
The report reviews the use of flexible and fast disbursing instruments, such as the EU Instrument for Stability, that enable rapid response to changing contextual risks outside normal programming cycles.

Recommendation:
Adapt aid instruments to ensure greater programming flexibility. Donors need to keep innovating with the use of flexible programming instruments. Short-term flexible instruments will need to be used within the framework of a longer term strategy to avoid the risk of piecemeal and ad hoc programming. Flexibility is also required within programmes to enable year-on-year adjustments in the face of changing contextual risks.

5) **Using pooled funds to share risks**
The report reviews the use of pooled funds in South Sudan, Afghanistan, Nepal and Myanmar, and finds variable performance as a risk management instrument. Where they work effectively, pooled funds enable participating donors to share institutional and programmatic risk. Most importantly, they enable donors to transfer risk management functions to specialised management agents better positioned to monitor and control fiduciary risks. However, cumbersome procedures and unrealistic expectations of government capacity can slow down disbursement, and create new risks for donors and partner governments.

Recommendation:
Make greater use of pooled funds to share risk. The pooled fund model is appropriate in many aid settings. However, the extent of government involvement in the managing and financing of pooled funds will vary according to local capacity and donor confidence in country systems. Donors should avoid cumbersome and slow procedures for the management of pooled funds that focus excessively on fiduciary risk. It is essential to develop a coherent vision and strategy, and to put in place effective governance arrangements for pooled funds.

6) **Adopting an incremental approach to using country systems**
In most of the case study countries donors were found to make limited use of country systems to deliver aid because of concerns about fiduciary and reputational risk. These risks can be managed using incremental approaches that gradually increase the use of parts of national systems, while maintaining sufficient fiduciary safeguards. The case studies identified several examples of such an approach including measures to strengthen and build confidence in public financial management (e.g. in DRC and Somalia), selective strengthening and use of particular country systems (e.g. payroll

systems to pay civil servants' salaries in South Sudan), arrangements to certify implementing partners' financial procedures supported by spot checks and ex-post audits (e.g. UNDP's Harmonised Approach to Cash Transfers that is being trialled in DRC).

Recommendation:
Develop country level, multi-donor frameworks for progressively increasing the use of country systems. Donors should engage in joint analysis with governments at country level on the obstacles and opportunities for using country systems. They should devise common approaches for the adoption of country systems on an incremental basis. Further support to strengthening local procurement systems and developing effective risk management systems will be essential, including focus on this area within multi-donor trust funds.

7) **Building confidence between donors and government by using transition compacts and mutual accountability frameworks under the New Deal.**
The case study research revealed mixed progress in developing transition compacts in the case study countries that are New Deal pilot countries. Where there has already been good progress (South Sudan and Afghanistan), New Deal instruments, including Fragility Assessments and Transition Compacts, appear to offer strong potential as a mechanism for improved risk management.

8) **Using third party services to monitor corruption and fiduciary risks, and security conditions.**
Specialised risk management units can help pool resources to addresssecurity, fiduciary and other risks encountered during operational work. Two examples from Nepal (the Joint DFID/GIZ Risk Management Office) and Somalia (the UN Risk Management Unit) are discussed in this report.

Recommendation:
Consider wider adoption of third party risk management where this brings access to specialist expertise. Good practice lessons from the risk management units in Nepal and Somalia (as well as the services of management agents for pooled funds) can be applied elsewhere. However, this should not detract from donors' ultimate responsibility for risk management, and the need to ensure coherence between the management of contextual, programmatic and institutional risk.

9) **Developing robust remote management systems where access is limited**.
Remote management systems can enable continued aid programming in situations where donors cannot access the field because of security problems. Experience from Somalia suggests that the risks of remote management can be satisfactorily managed, and that systems can be strengthened using innovative ICT practices and third party monitoring.

Recommendation:
Develop more robust remote management systems. Donors should invest further in developing models for effective remote management because in practice there will continue to be situations where donors cannot access the field due to security concerns. Further research and experimentation on remote management systems is warranted drawing on lessons learned in Somalia, eastern DRC and elsewhere.

10) **Applying more portfolio based approaches to risk management**.
Portfolio approaches to risk management can enable donors to balance risks and rewards in their portfolio and manage the links between different categories of risk. In practice portfolio approaches to risk management are rarely used, but the few examples identified in the case study countries suggest that there is significant potential to develop such approaches.

Recommendation:
Develop tools for portfolio-based risk management. Portfolio approaches to risk management need to be developed for more systematic management of different types of risk across donor portfolios and instruments. This would help donors to think broadly about different risk categories and to manage the trade-offs between them so as to ensure a better balance of risks and rewards across the country portfolio.

Additional recommendations

This study also makes a number of general recommendations on effective risk management:

Adopt good practice for risk sharing with implementing partners. Successful aid delivery depends on an appropriate sharing of risk between donors and implementing partners. This is more likely to occur where donors are in close contact with implementing partners rather than in situations of arms-length, formal, and solely contractual relations. Rigid, zero-tolerance approaches to corruption can prove counterproductive and may cause implementing partners to conceal fiduciary risk. Donors generally need to be more sensitive to the fiduciary and security risks faced by implementing partners, and should be ready to respond flexibly to their operational needs.

Provide evidence of the results of different approaches to supporting fragile and conflict affected states. A critical problem that contributes to donor preferences for short term, low risk programming is the difficulty of measuring and demonstrating the results of long term programmes to support statebuilding, peacebuilding and other forms of transformational change. More systematic impact monitoring (including longer term and more indirect impacts) of such programmes would help to strengthen the evidence of results, and could shift risk/reward calculations in favour of higher risk programming.

Communicate more effectively with audiences in donor countries. Political and reputational risks in donor countries could be mitigated through better communication of the realities and risks of aid delivery, and challenges and rewards of statebuilding and peacebuilding work. This requires donors to move beyond simplified aid narratives that emphasise quick results and service delivery, and to develop ways of communicating risk better to donor accountability bodies (be they legislatures, supreme audit institutions, civil society, etc.) This would require developing communication tools that help to explain the importance of risk mitigation and the lessons learned.

1. Introduction

Over the past decade development agencies have increasingly focused their assistance on fragile and conflict affected states.[1] This trend has inevitably exposed donor organisations and their implementing partners to a greater magnitude and variety of risks. To achieve a positive impact in these countries, donors must manage a broad spectrum of risks. Some of these risks can be reduced and mitigated, but others cannot be avoided if donors are to seize opportunities to promote statebuilding, peacebuilding and development.

There is increasing recognition that achieving long-term, transformational results in fragile and conflict affected states requires appropriate risk taking, and that the avoidance of risk will be harmful to development results. Recent OECD guidance states that "*International engagement in fragile and transitional contexts presents significant risks for donors and implementing partners, but holds the potential for even higher rewards in terms of improved results and outcomes. Importantly, the risks of failing to engage in these contexts outweigh most of the risks of engagement*."[2] This recognition has led to the development of policy frameworks for donor engagement in fragile and conflict affected states emphasising the importance of well-designed risk management strategies that balance risk and opportunity, and are rooted in solid understanding of the country context.[3] There are an increasing number of risk management procedures in use by donors that support these aims (see box 1)

Although there has been clear change in donors' discussions of risk at a policy level, there is limited evidence of how donors manage risk in practice in different country contexts. Responding to this gap, the INCAF Task Team on Implementation and Reform has commissioned this comparative study donor of approaches to risk management in fragile and conflict affected states. The approach is based on case study evidence, and aims to provide country level findings that respond to three research questions:

1) How do donors act in response to various categories of risk, and how does this affect the impact of aid programmes?
2) What factors explain why they respond to risks in these ways?
3) What examples can be found of effective risk management practices in different countries, and what explains their success?

This study is based on country research in the Democratic Republic of Congo (DRC), South Sudan, Somalia,[4] Nepal and Myanmar, as well as remote research on Afghanistan and Haiti. It

[1] In 2010 ODA to 47 fragile states represented USD 50 billion, or 38% of total ODA. Between 2000 and 2010, per capita ODA to fragile states grew by 46%, while it only grew by 27% in non-fragile states. OECD (2012) *Fragile states 2013: Resource flows and trends in a shifting world*. http://www.oecd.org/dac/incaf/FragileStates2013.pdf

[2] OECD (2011) Aid Risks in Fragile and Transitional Contexts, Improving Donor Behaviour, http://www.oecd.org/development/incaf/47672264.pdf

[3] See OECD (2011) *Managing Risks in Fragile States: the Price of Success*.http://dx.doi.org/10.1787/9789264118744-enOECD (2012) International Support to Post-Conflict Transition, Rethinking Policy, Changing Practice, DAC Guidelines and Reference Series. http://dx.doi.org/10.1787/9789264168336-en

[4] For security and logistical reasons it was not possible to conduct research in Somalia. Interviews were conducted in Nairobi where many donors and INGOs working in Somalia are based, as well as by email and phone.

examines the risk management practices employed by bilateral and multilateral donors, and identifies factors that have enabled or obstructed donors' ability to manage risk successfully. The report responds to the recommendation in earlier work that more evidence was needed on innovative practices in this area. It is intended to contribute to the development of policy recommendations for donors in their management of risk in fragile and conflict affected states. The findings are also be relevant to testing the concepts and assumptions underlying the risk management literature.

The report provides many examples of effective approaches to risk management, and identifies good practice along with the reasons why good practice has been adopted. The study also highlights weaknesses in risk management that compromise the effectiveness of aid. In identifying room for improvement, it seeks to highlight practical and feasible steps that can enable more effective risk management in different country settings.

This report begins with a brief explanation of risk and risk management concepts, and the methodology used in the study. The next sections (4-6) then examine case study evidence on each of the three research questions listed above. The study concludes with general recommendations on how donors can strengthen risk management in fragile and conflict affected states. The individual case studies are annexed to this report.

This research was funded by the UK Department for International Development. The synthesis report and case studies have been peer reviewed by a steering group of donors overseeing the study (Canada, Denmark, Germany the Netherlands, Norway, Switzerland, UK, UNDP) and by external peer reviewers including Tim Allen, Mary Kaldor, James Darcy, Mariska van Beijnum, Asbjorn Wee, Jennifer Holt and Caroline Sergeant. The contribution of these organisations and individuals is gratefully acknowledged.

2. Key concepts

2.1 Understanding risk

Development organisations are confronted by a wide variety of risks when working in fragile and conflict affected states including the failure of aid programmes, the potential to cause unintended socio-economic, political and environmental damage, and the possibility that the organisation and its staff may face harm. In order to gain clarity on the wide variety of issues covered under a risk perspective, this section briefly presents key concepts and definitions, which will be used throughout this paper.

Risk is commonly understood as the potential for a defined adverse event or result to occur.[5] It is typically measured against two dimensions: the ***probability*** of the risk occurring, and the ***severity*** of the outcome. It is useful to distinguish between ***risk factors***, which affect the probability and severity of risks, and ***risk outcomes,*** which describe what happens if the risk occurs.

Risk assessment refers to the use of tools to estimate the probability and severity of risks. This can be used to determine the priority attached to addressing particular risks. Some risks can be assessed accurately where risk factors are understood and the probability and severity of risk outcomes is known (***predictable risks***). However, more commonly there is a high degree of uncertainty about risk factors and outcomes (***unpredictable risks***). Consequently risk assessment requires the exercise of informed judgement, and there is always an element of subjectivity that may be subject to challenge.

From the perspective of aid management, risks can be grouped into three overlapping categories, referred to as the "Copenhagen Circles" (figure 1):[6]

- ***Contextual risk*** refers to the range of potential adverse outcomes that may arise in a particular context, such as the risk of political destabilisation, a return to violent conflict, economic deterioration, natural disaster, humanitarian crisis or cross-border tensions. Donors have only a limited influence on contextual risk in the short term, but they seek to support interventions that create conditions for reduced contextual risk in the long term, for example by promoting statebuilding and peacebuilding processes, strengthening disaster risk management and promoting economic reforms that increase resilience in the face of shocks.

- ***Programmatic risk*** relates to the risk that donor interventions do not achieve their objectives or cause inadvertent harm by, for example, exacerbating social tensions, undermining state capacity and damaging the environment. Programmatic risks relate to weaknesses in programme design and implementation, failures in donor coordination, and dysfunctional relationships between donors and their implementing partners.

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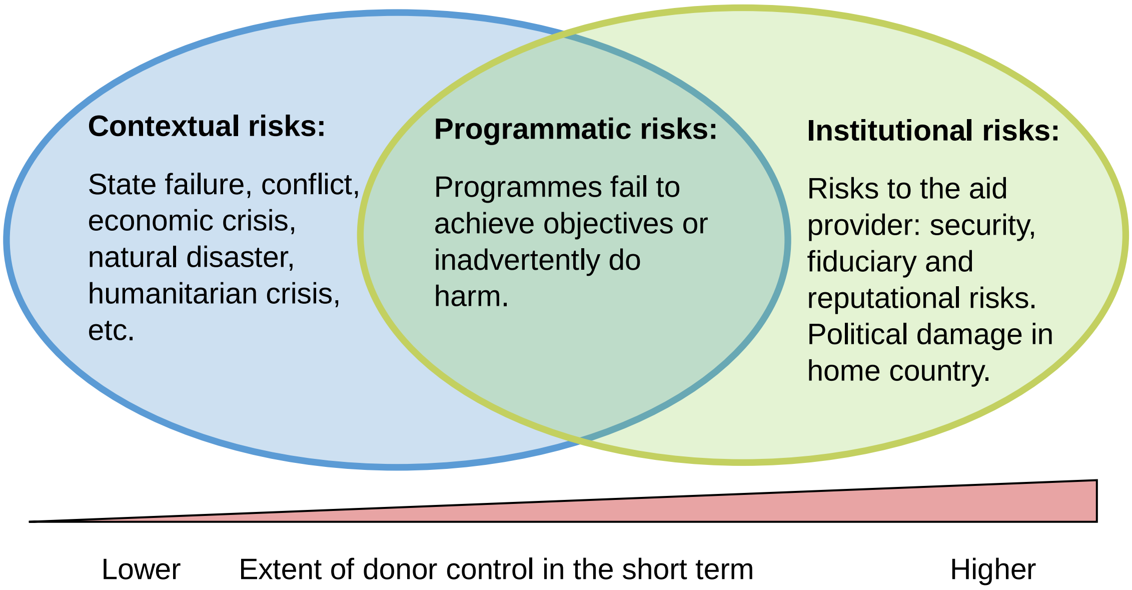
[5] The discussion of risk has tended to focus on negative risk outcomes. However, risk can also be understood in broader terms to cover a range of positive and negative outcomes. Under the ISO31000:2009 risk is broadly defined as "*the effect of uncertainty on objectives.",* and these effects may be either positive or negative.

[6] *Managing Risks in Fragile States: the Price of Success, op cit.*

- ***Institutional risk*** refers to the range of potential consequences of intervention for the implementing organisation and its staff. These include management failures and fiduciary losses, exposure of staff to security risks, and reputational and political damage to the donor agency. Current risk management practices are predominantly focused on institutional risk reduction.

Figure 1 – The Copenhagen Circles



Adapted from: OECD (2011) *Managing Risks in Fragile States: the Price of Success*. http://dx.doi.org/10.1787/9789264118744-en

The Copenhagen Circles help to specify different categories of risk, but also draw attention to connections between risk categories. One category of risk may affect another. For example, the outbreak of conflict is above all a contextual risk outcome, but also heightens programmatic and institutional risks by limiting access to conflict zones and affecting staff security. As highlighted throughout this paper, donors' responses to one category of risk have a significant bearing on their ability to manage other types of risk.

2.2 Risk management practices

The main purpose of this study is to document actual risk management practices used by donor organisations in the case study countries. Risk management can be defined as an *approach to setting the best course of action in areas of risk and uncertainty by identifying, assessing, understanding, acting on and communicating risk issues*.[7] In some cases, risk management may be systematically conducted using purposefully designed tools, some examples of which are described in Box 1. Most commonly these tools are applied at programme or project level to assess and manage risks occurring within the scope of a single donor intervention. Typically this

[7] Risk Management definition as used by the Government of Canada in various forms of risk analysis. This definition is considered particularly useful.

involves the identification of risks and mitigating measures in logframes or other planning matrices, reference to risk ratings in financing decisions, reporting on risks in regular project reports, and analysis of risk levels and risk management strategies in programme reviews and evaluations. Less commonly, some donors have adopted tools for the monitoring of risks at portfolio level that assess levels of different categories of risk across the country programme and define portfolio level responses (see Section 6.10).

Box 1 – Selected examples of formal risk management tools used by donors

The **World Bank**'s comprehensive Operational Risk Assessment Framework (ORAF) is the basis of its risk assessment processes in country programmes, sector portfolios, and for project development. The tool includes a range of risk categories broadly in line with the 'Copenhagen Circles'. However, a 2011 review of the ORAF process found that completed frameworks tended to highlight fiduciary risks to funding flows more successfully than other risks that potentially affect project implementation.[8]

DFATD (Canada) has a well-developed set of risk management tools that are applied at portfolio and programme level. Its country programming teams complete a country-level Risk Profile on an annual basis (or more frequently when situation warrants. The risk profile is based on a country analysis, where the Department assesses the political context, development challenges, partner capacity (both implementing partner and local counterpart). An integrated gender equality and governance lens enables conflict-sensitive programming. In the country context review and initial risk assessment stages, DFATD encourages the involvement of implementing partners, beneficiary government, DFATD sector specialists and other donors to ensure a comprehensive assessment. This country Risk Profile is one of several strategic tools reviewed when designing a country programming strategy. This enables the allocation of funding to "lower" and "higher" risk programmes in accordance with the programmes appetite for risk, with proper risk response measures for each risk identified. Additionally, an investment risk profile (or Risk Register) is completed for each individual project under the country programme. The investment and country risk profiles are complementary when planning and monitoring investments in a country.

Denmark explicitly recognises that risk is an integral part of development work. Rather than aiming to minimise risk, it states that it is willing to accept the high levels of risks associated with experimentation or difficult environments, while working systematically to assess and prevent risks across its work. It is working on the development of a single Risk Assessment Form to be trialled through a pilot study of Danish contributions to the Common Humanitarian Fund in Somalia. Emphasis is placed on categorising and measuring the significance of identified risks, and highlighting where action needs to be taken to mitigate risks.

DFID (UK) has conducted a range of risk assessment studies and devised briefing papers, some with specific relevance for conflict-affected environments. Rather than applying a universal framework, DFID follows a decentralised approach to risk management. Fiduciary Risk Assessments monitor specific financial risks, but other risks (risks to DFID staff and resources, risks to the delivery of international development, risks faced by poor people) are addressed through a range of tools employed by programme planners and policymakers at different levels.

Sources: World Bank: Guidance note on the Operational Risk Assessment Framework (ORAF). Risks to achieving results, Operations Policy and Country Services, September 2010
DFATD: *Guide - developing risk management profiles for programs and initiatives.* May 2013.
DANIDA: *Background Note on Development of Risk Assessment Form for Danish development assistance.* Draft. Erik Toft, October 19, 2011
DFID (2010) *Working Effectively in Conflict-affected and Fragile Situations* Briefing Paper H: Risk Management.

[8] 'Risk-Based Approach: FY 11 Implementation Report.' Investment Lending Reform Operations Policy and Country Services, World Bank October 2011.

This study adopts a broad view of risk management practices, which are seen as cutting across aid management functions. While donors may use formal risk management tools at particular moments in the programme cycle, their day-to-day decision making on programme and project management is also influenced by risk management concerns. Risk management cuts across all aspects of donor work, including programming, monitoring and evaluation, financial procedures, managing relationships with partners, engaging in research and knowledge gathering, sourcing technical assistance and communicating results. In short, donors are constantly engaged in risk management, whether or not they refer to it as such.

Adopting this broad perspective of risk management, the study aims to understand donors' actual practice including the use of formal tools and mechanisms for risk management, and more general treatment of risk that arises through a range of aid management practices.

Approaches to risk management can be placed into the following broad categories:

- ***Risk avoidance*** refers to the practice of refraining from activities associated with high levels of risk. In many circumstances risk avoidance is a rational risk management practice. Yet, it becomes counterproductive where it results in development opportunities being missed. In some literature on risk there is a general assumption that donors are *risk averse,* meaning that they prefer to fund safer interventions with a lower probability of failure even where the expected benefits (taking all potential outcomes into account) are lower than alternative higher risk interventions.[9]

- ***Risk mitigation*** refers to the use of specific measures to reduce risk. This can be directed at addressing risk factors so as to reduce the probability and severity of risk outcomes. Alternatively, risk mitigation may include adaptations to the design and management of programmes so as to limit their vulnerability to disruption in the face of particular risk outcomes.

- ***Risk sharing*** refers to the agreement of several actors to expose themselves to risk and to spread the burden of potential losses. An important example, discussed in Section 6.5, is the use of pooled funds.

- ***Risk transfer*** refers to situations where exposure to a particular type of risk is transferred from one party to another. Insurance against natural hazards is an example of risk transfer, which involves the insurer taking on the risks of the insured in exchange for the payment of a premium. Another example occurs in situations of remote aid management where development agencies limit their presence in insecure zones, and transfer implementation, management and monitoring responsibilities to NGOs and other partners.

- ***Risk acceptance*** refers to the decision to accept or tolerate a level of risk. Often donors will try to reduce risk through various strategies of risk mitigation, sharing and transfer, but will be left with a level of residual risk that they will need to accept in order to operate.

Each of these approaches can be applied in different ways to the categories of contextual, programmatic and institutional risk. Table 1 below explains what each approach to risk

[9] OECD (2011) Aid Risks in Fragile and Transitional Contexts, Improving Donor Behaviour, http://www.oecd.org/development/incaf/47672264.pdf

management entails in relation to the management of contextual, programmatic and institutional risk.

Table 1 – How can each risk management approach be applied to contextual, programmatic and institutional risk?

	Contextual risk	Programmatic risk	Institutional risk
Risk avoidance by donors	Not investing in fragile or conflict affected states, or by selecting programmes that are unlikely to be affected by contextual risk	Donors cannot completely avoid programmatic risk, but may restrict activities to low risk programmes that are more likely to deliver on objectives, demonstrate value for money and avoid doing harm.	Donors can avoid fiduciary risk by taking full control of financial procedures and setting up parallel systems. Donors can avoid security risks through heavy protection, reduced mobility, or using systems for remote aid management.
Risk mitigation by donors	Donors can reduce contextual risks in the long term by supporting statebuilding and peacebuilding programmes, disaster risk management and economic reforms. Donors can reduce the effects of contextual risk outcomes on programme performance by design adaptations, for example by building in contingencies and flexibility.	Donors can mitigate programmatic risk through sound programme design, appropriate setting of targets, regular monitoring and evaluation, effective donor coordination and management of relationships with government and implementation partners. Donors can mitigate the risk of doing harm by using conflict sensitive programming tools.	Donors can mitigate fiduciary risks by imposing strong financial controls and limiting the use of country systems, as well as helping countries to strengthen their fiduciary systems. Donors can mitigate reputational and political risk by carefully communicating and explaining their actions to key constituencies in the donor and beneficiary country. Donors can mitigate security risks by putting in place suitable security procedures including. improved community relations and communication
Risk sharing by donors	Donors can share information on contextual risk through joint risk assessment.	Donors can share programmatic risk by participating in multi donor programmes.	Donors can share fiduciary and reputational risks by participating in multi donor programmes. They can also pool resources for fiduciary risk management and thereby achieve economies of scale.
Risk transfer by donors to implementing partners	Donors cannot transfer contextual risk to implementing partners	Donors can partly transfer programmatic risks by making implementing partners responsible for results. They can fully transfer programmatic risks using 'payment on results' modalities.	Donors can transfer security risks to implementing partners who are required to work in insecure zones on the donor's behalf. Donors can also transfer fiduciary risk to implementing partners where they demand repayment of their funds in cases of corruption.
Risk acceptance by donors	Donors have limited influence over contextual risks meaning that they must accept some exposure contextual risks when working in fragile and conflict affected states.	Acceptance of programmatic risk requires donors to recognise that some programmes will fail and some may do harm.	Acceptance of institutional risks is usually very limited.

2.3 The New Deal and its relevance to risk management

At the Fourth High Level Forum on Aid Effectiveness held in Busan in 2011, donors committed to a New Deal for Engagement in Fragile States centred on the Peacebuilding and Statebuilding Goals. The New Deal is built on the five TRUST principles, which directly relate to risk management. These include **T**ransparency, **R**isk sharing, **U**sing and strengthening national systems, **S**trengthening capacities and **T**imely and predictable aid. These principles can encourage donors to address the risks associated with weak donor coordination, aid volatility and avoidance of country systems. They also highlight the benefits of risk sharing practices including joint risk assessment and joint mechanisms to reduce and better manage risks.

The principles of the New Deal have shaped the form and content of this study. The various tools that are being used to implement the New Deal are also important for risk management. They include a country-led Fragility Assessments, which provide an analysis of country context and contextual risks. The Fragility Assessments are used for the development of National Transition Plans that define how governments intend to promote statebuilding and peacebuilding, and so address contextual risks. Donors can support these plans through a Transition Compact linked to a mutual accountability framework, monitoring mechanisms and political dialogue. All of these mechanisms are intended to reduce risks by strengthening confidence in the mutual commitments of governments and donors. Essentially, governments are required to commit to a statebuilding and peacebuilding strategy in return for donor commitments to provide more coordinated and predictable aid.

Initial progress in the implementation of the New Deal varies between countries. This study will assess emerging evidence on the potential of the New Deal to contribute to improved risk management in relation to three New Deal pilot countries: DRC, South Sudan and Somalia.

3. Research methodology

The country case studies were selected following an initial screening of 16 fragile and conflict affected states against indicators covering country context, aid relations, risk management practices and practical research considerations. The screening exercise was used to develop a mapping of the risks and risk management practices in each country (see inception report). The final selection of case study countries was made by the Steering Group. The selection process aimed at ensuring a balanced coverage of different types of risk management problem and donor response across the Copenhagen Circles. New Deal pilot countries were purposefully included in the country selection.

The Steering Group selected four countries for full case studies: Democratic Republic of Congo (DRC), South Sudan, Somalia and Nepal. Additional examples of risk management practices were drawn from Myanmar, Afghanistan and Haiti, which were researched through literature, remote interviews, and in the case of Myanmar a brief country visit. Each case study focussed on three or four key risk management themes identified in Table 2. These were selected from the previously completed mapping of risk management problems and practices. The selection aims to provide a broad spread of illustrative examples covering all parts of the Copenhagen Circles.

The research process sought to obtain evidence on the three main research questions stated in the introduction: (1) how do donors act on risk, (2) why do they act in this way, and (3) what particular risk management practices have proven to be effective? The Copenhagen circles were used as a guiding framework to structure the research and analysis, to focus on specific categories of risk and risk management problem, and to analyse connections between risk categories. Another consideration reflected in the research design was to capture the aid delivery chain linking donors and their implementing partners. This is important in order to understand how risks are managed at each level, how risks and transferred and shared, and to analyse the consequences for aid delivery and impact. Interviews were held with implementing partners (UN agencies, government counterparts, international and local NGOs) to cover this dimension.

The four full case studies were researched through the following steps:

- Initial scoping exercise based on a literature review
- Distribution of a project summary and indicative questionnaire to key informants prior to the country visit.
- A one week visit to the capital city of the case study country (Somalia donors were interviewed in Nairobi).
- For each case study 15-20 interviews were conducted in country with bilateral and multilateral donors (see Table 2), implementing partners (NGOs, UN agencies and private companies), as well as some government representatives where access was possible. Donor interviewees were selected to ensure a good spread between donor organisations, although in practice sampling was affected by availability of donor staff. Implementing partners were selected on the basis of recommendations from their funding organisations.
- A multi-donor workshop was held in Nairobi for donors engaged in Somalia.
- Follow up questions and interviews by telephone and email to selected informants to provide a more detailed assessment of interesting risk management practices identified in country.
- Circulation of the draft case study report to the Steering Group, external peer reviewers and key informants in country.
- Finalisation of case study.

The research design enabled a rapid appraisal of selected risk management issues in the case study countries. The research revealed numerous examples of promising risk management practices, which are featured in Section 6 of this report. Evidence on the effectiveness of these practices has been provided where available (for example from evaluation reports), but in some cases such evidence is limited and will need to be backed by further research.

Table 2 – Risk profile and research focus for the case study countries

	Risk profile			Case study focus
	Contextual risk	Programmatic risk	Institutional risk	
Democratic Republic of Congo New Deal Pilot country Main donors studied: UK, Germany, Belgium, UNDP, EU	Severe political risks: weak government capacity, lack of public accountability and limited reform commitment. Ongoing conflicts and humanitarian crisis in eastern DRC.	Programmatic risks created by problematic relationships with government agencies and national NGOs. Substantial risks of doing harm where development projects heighten local tensions.	High security risks in eastern DRC. Working through government systems carries a particular risk of loss of funds through misappropriation, procurement fraud and other consequences of weak PFM. Donors face potential reputational damage through association with a regime commonly perceived to be corrupt and abusive of human rights.	1) Managing and reducing conflict risks. 2) Managing risks associated with working through country systems. 3) Managing security risks.
South Sudan New Deal Pilot country Main donors studied: UK, Norway, Denmark, Netherlands, UNDP, EU,	Political tensions reflecting ethnic divisions and varied experiences of conflict. Serious clashes along the Sudan-South Sudan border in 2012. Several local conflict hotspots within South Sudan. Reliance on oil production and export through the Republic of Sudan leading to volatility in revenues. Shutdown of oil production in 2012.Large influx (500,000+) of returnees and refugees since 2010.	Programme objectives may be underachieved as a result of insecurity, cost overruns, weather related inaccessibility, administrative obstacles and difficulty securing commitments from local partners. Programmes working with government counterparts face high programmatic risks arising from weak capacity and management systems and uncertain government commitment. Substantial risk that development programmes working selectively with particular target groups can exacerbate local tensions and inequalities.	Security problems currently experienced in Jonglei, Upper Nile, Lakes, Unity, Warrap and Eastern Equatoria. Most donor aid is channelled through international NGOs or UN agencies because the fiduciary risks of working through government systems are very high in the absence of well established PFM and procurement systems.	1) Managing contextual risks surrounding the oil shutdown and border skirmishes. 2) Managing risks associated with working through country systems. 3) Managing risks through donor coordination and pooled funding. 4) Donor actions to address the operating risks of NGOs. 5) Need for a more integrated approach to development and peacekeeping.
Somalia	Continued conflict and	Mixed levels of government	Donor involvement is driven by	1) Using country systems and

New Deal Implementation recently launched in May 2013. Main donors studied: Denmark, UK, Germany, Australia, Belgium, Switzerland, Canada, US, World Bank, EU, UNDP	violence, weak capacity and authority of newly established Federal Government of Somalia, limited legitimacy, low accountability, ongoing external interference. Risk of further humanitarian crisis. Unclear relationships between local and national levels, including autonomous regions.	commitment to development and statebuilding, personalised politics, rent-seeking incentives, and extortion all affect programme impact. Weak government systems and lack of engagement with local political systems affect interventions aiming to move from humanitarian to development approaches. Incentives for NGOs to report accurately from the field were restricted by rigid anti-corruption approaches applied by donors.	international security concerns about the need for stabilisation in Somalia. Corruption has become a major issue given concerns about aid money inadvertently funding 'terror' groups. Access and security risks affect programme delivery. Remote management techniques allow continued engagement, but with limited monitoring and evaluation.	strengthened public financial management 2) Managing fiduciary and corruption risks using specialised risk management services 3) Remote aid management systems
Nepal Main donors studied: UK, Switzerland, Denmark, Germany, USAID, JICA, World Bank, Asian Development Bank, UNDP	Efforts by donors to reduce poverty face a range of challenges including a lack of government authority and legitimacy. Efforts to promote social inclusion meet entrenched opposition from elite groups. Continued risk political instability at the national level and violent disturbances assuming different forms in various parts of Nepal.	A poverty reduction focus may not always be consistent with peacebuilding needs. Donor focus on conflict sensitivity may be weakening as conflict memories recede.	Fiduciary risks are judged to be high when working with national partners, both state and non-state actors, at local and national levels. Reputational risks include high profile of corruption and human rights issues in Nepal. These challenges increase risk aversion among donors. Security problems have declined in Nepal, but remain a threat.	1) Grounding strategy in an improved understanding of contextual risks 2) Conflict Sensitive Programming (Basic Operating Guidelines) 3) Using specialised services for risk management (Risk Management Office) 4) Use of Country Systems (Nepal Peace Trust Fund)

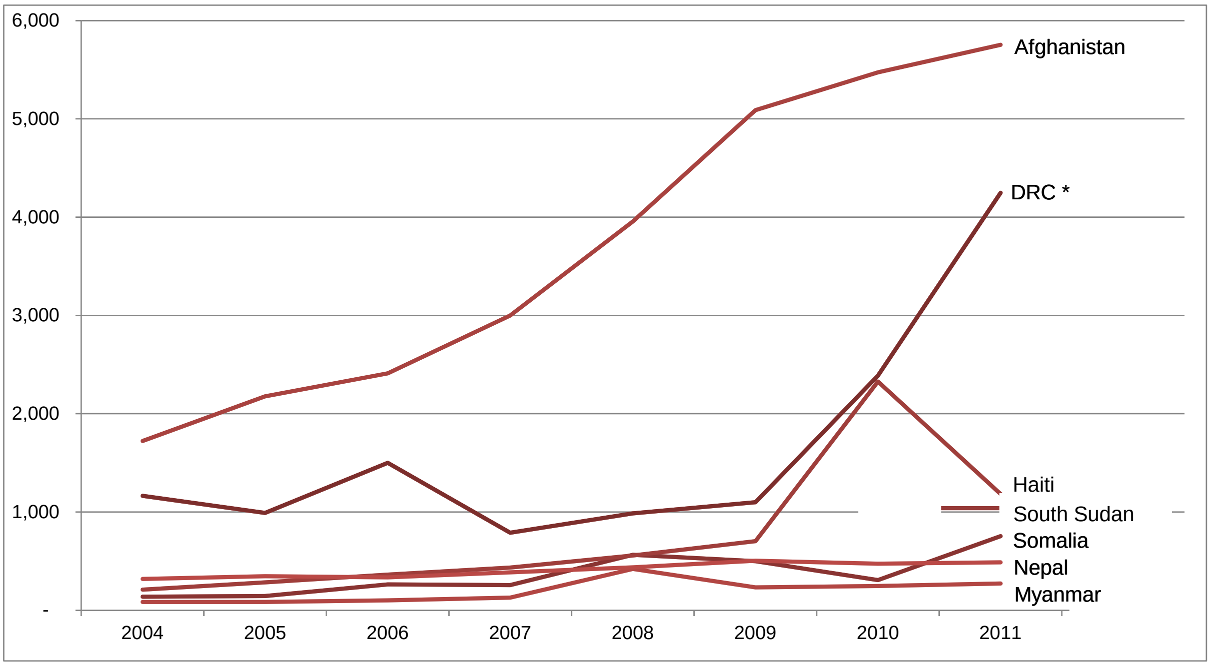
4. Evidence on how donors act on risk

Referring to the first of the three research questions stated in the introduction, this section summarises evidence from the case studies on how donors act in response to various categories of risk. The section assesses broad evidence of the extent to which donors have used the different risk management approaches detailed in Section 2.2 (Table 1) in relation to contextual, programmatic and institutional risk. It concludes with an assessment of how these broad responses to risk have affected the impact of aid programmes.

4.1 Contextual risk

Donors' increasing expenditure in fragile and conflict affected states indicates their willingness to engage in situations of high contextual risk. As shown in Figure 2 all of the case study countries have benefitted from significant increase in foreign aid over the period 2004-11. In all the case study countries, contextual risks have remained high over this period. This indicates that donors are not seeking to avoid the contextual risks of supporting fragile and conflict affected states (or that risk avoidance has lessened over time). Donors have instead consciously chosen to invest greater resources in countries prone to contextual risk. This reflects a combination of development, humanitarian and foreign policy objectives discussed in Section 5.

Figure 2– Aid flows to case study countries 2004-11 – US$ millions (net disbursements ODA)



OECD DAC aid statistics table 2A

* Note DRC figure for 2011 includes debt relief. Without debt relief net ODA to DRC in 2011 was $2.29 billion

As indicated in Table 1, donors have engaged in various strategies to *mitigate* contextual risks. There has been a focus on initiatives aimed at reducing contextual risk in the long term by promoting statebuilding and peacebuilding (evident to varying extents in all countries), supporting disaster risk management (most evident is Haiti and Somalia), and encouraging economic reforms that increase resilience to macroeconomic shocks (evident for example in proposed New Deal commitments in South Sudan).

In devising strategies to mitigate contextual risk, donors have needed to weigh up a variety of guidance on appropriate strategies to reduce conflict and fragility. This includes the state-building literature that emphasises the need to restore core state functions,[10] the 'good enough governance' literature that focuses on issues of prioritisation, sequencing and achievable next steps,[11] and the post 2011 World Development Report focus on `best fit' solutions tailored to local context. Approaches are also grounded in perceptions of the failings of previous work in fragile states, and recognition of the need to avoid overloading programmes and setting unrealistic statebuilding goals. In spite of this experience, there is still considerable uncertainty about the efficacy of alternative strategies for statebuilding and peacebuilding, especially in situations where power is exercised through informal institutions, and where elite incentives are not aligned with long term development goals.

As discussed further in Section 4.2, donor strategies to reduce contextual risk require interventions that carry high programmatic and institutional (mainly fiduciary) risk. Consequently, donors' focus on these areas has varied between countries. Donors have often preferred lower risk programming in fragile and conflict affected states leading to a strong focus on humanitarian programmes and direct service provision (often provided by NGOs rather than government service providers).

Contextual risk has also been mitigated by selecting and designing programmes in ways that are less likely to be thrown off course by adverse contextual risk outcomes. This in part explains the preference towards direct service delivery and humanitarian support. Such programmes are less likely to be affected by changes in the political environment, especially where they are delivered by non-state actors. However, they often lack transformative impact in terms of building national systems and institutions.

Within this general depiction of approaches to managing contextual risk, there is much variation between countries. There are some examples of donors adopting a focused approach to statebuilding and peacebuilding with the aim of reducing contextual risk in the long term. This is most evident in countries with a higher risk of state failure where donors have prioritised the need to ensure the basic functions of government and have financed civil service salaries. This has been undertaken in Afghanistan and Somalia, and is being discussed in South Sudan in relation to New Deal arrangements. State security expenditures have also been financed in Afghanistan and Somalia through non-ODA channels. In South Sudan and Afghanistan this approach has been accompanied by a strong focus on building formal state institutions, including the large scale provision of technical assistance embedded within ministries. While these approaches aim to reduce contextual risk factors in the long term, they are also highly exposed to near term contextual risk outcomes, for example a political or security crisis. Donors funding such

[10] OECD (2011),Supporting Statebuilding in Situations of Conflict and Fragility: Policy Guidance, DAC Guidelines and Reference Series, OECD Publishing.doi: 10.1787/9789264074989-en

[11] Grindle, M. (2011) "Governance Reform, The New Analytics of Next Steps", *Governance: An International Journal of Policy, Administration and Institutions*, 24(3)

operations need to demonstrate *acceptance of contextual risk*, as well as tolerance of the high programmatic and fiduciary risks that are also involved.

In several cases the existence of high contextual risks appears to have dissuaded donors from direct support to state institutions. The DRC case study documents a trend towards reduced support to institution building projects in government, and an increasing focus on direct service delivery. This appears to reflect donors' lack of confidence in government reform commitments, and concerns around the conduct of the 2011 elections. In Myanmar, political reforms have encouraged greater donor engagement in the country, but direct support to state institutions has so far been limited given continued concerns over the political change process (see also Section 5.2).

In several cases (DRC, Somalia, Afghanistan, Haiti and Nepal) donor governments and the UN have supported concerted efforts to establish stable governance through elections or other means. Donors have also offered technical assistance to ministries and at times funded government salaries. In Nepal, for example, donors have taken risks in promoting more inclusive governance, addressing discrimination and empowering disadvantaged groups (see Sections 6.1 and 6.2). However, in some cases (DRC for example), donors have not engaged widely in supporting accountability, inclusiveness, state-society bargaining and a more stable political settlement.

Donor programmes in the case study countries have generally followed relatively conventional approaches to statebuilding focussed on strengthening formal institutions. There has been a tendency to focus on more immediate stabilisation goals and restoring basic state functions. While this is often an overriding priority, there are risks in following this approach, especially where power is exercised through informal institutions (e.g. networks of patronage), where states lack legitimacy, where elites do not share statebuilding and peacebuilding goals, and where human rights are violated. This highlights the complexity of the statebuilding and peacebuilding agenda, and the need to balance objectives of restoring state authority against concerns about public accountability, inclusiveness, human rights, gender, justice and democratic governance. Striking the right balance is very difficult and requires deep contextual understanding and sensitivity to the complexity of the statebuilding and peacebuilding agenda.

All of the case study countries provide examples of targeted conflict reduction and stabilisation programmes aimed at directly reducing conflict risks. Most commonly these are individual programmes or components of programmes, but there are also some large scale multi-donor initiatives, such as the proposed revamped International Security and Stabilisation Support Strategy (I4S) in eastern DRC. However, some weaknesses in the management of conflict risks are also evident in most case study countries. In most cases, conflict risks were addressed through separate programmes rather than through a peacebuilding strategy mainstreamed across the country programme as a whole.

There are also questions regarding the geographical and sectoral focus of donor programmes. For example, in South Sudan and Nepal the bulk of donor funding has not been focussed on the most conflict prone parts of the countries at the time of research, and in DRC some interviewees suggested that donors should be more engaged in critical sectors for conflict reduction, in particular land and natural resources management. Some of these examples indicate the tensions that donors often experience between considerations over where it is best to work from a growth and poverty reduction perspective, and where resources need to be invested for conflict reduction. There are risks inherent in unequal aid distribution where this generates perceptions of regional and ethnic disadvantage.[12]

4.2 Programmatic risk

Programmatic risk varies greatly according to the types of programme that donors decide to fund. Some programming choices are relatively low risk in the sense that they are likely to achieve objectives and unlikely to do harm, while other programming choices are inherently risky. The case studies provide evidence on the level of programmatic risk embodied in donors' programming choices.

There is evidence from several case study countries of donors tending to avoid funding interventions with high programmatic risk. This was evident in DRC, South Sudan, Myanmar and Haiti, where there has been a preference for funding direct service provision and humanitarian assistance, usually delivered by non-state actors outside of government systems. These programmes have generally sought to meet immediate social development objectives, and have given limited attention to promoting systemic change, policy and institutional reform required for lasting improvements in service delivery and government performance. Addressing these areas requires donors to take on significant programmatic risks because donor support to reform and systems building can easily be undermined by weak political commitment and weak capacity within government. In DRC there appears to be a rather limited (and probably declining) focus on strengthening government functions and capacity. In South Sudan donor support to government on institutional strengthening has also been quite limited, but this may change as a result of New Deal commitments. In Myanmar programming outside the sphere of humanitarian support and international NGO service provision has so far been limited because opportunities to work directly with government have until recently been extremely constrained.

These examples indicate a common tendency by donors to *avoid programmatic risk*. However, there are many exceptions where donors have *accepted higher programmatic risk*. In Afghanistan donors have been heavily engaged in supporting the core functions of government through large scale institution building programmes and payment of salaries. These programmes have had mixed results and have revealed problems of fiscal sustainability, civil service overstaffing and underperformance, indicating the high programmatic risks of ambitious statebuilding programmes. In Somalia, where aid has so far mainly been directed at humanitarian relief, some donors are providing assistance to the new government as part of wider international backing and recognition. This includes the payment of salary costs and support for core government functions. There is a similar pattern in South Sudan where donor support to government (including payment of salaries) appears likely to increase significantly under the New Deal. In DRC there are some examples of higher risk programming choices. For instance, DFID has funded police reform, Belgian Technical Cooperation is engaged with institutional development programmes for the Ministries of Rural Development, Agriculture and Education (see Section 6.6), and several donors are preparing to support public financial reform through a pooled fund. In Haiti, post-earthquake humanitarian support is giving way to an increasing emphasis on institution building needs, as exemplified by Canada's support to police and customs and tax reform.

[12] There may also be a concern that focusing more aid on conflict prone areas rather than the peaceful ones can be perceived as rewarding violence, creating perverse incentives and possibly fuelling tensions in areas which are relatively peaceful.

The case study evidence revealed some cases of *risk sharing* and *risk transfer* in relation to programmatic risk. Multi donor funding arrangements have often been used in cases of high programmatic risk, for example institutional strengthening programmes in Afghanistan (funded under the Afghanistan Reconstruction Trust Fund), the proposed payment of civil service salaries in South Sudan (Partnership Fund) and Somalia (Special Financing Facility), and PFM reform programmes in DRC and Somalia. In such cases risks are spread between donors, who would share losses if programmes failed to achieve objectives. The management of these programmes is often entrusted to multilateral donors, who may be in a stronger position to bear and manage programmatic risk (see Section 5). Such arrangements enable bilateral donors to support programmes with higher programmatic risks, and to transfer risk management responsibilities to the multilateral partner. Bilateral donors obtain a degree of cover from multilateral funding, although risks are not fully transferred, and the bilateral donor remains ultimately responsible for ensuring that its resources deliver development results.

4.3 Institutional risk

Fiduciary risk. The case study evidence indicates a strong tendency by donors to *avoid fiduciary risk*. Bilateral donors subject to high level of domestic public and parliamentary scrutiny are particularly concerned about such risks, which in some cases threaten their ability to continue operating in a particular country. One donor in DRC described corruption risk as an “existential risk”. In Somalia a corruption case led to all Danish assistance being halted for six months in 2009.

Avoidance of fiduciary risk clearly influences choices on aid modalities. In DRC, South Sudan and Haiti donors (bilateral donors in particular) are generally reluctant to channel funds through country systems, and instead work mainly through trusted partners: particularly international NGOs and specialised UN agencies. However, in Afghanistan and Nepal the use of country systems is significantly greater, albeit subject to significant donor controls. In Somalia there is also increasing willingness to devise ways to fund government operations (including army and civil service salaries). Other studies also support the finding that donors’ aversion to fiduciary risk has held back their use of country systems. One recent study found that “donors tend to give more weight to risk factors than to the potential benefits of using country systems.”[13]

Donors also face fiduciary risk when they work with NGOs and other non-governmental implementing partners, UN agencies and Trust Fund managers. These risks can most easily be managed where donors are in close contact with their implementing partners. However, donors face significant challenges where they must manage such relationships remotely, and where aid delivery involves a long chain of intermediaries. Amongst the case study countries, these challenges are most evident in Somalia, where security concerns limit donors’ country presence and require donors to use remote management systems. Until recently many donors adhered rigidly to a zero tolerance approach to corruption, which has been criticised by NGOs, as a form of *risk transfer* or *risk dumping* that makes it difficult for them to operate. The Somalia case study documents an instance of an NGO being required to return donor funds following a report of corruption that the NGO itself brought to light. Such experiences tend to discourage open and willing disclosure of incidents where programmes have encountered corruption. Recognising this problem, donors are developing improved approaches to fiduciary risk management in Somalia

[13] OECD (2011), Using Country Public Financial Management Systems, Practitioner’s Guide. http://www.oecd.org/dac/effectiveness/49066168.pdf

that involve greater risk sharing, as illustrated by the UN Risk Management Unit discussed in Section 6.9.

Reputational and legal risks. Reputational risks closely mirror fiduciary risk. In cases where funds have been lost or have been diverted, donors may face reputational and political damage in their home country. This is most apparent where domestic media take a particular interest in donor performance and cases of misuse of funds, a trend that has become more apparent in OECD countries affected by budget austerity. Donors have become particularly averse to fiduciary risk under this reputational pressure.

Donors face particular reputational and legal concerns when operating in territories with sanctioned terrorist groups. This is a particular issue in Somalia where donors stopped funding programmes in Al-Shabab held areas across southern and central Somalia for fear of reputational damage and legal repercussions in the USA and Europe. It is likely that the resulting inaction on the part of humanitarian actors, along with Al Shabab's denial of access to many humanitarian actors, worsened the effects of the 2010/ 2011 famine. Learning lessons from this experience, many donors have since shifted their position to enable continued humanitarian access to vulnerable populations while working jointly with implementing partners on managing risks in a more flexible manner.

There is currently a similar issue in eastern DRC where the US government has placed the M23 rebel group on a terrorist list. This has raised questions as to whether US funded programmes can continue to operate in M23 areas. They would be in violation of the sanctions regime if any of their funds were to reach M23, even where this occurred inadvertently or in cases of extortion.

Donors are particularly concerned about avoiding reputational risk in their home country. The case studies indicate that there is typically less concern about their reputation in the beneficiary country. However, in Nepal donors' reputation has been challenged following a backlash from established elites, who have complained that donors risk destabilising the country by promoting more affirmative approaches to social inclusion and low-caste rights. Recognising the need to mitigate the risk of further reputational damage, donors have somewhat modified their approaches by continuing to promote an inclusion agenda, but in a more sensitive and low profile manner. Local sensitivities also prompted USAID to waive its normal approaches to publicity and branding in Somalia. In Haiti the reputation of the international community has been tested by local frustrations about the slow pace of reconstruction, and public anger about cholera infection (likely brought to the country by UN peacekeepers).

Security risks. There are enormous variations in security conditions between and within the case study countries. Consequently approaches used to manage security risks vary greatly. The case studies identified several examples where security problems have limited access to the field on a temporary or longer term basis (for example, parts of North Kivu province in eastern DRC, Jonglei State in South Sudan and large parts of Somalia).

In general donor agencies are strongly averse to exposing their own staff to insecurity. Strict security protocols often limit ability to travel. This applies particularly to Somalia and to parts of DRC. For example, USAID staff have not been allowed to visit North Kivu province in DRC for the past 12 months. Donors are able to continue working in these areas through implementing partners, who are typically more accepting of security risks. Implementing partners are able to continue operating by mitigating security risks through a variety of practices including building community acceptance, maintaining high mobility, withdrawing temporarily during security crises, sharing information on security conditions and incidents, and applying different security protocols to local and international staff. In broad terms implementing partners appear to manage local security risks effectively, and are able continue working in insecure zones. However, they certainly face a significant cost in terms of deaths and injuries to staff, and disruptions to their ability to access project areas.

These practices have led to a debate on the extent to which donors have *transferred or dumped security risks* on their implementing partners, and whether in turn international NGOs have transferred security risks to local NGOs, who operate at the front line in insecure zones. While the burden of security risks fall heavily on implementing partners and local staff in the case study countries, it is doubtful whether this amounts to unfair risk dumping.[14] More likely this simply reflects the varying acceptance of security risk by different partners, and their ability to work safely in the field.[15] Interviews with implementing partners in the case study countries indicated that they generally do not perceive a problem of risk transfer (they accept security risks as part of their development or humanitarian mission), but they are concerned that donors need to recognise more fully the risks faced by implementing partners, and should afford them sufficient flexibility in programme delivery to keep their staff safe.

4.4 Consequences of risk responses for the impact of aid programmes

The case studies provide some indications on how donor responses to different categories of risk are affecting the impact of aid. Some general findings emerge, which point to a common tendency for donors to avoid:

- Fiduciary risk (and related reputational risk) which has made donors reluctant to channel funds through country systems where there is a significant danger of funds being lost through corruption and embezzlement.
- Programmatic risk which has tended to result in relatively safe programming choices (direct service delivery and humanitarian support) that limit the extent to which donors engage in supporting systems building, institutional strengthening and policy reform.

The avoidance of fiduciary and programmatic risk tends to limit donors' support for higher risk activities that are necessary to support statebuilding, peacebuilding and economic reform that in turn help to reduce contextual risk over the long term.

A large body of evidence (e.g. OECD's Peacebuilding and Statebuilding Guidance) indicate that these higher risk areas can help reduce contextual risk over the long-term and offer substantial benefits. However, the evidence from the case studies suggests that donors often avoid investing in these areas as a result of their risk management practices (and aversion to programmatic and fiduciary risk). This is likely to reduce the impact of aid over the long term.

Some examples from the case studies suggest that higher risk interventions aimed at supporting statebuilding and peacebuilding have the potential to deliver significant development impact. For example, the payment of salaries to government workers in South Sudan and Somalia could deliver significant benefits in terms of stabilisation and assuring basic state functions which will

[14] Wille, C. and Fast, L. (2013) Operating in Insecurity, Shifting patterns of violence against humanitarian aid providers and their staff (1996-2010), Insecurity Insight, http://www.insecurityinsight.org/files/Report_13_1_Operating_in_Insecurity.pdf This paper argues that the increased number of attacks against aid workers mainly reflects the increase in humanitarian programmes in insecure zones rather than a transfer of security risks from one party to another.

[15] Some NGOs reported that their local staff felt safer than other local residents because they had better access to security information, mobility and communications.

be essential for future development. The limitations to institution building programmes in Afghanistan are clearly apparent, although in broad terms there is a strong case that they have helped to strengthen the capacity and resilience of government institutions.

The case studies also highlight several ways in which donor risk management practices may undermine aid impact. Donors' reluctance to channel funds through country systems as a result of fear of corruption or misuse, is understandable, but risks doing harm over the longer term by undermining government institutions. When donors establish parallel systems for aid delivery they often draw human resources and skills out of government systems, heighten problems of institutional fragmentation, weaken systems of public accountability, and make it harder for government to implement coherent policies and a unified budget.

Donor responses to security risks also have consequences that affect the impact of aid programmes. Limitations on donor travel to the field make it difficult to monitor the performance and financial systems of implementing partners, and hinder donors' analysis of contextual risks and shifting local political and social dynamics. In these conditions it is more difficult to manage fiduciary, programmatic and contextual risks, and aid impact is likely to be reduced. As discussed in Section 6.9, some of these issues can be partly addressed through measures to enable 'remote working' (as has occurred in Somalia).

5. Explanations of donor responses to risk

The previous section identified a variety of donor responses to different categories of risk. This section analyses the variety of factors that affect donor responses to risk. These relate in particular to global policy trends, the political economy of donor organisations and donors' operational practices. These drivers tend to push donor approaches to risk management in different directions resulting in the significant variations observed between donors and country contexts.

5.1 Global policy trends and the New Deal

Increased donor engagement in the case study countries can be viewed as part of a global policy trend leading to increased focus on the needs of fragile and conflict states. This reflects the changing policies of individual donors, the policy work of global fora such as OECD-DAC, the organisation of fragile and conflict affected states under the G7+ grouping, and international commitments to the New Deal backed by high profile international meetings such as those covering South Sudan (April 2013) and Somalia (May 2013). There is a widespread recognition that state fragility and collapse carries unacceptable humanitarian, development and international security costs. Increasingly, the risks of inaction are being viewed as exceeding the risks of engaging in fragile and conflict affected states. This broad shift in understanding is an underlying driver of increased donor engagement in fragile and conflict affected states, and increased acceptance of the high contextual, programmatic and institutional risks of operating in these countries.

5.2 The political economy of donor organisations

Donor response to risk is shaped by the incentives facing individual staff and the organisation as a whole. Some of these incentives arise from external pressures acting on the organisation, while others relate to internal management pressures, career incentives, and the organisation's own risk culture.

The case studies and evidence from other literature suggests that donors' attitude to risk is heavily influenced by broader foreign policy and international security concerns. Donors appear to be more willing to fund interventions with higher programmatic risk in countries that are viewed as strategically important. These include: Afghanistan, which has been subject to long term NATO support;[16] Somalia, which is the focus of international efforts to contain terrorism and piracy; and South Sudan, which has received western backing in its secession from Sudan. In

[16] In Afghanistan there has been increasing alignment between development programming and broader security and military strategy. The 2009 McChrystal Strategy for NATO's International Security Assistance Force (ISAF) emphasised the need for greater focus on "responsive and accountable governance" as an essential element of stabilisation and counter-insurgency .As a result, both development and military actors have moved towards a greater focus on building state legitimacy and capacity. This has encouraged development agencies to work through country systems and to emphasise Afghan leadership. There is an increasing focus on statebuilding, including governance initiatives at local level in conflict affected zones.

these countries donors appear more willing to engage in challenging and high risk statebuilding activities, to work through country systems, and to set aside concerns about fiduciary risk. Following political reforms, there is also intense international interest in Myanmar. However, donors have only increased aid at a modest pace and have limited their engagement with government.[17]

Contextual factors within aid receiving countries can also affect risk tolerance. Donors appear to be more willing to make riskier programmatic choices when there is an immediate challenge (for example an upcoming election) or a risk of state authority breaking down. For example, in South Sudan fiscal austerity following the oil shutdown prompted donors to look for ways to finance the salaries of health and education workers who might otherwise leave their posts if salaries are unpaid. It is also likely that a recent or ongoing humanitarian emergency may affect donors' tolerance of certain types of risk. Donors are willing to finance humanitarian programmes in situations of very high contextual and programmatic risk because of their life saving imperative. However, fiduciary controls over humanitarian providers remain very strict. In eastern DRC and South Sudan development programming has grown out of large scale humanitarian support drawing on many of the same service providers and donor networks. This may have enabled donors to start longer term development programming in areas that might otherwise be considered too unstable. In Haiti, however, the massive international response to the 2010 earthquake has not yet resulted in greater tolerance of the risks of using country systems. Instead, the massive inflow of funds for relief and reconstruction was mainly channelled through NGOs, UN agencies and contractors. This may have been harmful to government capacity because the earthquake response was largely planned by external actors, and many government staff left to join relief and reconstruction agencies.[18]

In all of the case studies, donors appeared to be heavily influenced by political and reputational pressures in their home countries. Strong domestic scrutiny of aid programmes through the media, parliament and public voice appear to be one of the main reasons why donors are particularly wary about fiduciary risks and working with country systems.

Several donor interviewees also suggested that risk management practices are influenced by the increasing emphasis on the delivery of measurable results and value for money. This makes it more difficult for donors to support programmes with high programmatic risks (e.g. institution building programmes) where results are not assured, may not materialise over the duration of the programme, and are inherently difficult to measure. It has tended to encourage lower risk programmes involved in direct service provision, where programmatic risks are lower, results can be achieved more quickly and benefits are more easily measurable. The relative weakness of the evidence base on the long term impacts of statebuilding and peacebuilding programmes makes it difficult to present a strong results and value for money justification for such programmes.

Pressure on donors to achieve disbursement targets can also affect risk management decisions. The urgency of meeting spending targets might encourage donors to set aside risk safeguards. However, it is also possible that spending pressure results a tendency to stick with familiar programming models and disbursement channels making it more difficult for donors to devote staff time to more experimental and high risk initiatives.

[17] See also section 4.1. External pressures, including the influence of the Burmese diaspora, and concerns about ethnic conflict are part of the explanation for this wariness.

[18] OECD (2011) *Rapport 2011 sur l'engagement international dans les états fragiles: République d'Haïti.*

These incentives vary between donor organisations. Several staff of multilateral donors interviewed for this study commented that they are more able to take on fiduciary and programmatic risk because they are less directly accountable to taxpayers. There are also differences between bilateral donors depending on the extent to which they are subject to domestic public scrutiny, and their historical and political ties to the beneficiary country.[19]

5.3 Operational practices

Risk management is affected by several aspects of donors' operational practices. Key issues observed during the case study research are highlighted below:

Aid instruments. Most aid instruments are subject to long programming cycles, lengthy preparation lead times, and project management and monitoring frameworks that limit the flexibility to adapt to changing conditions. This creates particular challenges in fragile and conflict affected states where modular, incremental and adaptive approaches are often more suitable than large, long-duration and inflexible programmes.

Where donors cannot adjust their approach rapidly to changing conditions, there is a risk that portfolios can become misaligned with contextual risks. In DRC the EU's 10th National Indicative Programme under the 10th European Development Fund was programmed in 2008 at a time when optimism following the first Presidential election spurred engagement in an ambitious institution building agenda. Disappointing results and a loss of donor confidence in government's reform commitments have caused the EU to rethink its approach. However, the lengthy funding cycle under EDF procedures will not allow new programmes to be established until late 2013.

These constraints vary by instrument, and there are often opportunities within programmes to respond flexibly to changing conditions. Humanitarian programmes that are funded over a one to two year cycle also enable greater flexibility, and can be blended with longer term development initiatives. In eastern DRC, DFID has shown flexibility in enabling the Tuungane programme to switch between developmental and humanitarian activities in response to local conflict dynamics (see Section 6.4).

Several donors have been experimenting with specially designed, fast disbursing instruments that are intended to enable a flexible response to changing contextual risks. Section 6.4 features several examples, including the EU Instrument for Stability and the US Transition Initiatives for Stabilisation in Somalia. While offering more flexibility, such short-term initiatives may struggle to address underlying challenges that can only be addressed over longer periods.

Aid coordination. A key issue experienced in several case study countries is the variability of donor coordination. Effective donor coordination can help donors to manage risks by strengthening their collective voice and influence over government, facilitating the sharing of information on risks, and enabling the pooling of resources and expertise for risk management. Weak donor coordination on the other hand is very likely to increase risks faced by individual donors. In the absence of a common approach, donors lack collective influence, and donor programmes are likely to work at cross purposes – thereby increasing programmatic risk. The case study evidence found that the quality of donor coordination varied between countries. In

[19] For example Belgium's long experience of development programming in the Democratic Republic of Congo may explain its willingness to work with government in support of institutional strengthening in contrast to the approach of some other bilateral donors. DFATD's focus on institutional strengthening programmes in Haiti also reflects its long country experience and sectoral expertise.

DRC many donors admitted that donor coordination had been weak, but expressed optimism in the creation of a new Donor Coordination Group. Afghanistan provided an example of much stronger coordination around a highly developed pooled funding mechanism (the Afghanistan Reconstruction Trust Fund, see Section 6.5). There is evidence of increased fragmentation in some case study countries, which has been driven by the increased number of donors and volume of their assistance. In South Sudan a recent aid inventory counted 419 planned projects for 2012/13 compared to 331 in 2011. Furthermore, the average project size has fallen from US$ 2.8m in 2011 to US$ 2.2m in 2012/13.[20]

[20] Republic of South Sudan (2013) *Donor Book*, Ministry of Finance and Economic Planning. www.goss.org

6. Risk Management Practices

The case studies revealed numerous examples of specific practices, tools and instruments used by donors to manage risks. This section discusses these practices under ten headings and assesses their strengths and weaknesses. Each of these practices is relevant to the management of contextual, programmatic and institutional risk, as indicated in Table 3 below:

Table 3 – Risk management practices and their relevance to different categories of risk

Risk Management Practice	Relevance of each practice to managing categories of risk		
	Contextual risk	**Programmatic risk**	**Institutional risk**
1) Improving understanding of contextual risks and building a strong country and regional knowledge base.	**Risk assessment.** Better understanding of contextual risk factors and probability and severity of contextual risk outcomes. **Risk mitigation**. Informing the design of state-building, peacebuilding and other transformative programmes aimed at reducing contextual risk.	**Risk assessment**. Understanding how contextual risk outcomes may adversely affect programme performance (i.e. link between contextual and programmatic risk) **Risk mitigation.** Adjusting programme design to make them less vulnerable to be interruption in the case of contextual risk outcomes.	**Risk assessment.** Understanding how contextual risk factors fuel conflict and how this affects security risks facing donor and programme staff.
2) Mainstreaming conflict sensitive programming	**Risk mitigation**. Finding ways to design and implement programmes in ways to help to reduce socio-economic and political tensions, and so contribute to peacebuilding.	**Risk mitigation**. Inclusion of safeguards in programme design to avoid doing harm	**Risk mitigation.** Efforts to reduce social tensions amongst programme beneficiaries may reduce reputational risks to donor organisations and security risks to aid workers.
3) Finding synergies between development, humanitarian and peacekeeping work	**Risk mitigation**. More effective peacekeeping can reduce conflict risks	**Risk mitigation.** Presence of peacekeepers reduces the risk of losing access to insecure zones. Combining the expertise of security and development professionals reduces the risk of the failure of SSR and DDR programmes.	**Risk mitigation**. Presence of peacekeepers can reduce security risks for aid workers (but many humanitarian organisations employ strict rules limiting cooperation with peacekeepers).
4) Using fast disbursing and flexible instruments in combination with longer term	**Risk mitigation**. Enables more rapid response to changing contextual risk factors and outcomes.	**Risk mitigation**. Greater ability to adjust the country portfolio to address programmatic risks linked to changing context.	May lead to increased fiduciary risks if due diligence checks are hurried.

development programming.			
5) Using pooled funds to share risks	**Risk assessment**. Donors can pool expertise for better understanding of contextual risks **Risk mitigation**. Donors can respond in a more coordinated manner to contextual risk outcomes.	**Risk mitigation**. Reduces risks of multiple donor projects working at cross purposes. Strengthens donor leverage over government. **Risk sharing.** Programmatic risks of pooled funds are shared between contributing donors	**Risk mitigation**. Enables donors to combine resources in support of more effective fiduciary controls. **Risk sharing**. Potential fiduciary losses shared between donors.
6) Adopting an incremental approach to using country systems	**Risk mitigation**. May contribute to statebuilding by strengthening critical PFM systems.	**Risk mitigation**. Avoids risk of doing harm by undermining government institutions through the establishment of parallel systems for aid delivery.	**Risk mitigation**. Maintaining adequate financial controls can enable donors to mitigate fiduciary risks while progressively increasing their use of country systems.
7) Building confidence between donors and government by using transition compacts and mutual accountability frameworks under the New Deal	**Risk mitigation**. Aims to strengthen government commitment to delivering on statebuilding and peacebuilding goals.	**Risk mitigation.** May strengthen government commitment to create conducive conditions for programmes to deliver on objectives. Strengthens donor commitment to improving coordination and using country systems (see 5 and 6)	**Risk mitigation**. May strengthen acceptance of donor presence thereby reducing reputational risk. Mutual accountability frameworks may include mechanisms to mitigate fiduciary risks of using country systems.
8) Using third parties to monitor corruption and fiduciary risks, and security conditions	Third party risk management is usually restricted to management of institutional risks.	Third party risk management usually restricted to management of institutional risks.	**Risk mitigation**. More effective and professional management of fiduciary risks. More professional security advice.
9) Developing robust remote management systems where access is limited.	**Risk mitigation**. Avoids the need to stop funding areas experiencing high security risks.	**Risk mitigation**. Enables donors to maintain some control over programmatic risks in spite of the difficulty of monitoring and evaluation from a remote position.	**Risk mitigation**. Removes security risks to donors. **Risk mitigation**. Enables donors to maintain some control over fiduciary risks in spite of the difficulty of direct oversight.
10) Applying more portfolio based approaches to risk management	Enables more balanced approaches to assessing and managing different categories of risk, taking account of the links between these categories and ensuring risk diversification.		

6.1 Improving understanding of contextual risks and building a strong country and regional knowledge base

Good contextual analysis is essential for effective risk management. As indicated in Table 3, contextual analysis can help to improve understanding of the contextual risks and their likely effects on aid programmes. This can assist risk management in four ways: (1) by enabling donors to make informed judgements on whether a country programme is viable in the face of contextual risks, (2) by improving understanding how programmes may be affected by contextual risks, (3) by identifying means to adapt programme design to reduce the impact of contextual risk outcomes, and (4) by identifying opportunities for programmes to promote changes that can reduce contextual risk factors in the long term.

The case studies revealed good examples of contextual analyses that have been used to assess and manage contextual risks. These include conflict assessments in DRC and Nepal, the DFID *Understanding Afghanistan* study, the Government of South Sudan's Fragility Assessment, and donor led scenario analysis in South Sudan. However, many interviewees commented that analysis of country context and contextual risks was inadequate, and donors' understanding was insufficient. Donors often lack understanding of cross-border and regional processes, which are often extremely relevant, for example in explaining conflict in eastern DRC. Lack of country and regional knowledge appears to be a particular problem where donors lack a track record in the country, are subject to frequent staff rotation, do not have local language skills, and are limited in their exposure to country realities. Donor staff often have tacit understanding of contextual risks, but this is not backed by systematic knowledge gathering, documentation and analysis. These problems can be addressed by following a more systematic approach to building and maintaining a country knowledge base over the long term, undertaking structured political economy analysis, and linking this evidence to risk management and programming functions. The following paragraphs describe examples of such processes encountered in the country case studies:

Joint government-donor analyses. The South Sudan case study revealed several examples of valuable contextual analysis. A notable example is the Fragility Assessment, which has been led by government as an initial input into the New Deal. Donors have welcomed the assessment as being a well evidenced analysis of statebuilding and peacebuilding challenges that addresses sensitive issues in a frank manner (for example weak confidence in government, high level corruption and inter-ethnic tensions). The Fragility Assessment is being actively used in discussions surrounding the design of a transition compact (see Section 6.7) and serves as an indicator of government commitment to the process. It demonstrates the benefits of joint analysis as a means to build government ownership, reduce donor duplication, and serve as a common point of reference in discussions about state fragility. However, questions have been raised about the inclusiveness of the process, and the tension between ensuring broad participation and state-society interaction around the fragility assessment, and maintaining momentum in implementing the New Deal. It is also clear that the Fragility Assessment does not fully meet donors' needs as a risk assessment tool, and would need to be supplemented with other evidence sources, including political economy and conflict analysis, in order to inform risk management decisions. In contrast to the South Sudan experience, progress in drafting a Fragility Assessment in DRC has proceeded more slowly, demonstrating the difficulty of ensuring government leadership of the process and the complexity of managing joint assessment processes.

Other examples of joint contextual analysis were encountered in Myanmar and Nepal. The Peace and Development Needs Assessment in Myanmar has offered an opportunity to work with the government on identifying key challenges. Donors have found that this initiative has enabled them to establish better relationships with government counterparts and to develop common principles of working without having to limit their engagement to an agenda entirely defined by the government. In Nepal a multi-donor evaluation of peacebuilding programmes is being undertaken. Both processes have at times required careful wording and selective use of information in order to manage relationships and reputational risks. Such constraints point to the need for both in-house and separately commissioned analytical work in order to provide a full assessment of contextual risks, and to understand country specific complexities and risks associated with statebuilding and peacebuilding programmes.

Donors' own analyses. There are many examples of contextual analysis led by donors, including cases of joint donor assessment. A good example was encountered in South Sudan where following the oil shutdown in early 2012, donors recognised that severe fiscal tightening risked threatening social stability and the functioning of government institutions. Donors responded by analysing contextual risks and potential scenarios. DFID held a joint scenario planning workshop with UNDP, WB and UNMISS. It also identified trigger points that would lead to a particular response in order to ensure it could act proactively. The scenario analysis has since been extended to include longer term thinking about how donors can support resilience in the face of future crises. The analysis has helped to inform programming responses to the crisis. Several donors reported that they have shifted funding towards humanitarian and social support.

In Nepal, many high quality political economy and conflict assessments have been conducted. A strategic conflict assessment carried out by DFID in 2002 suggested that donors were inadvertently channelling aid in ways that deepened social exclusion, thereby contributing to risks of continued conflict. This analysis led to a major reorientation of programmes to work with government more selectively, to support a more affirmative approach to promoting the rights of low-caste and disadvantaged groups, and to focus more on micro-level community development. Following the end of the civil war, political economy analysis focused on new sources of regional conflict, the political economy of growth, and the role of trade unions. Taken together, these political economy studies have helped DFID think through how they could most effectively support an emerging political settlement, economic development and statebuilding without exacerbating conflict risks.

Donors' analyses of Nepal's development and peacebuilding challenges tend to follow an unusually politically and socially grounded line, recognising the root causes of conflict in injustice and inequality, as well as weak rule of law and poor security. Many donors directly draw links between peacebuilding, political representation, and access to development. This enables them to 'mainstream' peacebuilding into their poverty reduction and economic growth interventions. For example, the World Bank promotes 'connectivity' in its recent strategies, linking peace promotion with access to services and transport infrastructure.

In Haiti there is concern that donors' understanding of the country context built up over the long term was not adequately transferred or used during the massive influx of humanitarian support following the 2010 earthquake. Humanitarian agencies arriving after the earthquake were not in a position to draw valuable lessons about local political economy processes that would have helped to ensure that their assistance was better targeted and used.[21]

Similar issues arise in Myanmar where donor experience and contextual knowledge is shallow. Donors face a difficult challenge judging how to respond to the opportunities of national political

[21] This led to poor decision making, for example in the resettlement process and rubble clearance, which was slowed by limited understanding of links between politics and control of land. See Katz, J. (2013) *The big truck that went by. How the world came to save Haiti and left behind a disaster*.

transition, while also dealing with the risks of increasing conflict. Myanmar is affected by a string of long-lasting, low-intensity border conflicts with ethnic minorities, which each require specific responses. For donors, this requires strong localised knowledge of contexts and institutions, as well as a recognition that minority leaders and the wider population in many conflict-affected areas do not regard the government as legitimate. Interviews in Myanmar indicated that donors need to work flexibly, gradually building engagement and deepening their contextual knowledge in order to engage usefully. Aid agencies that have achieved effective work at the ground level in Myanmar or supported positive policy change have long track records of working in the country. They have gradually established a knowledge base and institutional relationships over time. Examples include the international NGO Save the Children and some UN agencies, which have been operating for at least a decade.

Several of the case studies highlighted the challenge of translating good contextual analysis into programming. In part this reflects institutional incentives and blockages discussed in Section 5. It also reflects continued uncertainty about how donors can most effectively work to reduce conflict and fragility. Donors have needed to weigh up a variety of competing guidance on working in fragile and fragile and conflict affected states, and are each influenced by their varied past experience of working in fragile states. In practice, the approaches used by donors to address state fragility vary greatly between the case study countries (see Section 4.1). More evidence is needed on which approaches to statebuilding are more effective in different contexts, and how each can best contribute to reducing contextual risk.

6.2 Mainstreaming conflict sensitive programming

In all the case study countries, donors emphasised the importance of conflict sensitive programming as a means to manage risk and avoid doing harm. In principle conflict sensitive programming provides a means to mitigate contextual and programmatic risks. It should help donors to design and implement programmes that reduce socio-economic and political tensions, and to include safeguards in programme design to avoid doing harm. These principles may also help donors to mitigate reputational, fiduciary and security risks. Aid workers may be less likely to be attacked or their work undermined where they are seen to be improving local livelihoods and incorporating the concerns of potential spoilers.

Conflict sensitive programming practices were found to be well developed in Nepal, but less evident elsewhere. In Nepal donors have established a range of tools for conflict sensitive programming:

- The World Bank and the Asian Development Bank applied peace ‘filters’ to their new projects (see Box 2). These have since been merged with broader governance assessment tools and the standard social and indigenous safeguards employed across their projects globally. ADB also conducted a fragility analysis for its Country Programme Review.
- JICA conducts quarterly Peace-building and Needs and impact Assessments. UNDP works to promote conflict sensitivity in its programme design. The UN has developed a detailed checklist of steps to ensure conflict sensitivity within programmes under its Nepal Peace Fund.[22]

[22] Strategy to Mainstream Conflict Sensitive Approaches , UN Peace Fund for Nepal, November 2012

- Donor agencies including the Swiss Government and UNDP promote staff diversity in order to improve their programmes, considering gender, ethnicity, geographical background, religion and caste in recruitment. Donor and government social statistics are commonly disaggregated along these variables.
- Swiss Development Cooperation (SDC) developed a Fund Flow Analysis following feedback from partners and colleagues. The tool monitors the flow of funds towards targeted receivers and beneficiaries, using the information for project monitoring and steering. The aim is to ensure that funds do not unintentionally flow towards better-connected groups to the detriment of the poorest and disadvantaged.

Box 2 – The Nepal Peace Filter

The experience of the World Bank in Nepal demonstrates some of the challenges encountered when aiming to mainstream conflict sensitive programming. The World Bank developed a tool referred to as the Peace Filter in 2010 designed to ensure that new projects were conflict sensitive. This took the form of a three-stage process of information gathering (including fieldwork in some cases), analysis, and identification of conflict implications. The filter was designed as a process rather than a checklist.

However, some staff reported that they found little added value in the process given their existing levels of knowledge. The process proved time consuming and conflicted with concerns over low disbursement rates in Nepal. This, combined with the World Bank's global drive to streamline procedures, created pressures to accelerate project preparation and to avoid complicating relationships with the Nepalese government. These led to a decision to merge the Peace Filter with the World Bank's wider governance assessment tools, an approach that could enable more strategic conflict analysis, but may also lead to a dilution of the initial aims of the Peace Filter.

The lessons from Nepal appear to be similar to those found over decades of experience attempting to mainstream gender equality into aid programming. Tools, such as checklists and filters, may add value, but will only work when supported by institutional culture and values. Other agencies, including SDC and the UN Peace Fund stress the importance of adopting more structural measures to promote conflict sensitivity, such as staff diversity policies, the use of disaggregated statistics, and prioritising conflict as a high level policy issue.

The Basic Operating Guidelines (BOGs) in Nepal provide a further example of a conflict-sensitive approach that achieved considerable success (see Box 3). The BOGs were introduced in Nepal in 2003 when the armed conflict was limiting operational space for development organisations. The BOGs were developed as a way of ensuring access and staff security by communicating operating principles to all local actors in a clear and comprehensible way. In addition to mitigating security risks, the promotion of the BOGs has provided a reference point for conflict sensitive programming. They are supported by a BOGs office that provides a forum for the exchange of opinion, peer reviews, enhanced context analysis and rapid reaction to conflict incidents. These services are highly valued, but do not replace the need for dedicated staff within individual agencies to manage security risks and promote conflict sensitive programming.

Box 3- The Basic Operating Guidelines in Nepal

- Apply strict security principles and Do No Harm criteria
- Maintain added-value and best practices of endeavours and efforts
- Demonstrate tangible results that justify the presence of development agencies
- Adjust methods of working to minimise exposure and risk, e.g. prevent unnecessary mobility
- Maintain impartial communication contacts and work through local communities and local Non-Governmental Organisations (NGOs)
- Ensure that the positive effects of agencies' presence are highly visible and that agencies are accountable to all stakeholders.

6.3 Finding synergies between development, humanitarian and peacekeeping work

In South Sudan and DRC a recurring theme emphasised by interviewees was the need to strengthen synergies between development/humanitarian programmes and international security/peacekeeping operations. More effective peacekeeping can mitigate several risks faced by donor agencies: (1) contextual risks where peacekeepers successfully prevent or reduce conflict, (2) programmatic risks where the presence of peacekeepers helps to maintain access to beneficiary populations and so reduce the risk of programme interruption, and (3) institutional risks where peacekeeping helps to improve the security of aid workers.

A number of examples of effective linkages between peacekeeping and development missions were noted from the case study countries (see Box 4 on recent progress in DRC). However, many shortcomings remain. These relate generally to perceptions of the poor performance of peacekeeping missions and their weak coordination with development missions. In principle both MONUSCO in DRC and UNMISS in South Sudan are integrated UN missions. However, in practice evidence of integration on the ground is somewhat limited, and opportunities are being missed to use the UN missions in support of humanitarian and development objectives. The challenge is to convert the rhetoric surrounding integrated missions into reality on the ground.

There are many practical steps that can be taken to strengthen the integration of UN missions and their coordination with the programmes of donor agencies. There is a particular need for more joined up working in relation to programmes in support of security sector reform (SSR) and disarmament, demobilisation and reintegration (DDR). These are usually led by the UN mission and play a critical role in statebuilding and peacebuilding. However, they often perform poorly because they are exposed to high contextual, programmatic and institutional risks. These risks could be better managed by drawing on the expertise of development professionals specifically in relation to conflict sensitivity, managing reform processes and promoting alternative livelihoods for ex-combatants. However, the opportunities of joined up working are generally not realised, and there remains a disconnect between the demilitarisation and development agenda. An interesting exception was noted in South Sudan where Denmark is funding a position in UNMISS in the office of the Deputy Special Representative of the Secretary General to work on harmonising the military, political, humanitarian and political agendas. Two issues calling for a joint development and security sector response include pensions for former combatants and supporting demilitarisation more broadly through integrated justice and security sector support.

There is also scope for greater coordination in the sharing of security information. The UN missions provide general security briefings to donors and NGOs, but detailed information is usually not shared. South Sudan presented an interesting case where the UN mission provides some logistical support to aid organisations. For example, the mission organises escorted convoys and County Support Bases, which provide local centres for peacekeeping and aid operations. While some humanitarian organisations strictly separate themselves from peacekeepers in order to maintain neutrality, it appears that many aid organisations in South Sudan do actively use UN logistical support and appreciate the security benefits. However, shortcomings in this support were noted including stretched UN capacity, the slow roll out of the County Support Bases and occasional cases where UN staff have denied aid workers access to safe havens.

Box 4 - More joined up development, diplomatic and peacekeeping initiatives in eastern DRC

The recent security crisis in North Kivu has spurred more concerted action to address conflict risks through a combination of development, diplomatic and military means. Donors have recognised the need to revamp their assistance to stabilisation in eastern DRC and have established a Stabilisation Task Force under the Donor Coordination Group. Jointly with the UN mission (MONUSCO), the Task Force is revising the International Security and Stabilisation Support Strategy (I4S).

On the diplomatic front, donor countries have applied pressure on Rwanda and Uganda over their alleged support to M23. Some argue that this intervention has calmed the conflict and may have contributed to the surrender of Bosco Ntaganda to the International Criminal Court in March 2013. Some countries have also applied direct sanctions against M23 members, although, as noted in Section 4.3, this has complicated aid delivery.

Negotiations led by the African Union resulted in the signing on 24 March 2013 of a new Peace, Security and Cooperation Framework for the DRC and the Region, which sets out mutual commitments of DRC, its neighbours and the international community.

The UN Security Council Resolution of 28 March 2013 has provided MONUSCO with a renewed and more robust mandate. Unprecedented in UN peacekeeping, this includes the creation of a 2,500 strong Intervention Brigade with a mandate enabling it to engage armed groups continuing violence and abuse of human rights "in a robust, highly mobile and versatile manner".[23] This could shift conflict dynamics and risks in eastern DRC, but much will depend on the Intervention Brigade's rules of engagement, capability, contextual understanding, and the level of support by national and provincial authorities, as well as local communities. The Intervention Brigade's ability to perform a peace enforcement and deterrent role has yet to be proven. There are also substantial risks that unsuccessful missions, human rights abuses or collateral damage could alienate local communities and

[23] UN Security Council/ SC 10964, 28 March 2013, Resolution 2098 (2013) Enables 'Offensive' Combat Force To 'Neutralize and Disarm' Congolese Rebels, Foreign Armed Groups

discredit international engagement in DRC more widely.

The Security Council resolution also includes a commitment to renewed engagement in security sector reform and support to a revised and revamped I4S.

6.4 Using fast disbursing and flexible instruments in combination with longer term development programming.

Several donors have developed specific instruments to enable rapid response to changing conflict conditions outside normal programming cycles. These include the EU Instrument for Stability, USAID's Office of Transition Initiatives and the Netherlands Stability Fund. Such instruments create useful flexibility and allow donors to play a more proactive role in responding to changing contextual risks.

The EU Instrument for Stability has recently been used in DRC and South Sudan to fund short term projects (12-24 months) relating to identified urgent priorities. In DRC these have included housing for military families, completion of the introduction of biometric ID cards for the police, support to military justice and an International Alert community reconciliation project. In South Sudan the Instrument for Stability focuses on cross-border reconciliation, the prevention and resolution of conflicts connected to cattle migration, and human rights training for the armed forces.

The creation of the EU Instrument for Stability and its high level political backing appears to have created space for more responsive and high risk initiatives. It fills a gap that cannot be met using normal EDF programming. A recent evaluation found that the existence of the fund has catalysed much greater engagement by EU Delegations in conflict prevention and peacebuilding work.[24] However, the evaluation also noted limitations to the instrument, including lack of expertise within Delegations on conflict issues. The rapid preparation process may lead to hurried and inappropriate funding choices. It is also apparent that on its own the Instrument for Stability cannot address longer term causes of conflict and peacebuilding needs, and must be provided in combination and coordination with longer term development programmes.

Successful risk management, therefore, depends on the ability to combine long term programming grounded in an understanding of contextual risks with the flexibility to respond to particular opportunities, threats and events. One suitable model that meets these requirements is USAID Transition Initiatives for Stabilisation in Somalia (see Box 5 below). UNICEF also combines humanitarian and development mandates, and is able to shift its programming flexibly according to changing local contexts. Flexibility can also be built into the design of long term development programmes. A good example of this is the DFID funded Tuungane Programme in eastern DRC implemented by the International Rescue Committee. This has been able to respond to the M23 rebellion in North Kivu by shifting from developmental to humanitarian programming. It has succeeded in maintaining access to zones at the centre of the conflict, including Rutshuru and Masisi, where other agencies have pulled out. The ability to shift between development and humanitarian activities was built into the programme design from the outset, and the donor was able to respond rapidly and positively to requests by the programme to change its activities. A critical success factor appears to have been the close working relationship

[24] ADE (2011) Thematic Evaluation of European Commission Support to Conflict Prevention and Peace-building 2001-2010. Vol. 1-3. Brussels: Evaluation for the European Commission.

between the donor and implementing partner. Flexibility appears to be better served by collaborative working relationships based on information sharing and joint approaches to managing problems, rather than more arms-length and solely contractual relationships.

Box 5 – USAID Transition Initiatives for Stabilisation (TIS) in Somalia

One example of a rapid-impact, responsive and results-driven programme promoting peace and stability is USAID's Transition Initiatives for Stabilization (TIS) in Somalia. The programme, which has a budget of around $87 million over five years, forges collaborative partnerships and creates a space for interaction between government institutions, the private sector and civil society. Activities are chosen by community representatives in collaboration with local governments. They currently include the construction of government facilities, the provision of fishing equipment, trauma healing workshops, facilities to support peace committees and other measures associated with 'social cohesion'. Effort is made to increase domestic ownership of the programme, removing foreign branding and encouraging government outreach.

The Transition Initiatives for Stabilisation place strong emphasis on the process of engagement, as well as its results. Preparatory work includes scenario planning that addresses the variation of conditions across Somalia, and analyses the potential drivers of change towards a more peaceful environment. Project development occurs through several participatory steps that involve local leadership and the wider community before tenders are issued. Contracting is undertaken openly in order to encourage shared scrutiny and accountability.

6.5 Using pooled funds to share risk

Numerous examples of multi donor pooled funds were encountered during the case study research (see Table 4). The structure of these funds varies. Some are entirely donor financed and managed, while others included significant government involvement, financing and use of country systems.

Table 4 – Pooled funds operating in the case study countries

Country	Pooled Funds	Level of government involvement and use of country systems
Afghanistan	Afghanistan Reconstruction Trust Fund	Ministry of Finance co-chairs the Steering Committee. ARTF funds are provided on budget to finance government's recurrent and development spending subject to donor supervision.
DRC	Stabilisation and Recovery Funding Facility in Eastern DRC	Government required to cofinance STAREC programme.
	Common Humanitarian Fund	Consultation only
	New pooled funds in preparation (e.g. PFMA)	
Haiti	Haiti Reconstruction Fund	Administered by the World Bank and governed by a Steering Committee consisting of government and donor representatives.
Myanmar	Livelihoods and Food Security Trust Fund Three Millennium Development Goals Fund Multi-Donor Education Phase II Fund Myanmar Peace Support Initiative	Limited government involvement. Programme implementation mainly by international NGOs
Nepal	Nepal Peace Trust Fund	Mainly government led. Two thirds of funding provided by government.
	UN Peace Fund for Nepal	
Somalia	Proposed multi-donor Public Financial Management Strengthening Initiative	In support of government's PFM reforms
South Sudan	Multi Donor Trust Fund (2005-2012)	Required Government of South Sudan to manage procurement
	Capacity Building Trust Fund	Government provides strategic direction and requests projects. Fund management by Joint donor team.
	South Sudan Recovery Fund	Government sets strategic direction and requests projects.
	Common Humanitarian Fund	Consultation only
	Proposed Partnership Fund	Being discussed as a New Deal commitment

		under a mutual accountability framework

The literature on the use of pooled funds in fragile and conflict affected states indicates that performance has been mixed. In some cases the use of pooled funds has improved donor coordination, lowered transactions costs and enabled donors to share risks. However, in other cases performance has fallen below expectations with slow disbursements being a key problem.[25] This research also found large variations in the performance of pooled funds in the case study countries. Several pool funds were cited, however, as examples of valuable instruments for risk management (see Box 6 on the Afghanistan Reconstruction Trust Fund and Box 7 on the Capacity Building Trust Fund in South Sudan). Interviewees identified several important mechanisms by which pooled funds enable donors to share fiduciary and programmatic risks. The potential advantages of pooled funding include:

- Transferring risk management functions to specialised management agents (usually a multilateral agency and/or private contractor) better positioned to monitor and control fiduciary risks. The contributing donors share the costs of programme management and are able to achieve economies of scale.
- Putting in place an effective division of labour between lead donors and silent partners. Different donors can perform distinct roles. Multilateral donors are often put in the lead administrative position because of their perceived non-political stance and their better access to government, and expertise in fund management.
- Emboldening donors to fund higher risk programmes. Donors appear to gain confidence when working with others on joint activities. It may also be easier to justify higher risk programmes to domestic audiences (and bear potential losses) when this is presented as part of an international effort.
- Enabling donors to combine their technical and diplomatic resources to ensure that problems encountered during the operations of the fund can be readily addressed and remedial actions taken.
- Ensuring greater collective donor influence in policy dialogue with government. When working through pooled funds, donors are more easily able to articulate a common view and will be in a stronger position to influence government on issues pertinent to contextual risk. A joint approach can also avoid the political risk of donors becoming aligned with different factions in government.

In spite of these advantages, poorly conceived or implemented pooled funds can increase risks for donors and partner governments. The Multi Donor Trust Fund in South Sudan has been widely criticised for unsuitable management procedures that led to considerable implementation delays and damage to donor reputation. A critical problem appears to have been the understaffing of the World Bank administered technical secretariat. The donors contributing to the fund also bear responsibility for demanding excessive and incoherent financial controls, and simply transferring responsibilities to the World Bank without ensuring that suitable arrangements were in place.[26] The government was required to manage procurement using World Bank

[25] DFID (2013) *Pooled Funding to Support Service Delivery Lessons of Experience from Fragile and Conflict-Affected States*

[26] OECD (2011) Aid Risks in Fragile and Transitional Contexts, Improving Donor Behaviour, see Box 2 on the MDTF in South Sudan. http://www.oecd.org/development/incaf/47672264.pdf

procedures, which proved to be unrealistic given its lack of capacity and experience. In addition, the government was initially required to provide large-scale counterpart funds, which grossly overestimated the government's financing capacity. These factors seriously slowed down disbursements from the fund.[27] In practice, the fund did not succeed in helping to share risks and risk management responsibilities. Poorly conceived processes for managing fiduciary risks resulted in very slow disbursements that held back the mobilisation of donor resources.

Another general concern with pooled funds is that the focus on managing fiduciary risk can crowd out attention to broader questions of addressing programmatic and contextual risk. In the case of the MDTF in South Sudan, donors have expressed frustration that the challenges of ensuring the basic functioning of the Trust Fund and integrity of financial controls meant that donors lost perspective on the big picture questions of how the fund was intended to address statebuilding and development needs. Similar concerns are raised in Somalia.

Government involvement in pooled funds creates risks where the government is expected to provide counterpart funding. The Stabilisation and Recovery Funding Facility in Eastern DRC (SRFF), for example, failed to attract much donor support, and is now essentially moribund mainly because the government has not met its financial commitments to support stabilisation under the STAREC programme. However, the Nepal Peace Trust Fund, which is funded two thirds by government, has proven to be a successful vehicle for financing post conflict programmes and strengthening the political process around peacebuilding. A key success factor has been the lead taken by the Government of Nepal throughout the peace process. Donors were willing to play a facilitative role, over time providing additional technical support to build confidence in government's financial procedures. Where donors and the government did not agree on a shared approach (for example over reintegration payments for ex-combatants), the government was able to proceed without assistance from the donors supporting the NPTF.

In most cases donors expressed satisfaction with the performance of pooled funds, although many had experienced start-up problems. Some of the key success factors identified by pooled fund donors included:

- Articulating a clear strategy for the purpose of the fund and its contribution to development, peacebuilding and statebuilding.
- Putting in place a functioning governance structure with a committed steering group representing both the government and donors.
- Ensuring a sense of government ownership of the fund. At a minimum government needs to feel it has a voice in determining funding priorities. Transferring management and financial responsibilities to government should not be attempted too quickly, but it is desirable to develop a medium term strategy for greater use of country systems (see Section 6.6). Requirements for government counterpart funding need to be carefully matched with the government's financing capacity.
- Providing sufficient resources for fund management, fiduciary risk monitoring and technical assistance.
- Considering inclusion of financial incentives linked to reform progress, as is being currently applied to the Afghanistan Reconstruction Trust Fund (see Box 6).

[27] In the early period of MDTF operations (Nov 2007 to June 2009) the fund did not disburse any money. In May 2009 the MDTF held unspent donor contributions of US$270 million. OECD (2010) *Transition Financing: Building a Better Response*, page 61. http://www.oecd-ilibrary.org/development/transition-financing_9789264083981-en

The more successful pooled funds that have these conditions in place have proven to be an effective risk management instrument. Donors are gaining valuable experience on what works in different contexts that should help to avoid some of the failures of the past. The increasing use of pooled funds is helpful from a risk management perspective, but donors will need to move further in this direction. As discussed in section 5.3, aid fragmentation is getting worse in some countries (e.g. South Sudan). Opportunities have also been missed to develop pooled funds in several countries, including DRC, where few pooled funds are currently operating.

Box 6 – The Afghanistan Reconstruction Trust Fund (ARTF)

The Afghanistan Reconstruction Trust Fund (ARTF) was set up in May 2002 to provide a coordinated financing mechanism for the Government's recurrent budget and priority reconstruction needs. Over the past 10 years, 33 different donors have used the ARTF to channel US$ 6.2 billion in support of the 22 Afghan national priorities (figures January 2013). The latest financing strategy (2012-2014) foresees an important increase in contributions from US$1.8 billion spent during the last three year period (2009-2011) to around US$3 billion for the next three year period. Donors have also pledged to increase the share of aid spent through the ARTF Incentive Programme to 10% by 2014 and 20% by 2024.

The ARTF provides both recurrent and investment funding. The Recurrent Cost Window reimburses the government for a certain portion of eligible, non-security related operating expenditure. The Investment Window provides grant financing for national development programmes. The Trust Fund operates through a single account managed by the World Bank. ARTF funds are accounted for as part of the Government of Afghanistan's budget, and managed according to the Ministry of Finance's accounting and cash management arrangements in the Ministry of Finance. The World Bank applies additional financial controls relating to receipts, cash management, disbursement and procurement, and the verification of transactions.

The ARTF has a three-tier governance framework (Steering Committee, Management Committee and Administration), as well as two working groups. The role of the Afghan government has increased over time. Initially, ARTF management was entirely donor driven, but the Ministry of Finance was admitted as an observer to the Management Committee in 2005. Since 2012 the Afghan Ministry of Finance has been a full member (and co-chair) of the Steering Committee.

The ARTF was set up rapidly following the Bonn Agreement as an instrument to finance salaries at a time when resources were urgently needed to finance the operating costs of the interim government. The ARTF was established as relatively short-term framework, but has since evolved and been extended. The ARTF has been favourably reviewed in several external evaluations. Key success factors appear to have been the donors' intense political interest in supporting stabilisation, the lead taken by government in identifying priorities, and the appropriate use of country systems in line with government capacity and supported by donors' own controls and fiduciary safeguards.[28]

The number of donors using the trust fund has increased over the years. It is intended to increase the share of funding channelled through the Incentive Programme, and to link disbursements to progress in implementing the Tokyo Mutual Accountability Framework. Under the Incentive Programme there will be a decline in recurrent cost financing, but this will be offset by increased investment financing linked to progress in the domestic revenue collection and

[28] OECD (2010) *Transition Financing: Building a Better Response*, page 59. http://www.oecd-ilibrary.org/development/transition-financing_9789264083981-en

public finance reforms.

At the time the ARTF was set up, the major focus of risk management was to control fiduciary and corruption risks. The World Bank applied a dual strategy of providing technical and emergency assistance to the government to establish basic PFM systems, and supervising the use of the funds directly using Bank staff and a monitoring agent. The ARTF has thus made use of country systems, but has also been subject to external controls. For the period 2012-14 2,220 supervisory agent site visits are planned. Donors have expressed confidence in these arrangements.

However, the ARTF has not eliminated fiduciary risk. Financial scandals outside the ARTF have also had knock-on effects. The 2010 Kabul Bank scandal led to a crisis in public confidence in the banking system and suspension of IMF loans. Other donors responded to the suspension of the IMF programme by withholding aid, including through the ARTF.

Box 7 – The Capacity Building Trust Fund (CBTF) in South Sudan

The Capacity Building Trust Fund (CBTF) is funded by a Joint Donor Team (Canada, Denmark, The Netherlands, Norway, Sweden and the UK). It is focussed on strengthening public financial management systems (particularly pensions and payroll management) and institutions of public accountability. In this respect it is helping to create the conditions for donors to channel funds through country systems in future.

The CBTF is generally regarded as effective and well managed. It provides donors with an instrument to build capacity in government while limiting fiduciary risk. It has focussed on relevant capacity building needs where government has requested support. There are several aspects of the design of the CBTF that have enabled effective risk management. These include:

- Focus on a limited set of priorities backed by a clear strategy.
- A strong organisational set up with strategic oversight provided by a Technical Secretariat managed by the Joint Donor Team, and specialised financial management provided by a contracted financial management agent.
- A strong sense of government ownership of the fund. The Steering Committee is jointly chaired by the Ministry of Finance and The Netherlands. Co-decision procedures and joint signatures are required.
- Ensuring the relevance of CBTF funded activities by requiring government to identify capacity building needs and to request support from the fund. Government is reportedly enthusiastic about this arrangement which provides it with a leading role in determining priorities, but does not require it to engage in technical and management details.
- Management of procurement by the CBTF according to EU procurement rules.
- A short planning and financing horizon (2 years) that requires regular re-evaluation of programme priorities.
- Experimentation with new types of capacity building initiatives, but rapid shut down of activities that are not delivering.

6.6 Adopting an incremental approach to using country systems

In most of the case studies (especially DRC, Haiti, South Sudan, Somalia and Myanmar) donors make limited use of country systems to deliver aid. Donors are wary of the fiduciary and reputational risks of working with country systems, which are often not well established, function poorly and may be corrupted. These concerns are particularly great in countries whose governments lack broad legitimacy, and fail to uphold human rights.

The present position of donors is understandable, but raises questions about the sustainability of the results of aid programmes and donors' commitment to supporting statebuilding and aid effectiveness principles. The avoidance of country systems creates risks of doing harm by undermining government institutions through the establishment of parallel systems for aid delivery. Government representatives interviewed for this study were critical of donors' reluctance to use country systems, and feel a sense of frustration that donors are not putting aid effectiveness and New Deal commitments into action.

There is broad consensus amongst the donor community that a transition towards greater use of country systems is a desirable long term goal, but there is a lack of a common and coherent view on how to manage such a transition and the risks it entails.[29] Donors often wrongly assume that using country systems entails the rapid adoption of general budget support; whilst, the use of country systems is not limited to a particular aid modality. In practice many intermediate and lower risk options exist to work through country systems. Change is most likely to occur through small and achievable steps that ensure incremental increases in the use of country systems while maintaining safeguards that allow donors to control fiduciary and reputational risk. Innovation is already occurring at this level, but often in the form of separate donor initiatives rather than a coordinated approach. Several examples of interesting practice were recorded during the case study research. Some of these involve preparatory measures to strengthen country systems and build confidence, while others provide means to increase the use of country systems and to transfer responsibilities to government while maintaining adequate fiduciary controls.

Preparatory measures to strengthen country systems

- Embedded technical assistance

  In South Sudan donors have been particularly active in placing foreign technical assistance within ministries. The IGAD Capacity Development/Twinning project has currently placed 199 civil servants from Ethiopia, Uganda and Kenya within central government ministries. Most UNDP staff are also embedded within government. In DRC Belgian Technical Cooperation (BTC) has established Joint Management Support Units (*Unités conjoints d'appui à la gestion)* to support institutional strengthening. These are provided with technical assistance and financial support through programmes that are nationally directed, but subject to joint donor-government financial controls. Where it is well-managed and embedded in government structures, TA can contribute to risk management by strengthening country systems, improving information flows between donors and government, and building mutual confidence. However, there are also risks in the provision of TA, which is often difficult to integrate sufficiently into national

[29] Fourth High Level Forum on Aid Effectiveness (2011), Using Country Public Financial Management Systems, Practitioner's Guide. http://www.oecd.org/dac/effectiveness/49066168.pdf

administration, may create parallel structures, and result in local capacity being undermined.

- Strengthening public financial management

Improved public financial management (PFM), particularly in the area of budget controls, accounting systems, procurement procedures, payroll management and audit functions, are considered to be a prerequisite for donors to use country systems. Donors are supporting major PFM reform initiatives in DRC, South Sudan and Somalia. In Somalia this relates to the urgency of finding ways to finance civil servant salaries in the new government. In South Sudan support from the Capacity Building Trust Fund has enabled the government to strengthen payroll management systems, which has given donors the confidence to discuss financing the salaries of health and education workers through New Deal programmes. In DRC donors have begun to support and finance PFM reform, which will be critical to enabling the use of country systems. A new multi-donor trust fund will focus on strengthening budget execution, accounting functions and audit processes, as well as provincial level PFM.

Incremental arrangements for using country systems

- UNDP Letters of Agreement

In South Sudan UNDP is experimenting with letters of agreement that are a hybrid of its *direct implementation* and *national implementation* modalities. Under this arrangement, recipients of UNDP funds are first subject to a financial management capacity assessment. They then receive a Letter of Agreement that specifies how the funds should be spent. Expenditure is later audited through UNDP systems. It is expected that confidence will grow in channelling funds through ministries that have successfully managed a sequence of Letters of Agreement. UNDP expects that the use of Letters of Agreement will be a transitional stage enabling a move towards national implementation modalities over a five year horizon.

- UNDP Harmonised Approach to Cash Transfers (HACT).

In DRC UNDP is testing a new implementation modality referred to as the Harmonised Approach to Cash Transfers (see Box 8). This enables donor funds to be advanced to national entities subject to previous accreditation, spot checks during project implementation and ex-post auditing. The approach aims to build confidence in the use of accredited partners and to manage fiduciary risk. The system is already being used by other UN agencies. Ultimately it could become a mechanism available to all donors to ensure collective due diligence and limit fiduciary risk.

Box 8 – UNDP's Harmonised Approach to Cash Transfers (HACT)

The Harmonised Approach to Cash Transfers (HACT) is a common operational framework for disbursing funds to implementing partners (NGOs and government partners). The approach underpins the alignment of development aid with national priorities through the strengthening of capacities for management and accountability, but is not a tool for conditionality. The HACT strives to seek both a reduction in transaction costs with partners, and to adopt a fiduciary risk management approach rather than simply avoiding risk.

In the DRC, a high-risk fragile state, four UN agencies started implementing the HACT in the DRC in 2011. UNDP, UNICEF, UNFPA, and WFP opted to implement this approach for the management of their governmental and NGO implementing partners.

The HACT relies on two fundamental assessments ("Macro Assessment "and "Micro Assessment") conducted with implementing partners during programme preparation, to determine levels of risk and capacity gaps of implementing partners. The HACT then employs assurance activities, such as audits and spot checks during implementation, introducing a new harmonised format for implementing partners to request and report on how funds have been utilised.

The Macro Assessment covers both development and financial objectives. With regards to the former, it helps UN agencies and government to identify strengths and weaknesses in the public financial management system that are flagged for follow-up assistance. On the latter, it helps the UN to understand more fully the financial environment within which it is operating. The seven-page Macro Assessment is completed through a review of existing key documentation, such as the World Bank's PEFA and other public expenditure and audit reviews.

The Micro Assessment supports two similar objectives. With regards to capacity development, it reviews the strengths and weaknesses of an implementing partner's financial management system, and includes recommendations to strengthen less robust areas. This information should then be included in the overall capacity development plan of implementing partners. On financial management, it helps the UN agencies identify the most appropriate assurance methods and most suitable procedures for the purposes of transferring funds. In the DRC from 2008-2012 over 250 Micro Assessments were conducted.

Latest figures indicate that the use of HACT is gaining traction in DRC. In 2011 total UNDP expenditures were US$199m, of which $66m was expended via the HACT. In 2012 UNICEF expended US$183m, of which $136m passed through the HACT, and much of this was spent through the health and education ministries.

The adoption of HACT has helped shift the partnership with the UN from a system of verification and control of expenditures to one of facilitating results-orientation and reduced paperwork with the partner. Striving for both results effectiveness and cost efficiencies, the HACT approach for the period 2010-2012 was estimated by UNDP to have led to a reduction of transaction and operating costs in the order of 50%-60%, allowing for a greater portion funds to be shifted in favour of clients and beneficiaries.

Text provided by UNDP DRC

- *Intermediate arrangements towards budget support*.

  The case studies provide numerous examples of donors putting in place intermediate arrangements that provide elements of budget support while maintaining donor's own fiduciary controls. The Afghanistan Reconstruction Trust Fund (Box 6) is an important example in this respect. There has also been progress in Haiti where a number of donors (Spain and EU) are already providing limited budget support, and an IMF led working group is exploring how budget support mechanisms could be scaled up. In DRC the European Union has experimented with a form of budget support where it has reimbursed the DRC government against audited salary payments for teachers. This was provided in 2010-11 as a means to ease budget and balance of payments constraints at a time when public finances and external accounts were strained by the global food and financial crisis. In South Sudan the European Union is planning to finance the salaries of health and education workers on an advance basis subject to later audit. The DRC and South Sudan examples cannot be regarded as budget support because donor contributions are tightly earmarked. However, they do provide a means for donors to fund selected expenditures within the government's budget. Fungibility concerns aside, the audit arrangements provide an assurance that donor funds have been channelled towards the intended purposes.

6.7 Building confidence between donors and government by using transition compacts and mutual accountability frameworks under the New Deal

From a risk management perspective there are important benefits to the use of Transition Compacts and mutual accountability frameworks. They can help mitigate contextual and programmatic risks by strengthening government commitment to deliver on statebuilding and peacebuilding goals, as well as other reforms that create more conducive conditions for donor programmes to deliver on objectives. At the same time they require donors to improve coordination and increase the use country systems, which have important implications for risk management as discussed in Sections 6.5 and 6.6.

The case study research revealed mixed progress in developing transition compacts in the case study countries that are New Deal pilot countries. Greatest progress has been made in Afghanistan where the 'Tokyo Mutual Accountability Framework' sets out mutual commitments of the Afghan government and donor community. On the government side these include commitments to conduct free and fair elections, strengthen the rule of law, enact economic reforms, increase revenue collection and strengthen locally accountable budget execution. Donors have committed to align their aid more firmly in support of national priorities, and to increase the share of aid spent through the Afghanistan Reconstruction Trust Fund (ARTF) to 10% by 2014 and to 20% by 2024.

In South Sudan the New Deal has also generated considerable dynamism, in particular over the past two months since oil production has restarted and donor confidence has returned. [30] The structure of Transition Compact is still under discussion, but there appears to be consensus emerging from the recent Washington meetings around the sequencing of three main instruments: (1) an IMF Staff Monitored Programme, (2) an EU Statebuilding Contract, and (3) a large multidonor trust fund referred to as the Partnership Fund. The compact would represent a commitment by donors to more predictable disbursements in support of national priorities identified in the South Sudan Development Plan. Donors would also commit to increase progressively the use of country systems. For example, both the EU Statebuilding Contract and the Partnership Fund envisage that donors would finance the salaries of health and education workers using government's own payroll systems. The Partnership Fund is also likely to channel donor support directly to state governments and counties through the Local Social Services Aid Instrument. In view of the unpredictable political and economic context in South Sudan, moving

[30] The re-emergence of cross-border tensions following the case study fieldwork, and the threat by the Republic of Sudan to deny the use of pipelines in June 2013 may require further reassessment of risks.

ahead with these proposals will constitute a significant risk. However, there is a widely held view that the risk is worth taking. Donors consider that there is presently a narrow, but important opportunity to promote reform before oil revenues come back on stream. They also consider that the sequenced nature of the proposed New Deal instruments should help to build confidence around an incremental set of mutual commitments, starting with limited and manageable reforms. This sequencing will also allow donors to support the strengthening of country systems in preparation for using these systems more actively to channel funds.

In DRC, by contrast, progress in implementing the New Deal has been slower and has not yet advanced to the stage of preparing a Transition Compact. Government awareness and ownership of the process appears to be limited to the Ministry of Planning. Donors express support for the principles of the New Deal, but consider that their engagement will depend on stronger government leadership.

While recognising that New Deal processes will proceed at different speeds in different places, there appears to be scope to increase the use of Transition Compacts and mutual accountability frameworks as a tool to increase aid effectiveness and strengthen risk management. However, the approach needs to be grounded in local political realities and recognition that donors and governments are subject to complex and differing incentives. Transition Compacts will work best where donors and government can identify common interests in managing risks. These may include, for example, measures to stabilise the economy and increase resilience to shocks, support for disaster risk management, donor payment of government salaries to protect basic state functions and other measures to build state capacity including the use of country systems. Common interests will be less apparent in situations where government is a conflict actor, and where short term political imperatives undermine government's commitment to delivering on development goals. However, well designed Transition Compacts should help to maximise opportunities to build on common interests. These can be best identified using political economy analysis and joint donor-government processes for assessing risks and identifying responses, for example Fragility Assessments.

6.8 Using third parties to monitor corruption, fiduciary and security risks

Specialised risk management units can help pool resources in addressing security, fiduciary and other risks encountered during operational work. Two examples from Nepal and Somalia are covered here (see Table 5 for a comparison of main features):

Table 5 – Comparison of risk management offices in Nepal and Somalia

	Nepal Risk Management Office	**Somalia Risk Management Unit**
Main risks addressed	Security risks to personnel, risks that tensions, violence or threats affect project implementation	Reputational risks related to fiduciary loss.Associated risk of poor coordination
Main purpose	Managing security risks and enabling conflict sensitive local level implementation (from 2003)	Establishing minimum standards of due diligence and identifying problematic or risky implementing partners and contractors (from 2011)

Key agencies	GIZ and DFID – sharing resources across two bilateral agencies	UN Country Team for Somalia
Location	Main office Kathmandu, field staff within existing aid offices outside capital	Main office Nairobi, field teams in Somalia
Operating practice	• Responds to demands from GIZ, DFID and partners • Regular briefings, security and conflict monitoring. • Contributes to wider common donor approaches.	• Responds to demand from UN agencies and donors. • Maintains database of partners / contractors. • Follows ISO 31,000 on risk management. • Supports improved risk management by UN country team
Change over time	As conflict has receded, RMO has moved a focus on conflict sensitive programming. RMO opened field offices in response to demand.	Gathered momentum over time as database established, field teams in place.
Capacity	Small, low-cost team. Reviews warn that further expansion may over-stretch capacity.	Small, low-cost team. Already fully stretched.

In Nepal the GIZ - DFID Risk Management Office (RMO) was established in 2003 during the period of conflict when staff security was a major concern. Initially the office adopted a security-based approach. Over time the RMO has broadened its approach in support of "Safe and Effective Development", a more holistic perspective that includes steps to limit extortion, maintain neutrality and build local support for project activities.

The RMO has always operated by providing advisory support in response to demand rather than by laying down regulations. Following a 2008 review the RMO has switched to a more training and support function.

Evaluations conclude that the RMO has worked well. It receives positive reports from field workers and management, and has adapted over time to changing circumstances. Its proactive, politically aware approach differentiates it from narrower, security-minded risk management. Its relatively informal structure, strong knowledge base (both international and national staff), and reasonable running costs make it a suitable model to adapt for other countries. The RMO also conducts situational analyses of security and associated political problems, working closely with other bodies, including UN offices, bilateral donors and the Carter Center. It conducts these tasks and maintains its field presence at a relatively low cost of roughly Euro 400,000 annually.

While the Risk Management Office has served DFID and GIZ well, it is questionable that a single office could usefully service a greater number of donors. The different administrative systems and requirements of DFID and GIZ created a burden that could have become unmanageable with a greater number of partners. In addition, there are limits to the scope of risk management functions that can be transferred to an external office.

In Somalia the UN Risk Management Unit (RMU) was formally established in October 2011. It consists of a small team based in Nairobi and travelling across Somalia frequently, along with a field team in Somalia that can conduct reviews and assessments in response to demand.[31] The idea of a shared RMU emerged from concerns that limited access to Somalia, and the need to operate remotely was leading to corruption and inefficiency on the part of contractors. The RMU was therefore established with the primary purpose of managing fiduciary risk and monitoring implementing partners.

The RMU maintains an information database of projects and contractors, recording problems that have arisen and sharing them across UN agencies. The database contains details of 1,200 partners involving contracts worth over $450 million. Where problems have occurred, this information enables agencies to ensure that mistakes are not repeated. Rather than simply black-listing local bodies, the RMU aims along with its partners to address the problems and improve performance. It encourages UN agencies to work proactively with ground level implementers when difficulties arise.

Emphasis is placed on risk management training for partners including UN agencies, international NGOs and implementing NGOs to encourage good risk management practice. The RMU adds a coordinating layer to risk management that enhances rather than replaces the in-house operations of aid agencies.

The RMU conducts investigations on request, following up suspected cases of malpractice. It works at different levels of the typical implementation chain in Somalia: UN agencies, INGOs, local NGOs and contractors, and beneficiaries.

In June 2012 the RMU was recognised as a best practice example in the Monitoring Group Report for Somalia. It has also extended its expertise to the UN country teams in Mali, Afghanistan, DRC and Egypt.

6.9 Developing robust remote management systems where access is limited

Several areas of the case study countries are currently too insecure to enable donor access and direct programme monitoring. This issue is particularly important in Somalia, where donors have had to adapt to lack of access by developing systems of remote management. This has stimulated the development of a range of innovative monitoring measures. Examples mentioned by the Common Humanitarian Fund of UN OCHA include:

- Use of satellite imagery to verify construction.
- Encouraging direct feedback from beneficiaries or intermediaries through SMS text messages and social media. This can be used to verify that humanitarian aid has reached beneficiaries, identify where supplies and services have not been received in the aid delivery chain, and to provide a feedback mechanism as an accountability and performance measuring tool.[32]
- Regular use of third-party monitoring. The challenge with third party monitoring is to identify reliable and independent firms willing to undertake regular visits to beneficiary groups in insecure areas at reasonable cost. Even with strong systems for third party

[31] Thanks in particular for information provided by Matthew Leslie, Head of Risk Management Unit, UN in Somalia.

[32] For an example of an SMS feedback programme in Somalia, see Danish Refugee Council SMS Feedback http://somcdrd.org/hif/

monitoring in place, options for management to respond to identified problems are often limited.

- Using audit companies and other bodies to appraise institutional capacity and then taking action to address identified weaknesses with implementing partners.
- Sharing information. In addition to the UN's Risk Management Unit, an informal monitoring and evaluation working group allows for exchanges of information and experience.

International NGOs working on Somalia have also had to adopt remote management methods, for example the case of Médecins Sans Frontières described in Box 9.

The challenges of remote management are spurring interesting innovation that could usefully be applied elsewhere. Yet, remote management is a second best approach to aid delivery and is clearly associated with higher risks. Problems have occurred in Somalia and elsewhere, with funds going astray, staff of implementing agencies targeted by militants, access denied to project areas, and poor programme performance. For example, one donor representative commented that no matter how good satellite imagery had become, it was still impossible to tell whether the water channels dug under an irrigation project were actually being used without a site visit. Weak monitoring and evaluation, as well as little concern over the unintended impact of aid provision on local political dynamics, typifies remote aid provision in Somalia over several decades. However, these risks can often be managed through methods including those described above. When operating remotely or otherwise, good risk management practice involves engaging partner agencies in solving problems that arise rather than simply transferring risk and potential blame.

Box 9 – Remote management methods used by Médecins Sans Frontières in Somalia[33]

On 28 January 2008 three MSF employees working in Somalia were killed by a roadside bomb prompting the withdrawal of all MSF international staff. A remote management system was established, starting with identification of risks and based on new or adapted tools and procedures. The remote management system is based on several key concepts:

- Centralised decision-making. To maximise control over resource flows and reduce the risks to national staff in the field, most resource-related decisions that would normally be taken at field level are instead taken by the Country Management Team (CMT) based in Nairobi.
- Micro-management and cross-checking. The Nairobi CMT is closely involved in project details. Information coming from the field, especially resource-related information, is cross-checked through other sources within and across departments.
- Support and training. Field staff are frequently brought out to Nairobi (and in some

[33] This research was conducted before MSF's decision to close all operations in Somalia on security grounds announced in the press on 14 August 2013 < http://www.bbc.co.uk/go/em/fr/-/news/world-africa-23697275 >

cases sent to Europe) for meetings and training.

Gradually mission culture shifted, and national staff, supported and held accountable by a mixed Somali, Kenyan and international Country Management Team took greater ownership of programme activities. Daily contact, through email, phone and now video, has been applied as standard practice in order to track developments and coach, support and advise field staff. There is a similar level of contact between Nairobi and field logistics staff, particularly around supply management. Financial control procedures are extensive. Staff in Nairobi approve all payments, orders and payroll adjustments. Cash is transferred directly to the supplier from Nairobi using a cash transfer order, increasing the potential for scrutiny.

Success seems to be based on a rigorous and transparent control system and the competence of national staff in the field. Another factor that may be critical to the success of the approach is the pre-existence of MSF programmes in Somalia. National staff in Somalia were already familiar with MSF principles and protocols, and this laid the groundwork for a shift to remote management that may not have been possible without this previous engagement.

6.10 Applying portfolio-based approaches to risk management

Donors usually manage risks within the framework of individual programmes. However, evidence from the case studies suggests that there would be significant benefits to a portfolio wide approach to risk management. This would enable donors to take a broad view of different categories of risk across the portfolio, and the appropriate balance between high-risk investments with potentially transformative impacts, and low-risk investments delivering immediate service delivery gains. This would in some ways resemble portfolio risk management in the financial sector where analysts target an expected return on investment across a basket of investments with different risk and return characteristics.[34]

In principle, a portfolio approach to risk management would enable donors to answer the following questions, which have emerged as being critical issues in the case study countries:

1) Is there a suitable balance between high and low programmatic risk interventions across the portfolio?

2) Is there a suitable mix between long term programmes and short-term, more responsive instruments?

3) Does the portfolio provide a sufficient balance between low risk service delivery and higher risk systems building and institutional development programmes?

4) Have opportunities to promote statebuilding, peacebuilding and other forms of transformational change been missed because of aversion to programmatic and institutional risk?

[34] Although there are interesting parallels between risk management methods used by donors and the financial sector, it is important to stress that donors are looking at a broader and less predictable set of risks. Donor risk management can be expected to be a less precise art than portfolio management in the financial sector for two main reasons: (1) the wide range of overlapping risks faced by donors creates uncertainty, and (2) the results of donor programmes cannot easily be measured in monetary terms (especially for long-term statebuilding and peacebuilding) making it difficult to carry out a risk/reward calculation.

5) What specific risk management mechanisms are being used, how can they be strengthened, and what is missing from the range of tools and approaches for risk management applied to the country portfolio?

The case study research indicated limited use of formal tools for portfolio-wide risk management. One example is Canada's Country Risk Profile and Risk Registers that are close to the model described here (see Box 1 for further details). There is evidence that donors often do informally consider the balance on risks across their portfolio, but this is not formally stated in the country strategy. For example, DFID DRC reported that the majority of its portfolio had been set aside for lower risk service delivery programmes. However, space had been retained for higher risk programmes aimed at institutional strengthening and policy reform. For example, DFID DRC is funding large scale bednet distribution, while at the same time making more strategic investments in strengthening national malaria prevention systems. Similarly, the DFID funded WASH programme follows a low-risk, tried-and-tested approach to water and sanitation. The programme is being extended into higher risk and experimental activities in urban areas. It appears that these decisions were driven by individual sector advisers rather than an explicit analysis of portfolio level risks.

7. Overall findings and recommendations

This study has documented many cases where donors have managed risk well and have developed good practice. However, numerous weaknesses have also been highlighted that indicate significant room for improvement in risk management. This section summarises overall findings on how donors respond to different categories of risk, and provides recommendations on how donors can improve risk management based on the case study examples.

7.1 Findings on how donors act on risk

The case studies have highlighted the varied and complex ways in which donors respond to different categories of risk. In many cases donors have avoided high risk programming choices required to support statebuilding, peacebuilding and other forms of transformational change, and have instead opted for safer programmes concerned with direct service delivery. There appear to be two main explanations: (1) aversion to programmatic risk and pressure to demonstrate short term results and value for money, and (2) aversion to fiduciary risk that has dissuaded donors from using country systems to manage aid funds. These tendencies limit donors' ability to address the challenges of statebuilding and peacebuilding. Furthermore, the avoidance of using country systems creates risks of doing harm by undermining government institutions and public accountability. This demonstrates the important connections and trade-offs between different categories of risk. Essentially donors' aversion to institutional and programmatic risk is making it more difficult to support statebuilding and peacebuilding programmes that help to mitigate contextual risks. Ultimately this is likely to undermine the long term impact of aid.

This finding supports the conclusion of previous studies that "donors are unduly risk-averse in their aid engagement in fragile and conflict affected states."[35] However, the patterns observed in the case study countries suggests that donor behaviour towards risk is more varied than previously assumed. Several examples were found of donors supporting interventions with high programmatic risk, including the payment of government salaries in South Sudan and Somalia, large scale support for institution building in Afghanistan, and increasing focus on institutional reform in Haiti.

Risk behaviour appears to be influenced by numerous factors that push donors in different directions. Risk aversion appears to be strongest where donors face strong domestic reputational and political pressures, where their country knowledge is limited, and where organisational incentives create pressure to demonstrate short term results. Other factors can encourage donors to engage in more calculated risk taking that can enable greater engagement in processes of peacebuilding and statebuilding that are likely to offer greater results in the long term. The most important of these risk enabling factors include: (1) foreign policy, international security pressures and humanitarian imperatives that cause donors to take a greater interest in political stabilisation and institution building, (2) clear appreciation of the risk of increased fragility and state collapse, (3) donor commitments to cross-cutting objectives such as gender equality, justice and human rights, which appear to broaden their perspective beyond short term results, (4) investment in country analysis and knowledge (including appropriate staff training and valuing

[35] OECD (2011) Aid Risks in Fragile and Transitional Contexts, Improving Donor Behaviour, http://www.oecd.org/development/incaf/47672264.pdf

staff's country knowledge), (5) long engagement and experience in the country, (6) risk sharing between donors in the context of pooled funds and other coordinated approaches.

7.2 Recommendations for donors

Because of the diversity of country conditions and donor responses to risk, different recommendations will apply in different contexts. Approaches to risk management need to be guided by a complete assessment of the country context, and informed discussion of the appropriate level of risk across the country portfolio. In many cases donors will need to be bolder in supporting statebuilding and peacebuilding work, and will need to accept the higher programmatic and institutional risks this entails. In other cases they may already be taking on sufficient (or possibly excessive) risk. Effective risk management requires donors to identify these situations, strike the appropriate balance between risks and rewards, and develop strategies for addressing different categories of risk, including the links between them.

The case studies have highlighted numerous practices that can help donors to manage risks more effectively. There will often be scope to transfer good practice from one setting to another, and for donors in one country to reflect on practices used elsewhere. However, it is important to be aware that practices that work well in one context may not be transferrable to other situations. For example, in many cases it will be appropriate to increase the use of country systems, but this may carry unacceptable risks in very weak institutional environments and where government legitimacy is highly contested. This requires donors to avoid universal notions of 'good practice', and to identify and adapt risk management practices so as to provide a 'good fit' based on a detailed understanding of local context.

While recognising the need for context specific approaches to risk management, this study points to a number of recommendations that are widely applicable:

1. **Strengthen the analysis of contextual risks**. Improved understanding of country context can help donors better understand contextual risks, and the opportunities to mitigate these through statebuilding and peacebuilding work. Contextual understanding can also help donors avoid the pitfalls of inappropriate approaches to statebuilding and peacebuilding and avoid the risks of doing harm. To increase their understanding of contextual risk, donors need to invest more in research and analytical work using tools, such as political economy analysis, conflict assessment and scenario analysis. It is equally important for donors to encourage the acquisition and transfer of country and regional knowledge, for example by avoiding rapid staff turnover, ensuring long country presence, upgrading language skills and providing field exposure.

2. **Pilot joint risk assessment methods.** Joint risk assessments provide an opportunity to improve understanding of contextual risks, avoid analytical duplication, and identify common interests in risk management that may be shared between donors and/or governments and donors as in Fragility Assessments required under the New Deal. However, there is limited experience in managing these processes, and in responding to situations where different parties have different interests and priorities. Further donor practice and pilot testing in this area is warranted to determine a shared understanding and common approaches on how to carry out joint risk assessments and ensure adequate follow-up and monitoring. It is recommended to proceed initially

with joint risk assessment on a selective basis where common interests between donors and governments are more likely to be found. Joint risk assessment should be seen as a useful complement, but not a substitute for donors' own analysis.

3. **Require stronger coordination and joint working between development, humanitarian and UN peacekeeping missions**. Shortcomings in coordination between peacekeeping, development and humanitarian programmes undermine the collective impact of international assistance and the ability of international agencies to manage risks effectively. Where such problems arise it will be useful to conduct reviews of coordination between development, humanitarian and peacekeeping actors at country level. The specific areas for review will vary by country, but are likely to include joint working on mitigating contextual risks (including joint actions on security sector reform, disarmament, demobilisation and reintegration) and joint approaches to managing security risks (e.g. sharing information on security risks, policies regarding sharing of services provided by peacekeepers, including transport and logistics, escorting and safe havens).

4. **Adapt aid instruments to ensure greater programming flexibility.** Programming flexibility is essential in fragile and conflict affected states, both to respond to changing contextual risks and to enable experimentation and lesson learning. Recent experience in the use of flexible programming instruments needs to be continued and adopted by other donors. However, short-term flexible instruments will need to be used within the framework of a longer term strategy to avoid the risk of piecemeal and ad hoc programming. Flexibility is also required within programmes to enable year-on-year adjustments in the face of changing contextual risks.

5. **Make greater use of pooled funds to share risk.** Pooled funds offer a powerful means for donors to manage risk collectively and more effectively. However, opportunities to develop pooled funds are not always being taken, and in some cases the fragmentation of donor programmes is increasing. There is a growing body of experience on what it takes for pooled funds to operate successfully and to enable the optimal sharing of risk (see Section 6.5). Key risks to avoid include cumbersome and slow procedures, focussing excessively on fiduciary risk and failing to develop a coherent vision and strategy for the fund. The pooled fund model is appropriate in many aid settings. However, the extent of government involvement in the managing and financing pooled funds should vary according to local capacity and donor confidence in country systems.

6. **Develop country level, multi-donor frameworks for the progressive increase in the use of country systems.** There are numerous models available for progressively increasing the use of country systems while maintaining suitable fiduciary safeguards. Wider and more coordinated adoption of these models will depend on donors engaging in joint analysis at country level on the obstacles and opportunities for using country systems, and devising a common approach for enabling transition to the adoption of country systems. Further support to strengthening local procurement systems and developing effective risk management systems will be essential, including through focus on this area within multi-donor trust funds. Transition Compacts and mutual accountability frameworks required under the New Deal can help build confidence between donors and government on increasing the use of

country systems. Follow-up work to capture and disseminate lessons learned should be undertaken.

7. **Consider wider adoption of third party risk management where this brings access to specialist expertise.** The experience of risk management units in Nepal and Somalia, as well as the services of management agents for pooled funds, demonstrates the value transferring certain risk management functions to professional service providers (in particular the management of fiduciary and security risks). This model could be applied to other aid environments. However, this should not detract from donors' ultimate responsibility for risk management, and the need to ensure coherence between the management of contextual, programmatic and institutional risk.

8. **Develop more robust remote management systems where access is limited.** In practice there will continue to be many situations where donors cannot access the field because of security concerns. In these situations donors will need to fall back on remote management systems. Experience from Somalia suggests that the risks of remote management can be satisfactorily managed, and that systems can be strengthened using innovative ICT practices and third party monitoring. Remote management requires a particular focus on fiduciary risks, but also developing a level of trust with implementing and monitoring partners. Further research and experimentation on remote management systems is warranted.

9. **Develop tools for portfolio-based risk management.** Portfolio approaches to risk management discussed in Section 6.10 could help donors to think broadly about risk categories and to manage the trade-offs between them so as to ensure a better balance of risks and rewards across the country portfolio. There are some existing tools available (for example, Canadian DFATD's country profile), which could provide a basis for more systematic management of risks across donor portfolios and instruments.

10. **Adopt good practice for risk sharing with implementing partners**. Successful aid delivery depends on an appropriate sharing of risk between donors and implementing partners. This is more likely to occur where donors are in close contact with implementing partners rather than in situations of arms-length, formal, solely contractual relations. Rigid, zero-tolerance approaches to corruption can prove counterproductive and may cause implementing partners to conceal fiduciary risk. Donors generally need to be more sensitive to the fiduciary and security risks faced by implementing partners and ready to respond flexibly to their operational needs.

11. **Provide evidence of the results of different approaches to supporting fragile and conflict affected states.** A critical problem that contributes to donor preferences for short term, low risk programming is the difficulty of measuring and demonstrating the results of long term programmes to support statebuilding, peacebuilding and other forms of transformational change. More systematic impact monitoring (including longer term and more indirect impacts) of such programmes would help to strengthen the evidence of results and could shift risk/reward calculations in favour of higher risk programming.

12. **Communicate more effectively with audiences in donor countries**. Political and reputational risks in donor countries could be mitigated through better communication

of the realities and risks of aid delivery, and challenges and rewards of statebuilding and peacebuilding work. This requires donors to move beyond simplified aid narratives that emphasise quick results and service delivery, and to develop ways of communicating risk better to donor accountability bodies (be they legislatures, supreme audit institutions, civil society, etc.). This would require the development of communication tools that help to explain the importance of risk mitigation and the lessons learned.