Chapter 5

Conclusions and recommendations

This chapter sets out conclusions and recommendations for DAC donors in particular, and for the organisations that they fund. It lists five main findings: (1) *Donors are unduly risk-averse in their aid engagement in fragile and transitional contexts.* (2) *Lack of shared risk analysis concepts and frameworks is hampering effective collaboration on risk management.* (3) *The pressure to demonstrate narrowly defined results and accountability requirements is making donors and their implementing partners more risk averse.* (4) *Current approaches to controlling corruption and other fiduciary risks are stifling effectiveness.* (5) *There are not enough collective approaches to managing risk or well co-ordinated donor strategies of engagement. For each of these points practical recommendations are made, mainly concerning the need to establish a risk culture and related processes which encourage appropriate risk.*

We began this study by asking whether international aid donors are too risk-averse in fragile and transitional situations. In other words, are they unwilling to run the kind of programme and institutional risk necessary to deal with contextual risks effectively, or to seize opportunities to promote positive change in these environments?

Being prepared to take greater risk implies a willingness to accept the consequences if things go wrong. The tolerance for error appears to be less than it used to be, and errors are now highlighted. Risk perceptions can only be managed to a limited extent. Part of the answer to this is to involve overseers – from parliamentarians to auditors – in the process of agreeing appropriate risk parameters for these high-risk interventions. We have reviewed some mechanisms (*e.g.* the OTI in the US and START in Canada) where this is already happening, but they seem to be the exception rather than the rule. One of the conclusions of this study is that the question of risk has to be addressed more explicitly and transparently by policy makers *before* any challenges arise, rather than afterwards. This does not mean having policies that contain a high tolerance of risk outcomes; but rather policies that accept a high degree of exposure to risk under certain circumstances, along with appropriate risk parameters and accountability requirements.

One point on which interviewees were unanimous is that a risk-opportunity balance has to be struck: exposure to institutional or programme risk *versus* the opportunity to reduce external risk (*e.g.* by achieving political breakthrough). This boils down to deciding whether the risk of not acting in a particular situation is greater than that of acting. In addition, the risk of a single country not acting is much harder to argue than the risk of a *collective* failure to act (as with climate change). DAC donors could address this through more concerted approaches to risk analysis and risk management.

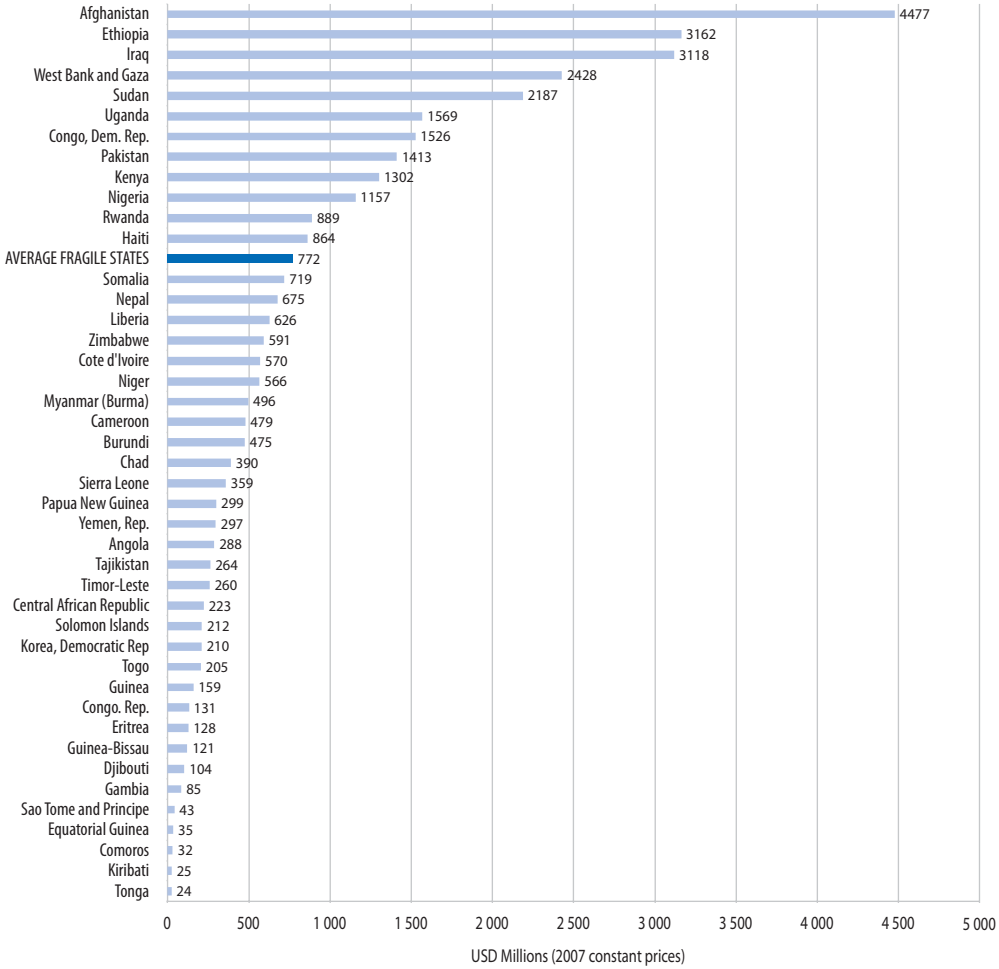
Overall, we conclude that current donor behaviour and systems are too risk-averse, in a range of ways, to achieve the desired results. The specific findings of the study can be summarised in six main conclusions that were found to hold broadly true across the range of donor policies and approaches that we examined, and were also considered true by the great majority of those consulted. These are set out below, along with related recommendations for DAC donors.

1. Donors are unduly risk-averse in their aid engagement in fragile and transitional contexts

Donors tend to be risk-averse in *where* they engage. Although they have been willing to invest large amounts in high-risk environments of particular strategic concern like Afghanistan and Sudan, this has been highly selective (Figure 5.1). Donors also tend to be risk-averse in *how* they engage. Dominant political and security agendas tend to dictate the scale of aid operations

and seem to permit those involved to run more aid risks, but the traditional approaches and standard operating procedures implemented today are often poorly adapted to fragile and transitional contexts, and there are (in practice) few incentives to innovate or otherwise take risks. For more effective aid in situations of transition, donors need to change their individual and collective behaviour, allowing their implementing partners greater flexibility. This requires leadership from the top, a culture of frank and open discussion between managers and staff, and a willingness of senior managers to back (indeed,

Figure 5.1. **The highly concentrated nature of aid to fragile states, 2008**



Source: OECD (2010), *Resource Flows to Fragile and Conflict-Affected States*, OECD, Paris.

to reward) those who take appropriate risks within agreed parameters. Any such shift, however, requires that managers remain confident of their ability to retain sufficient control. The examples of special units (Chapter 3) established by donors to deal with transitional and high-risk environments appear to be an effective way of creating a limited firewall between the institution and its more high-risk activities. At the same time, funding and finance mechanisms need to be adapted to fund such high-risk activities in ways that allow rapid response to the needs of fragile and transitional situations.

Recommendations

a) Establish a risk culture and related processes which encourage appropriate risk

- Donors should review their working culture and incentive structures relating to organisational goals and the behaviour they expect of staff when engaging in fragile or transitional settings.
- Specific risk management frameworks should be developed for fragile and transitional contexts.
- Donors who cannot make exceptions to their standard procedures should create special units to deal with transitional and high-risk environments – or special funds – that are governed by more flexible rules and procedures.

b) Establish appropriate funding and finance mechanisms

- Use more flexible types of multi-donor trust funds (MDTFs) that reduce transaction costs and increase disbursement speed without compromising their essential role.
- Donors need to involve national non-state actors in peacebuilding and statebuilding processes, while at the same time acknowledging that granting funds to national non-state actors comes with higher risk and oversight costs. Funding mechanisms should be structured to support this (*e.g.* by establishing a capacity development window).
- Donors should be prepared to pay the additional costs of managing funds and programmes in difficult environments. Such context-specific costs should be separately budgeted or else covered by an increased overhead budget line.
- Donor leadership and joint planning are needed to allow apparently contradictory strategies (*e.g.* sectoral budget support and direct service provision through NGOs) to be made complementary.

2. Lack of shared risk analysis concepts and frameworks is hampering effective collaboration on risk management

Faced with a multitude of frameworks and inconsistent terms and concepts, it is hard to compare approaches across or even within organisations. This hampers effective collaboration on risk management. Most management frameworks in use are not well adapted to the challenges of managing risk in fragile states. There is some evidence of change here, such as the adoption of specific enterprise risk management and portfolio risk management approaches that attempt to balance risk exposure within and across programmes, but this needs to be extended.

Recommendations

a) Agree on concepts and terminology

- Donors should agree standard defined terms and categories for aid-related risk.
- Documents should distinguish between risk *outcomes* and risk *factors.*

b) Strengthen the use of joint assessment and analysis

- DAC donors working in a given context should aim to adopt common contextual risk analysis tools.
- DAC donors in all fragile and transitional contexts should establish a process of joint contextual risk analysis as a basis for harmonised approaches.
- Risk analysis should be made a more central component of needs assessment, with the link between contextual and response analysis made more explicit in terms of risk reduction.

3. The pressure to demonstrate narrowly defined results and accountability requirements are making donors and their implementing partners more risk averse

Risk-averse behaviour manifests itself in many ways: conservative selection of programme approaches (a mistrust of the unconventional or untested); a tendency to work in "safe" areas where results and full accountability can be ensured; and a tendency to discourage devolution of control and local initiative. If donors are genuinely concerned with outcomes rather than just outputs, this trend needs to be reversed. Current accountability expectations are often unrealistic in fragile and transitional contexts, which can lead to problematic results. There needs to be a more appropriate balance between control and flexibility. Either generic standards need to be applied in more flexible ways,

allowing explicit exceptions to reporting and other requirements case by case; or alternative standards need to be devised for these contexts, allowing for diverse contexts. This requires dialogue and agreement in advance among controllers, programme managers and partner organisations; and adaptation to changing circumstances.

Recommendations

- Objectives and criteria for measuring "success" need to be more realistic. In particular, donors need to reassess the way in which "success" and "failure" are understood in their organisations, and recognise that intelligent, responsive programming may lead to results that are hard to categorise in either way – and that may also be hard to quantify. DAC donors should be less tolerant of "built-in" programme failure.
- Specific frameworks are needed to measure results in difficult environments, including methods that reduce known risk factors.
- Donors' financial procedures should be more flexible in fragile and transitional contexts. Particular attention should be given to the rapid transfer of funds and conditions for disbursement.
- Donors should establish more realistic expectations for the level and detail of financial reporting in fragile and transitional contexts.
- Donors should tailor their outputs and outcomes reporting to the circumstances of fragile and transitional contexts and accept that "full" accountability may be impossible to achieve.
- Better funded and more effective monitoring and evaluation (M&E) methods are needed for fragile and conflict-affected environments. This should include investigating the impact of aid on the wider context.

4. Current approaches to controlling corruption and other fiduciary risks are stifling effectiveness

Zero tolerance policies on corruption are the norm for most donors. But working in fragile contexts inevitably involves a higher degree of exposure to corruption and the misuse of aid. Attempts to control corruption risk through tight, centralised financial controls can unintentionally reduce programme effectiveness. Although delegated control (including spending authority) may expose the institution to higher fiduciary risk, it is often crucial for effective and responsive engagement in volatile and rapidly changing environments.

There is a difference between accepting exposure to risk and tolerating risk outcomes. While operating in these environments may entail a higher degree of exposure to institutional risk than normal, it is still incumbent on responsible organisations to minimise that risk through appropriate risk management measures – including monitoring and investigation of abuse.

Recommendations

- In each fragile state, donors should develop common positions on corruption in order to increase institutional leverage.
- As a general rule, donors should be prepared to run the relatively higher fiduciary risks associated with local procurement to help achieve local economic, social and political benefits.

5. More collective approaches to managing risk are needed, along with better co-ordinated donor strategies of engagement

Whatever the approach of individual donors to risk management, perhaps the greatest risk factor of all is the failure to co-ordinate their strategies. The likely result is collective failure to tackle the main contextual risks that justified the cost of engagement in the first place.

Evidence from Uganda and Nepal suggests that concerted donor approaches to risk management work better than bilateral approaches. While the overall risks of aid engagement probably cannot be much reduced, the exposure of individual donors can be. Donors have increasingly used pooled funding mechanisms like the MDTF for risk sharing. Individual donor exposure to risk is to some extent diluted by these mechanisms, but as currently designed they share many of the same problems as the bilateral mechanisms, with the added complication of having to satisfy multiple stakeholders. Working through trusted partners may reduce risk, although the transfer of risk to implementing partners may simply relocate tensions.

Recommendations

- Donors should maximise their collective impact on contextual risk and facilitate risk burden sharing or the pooling of programme and institutional risk.
- Donors should ensure that pooled funds create greater strategic coherence and shared ownership of a common plan, and are underpinned by predictable and flexible funding.

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