AID RISKS IN FRAGILE AND TRANSITIONAL CONTEXTS

IMPROVING DONOR BEHAVIOUR

SUMMARY OF KEY CONCLUSIONS

1. 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. Current attitudes to aid risks reflect competing demands in the aid and political spheres. Pressure to demonstrate impact and quick results in these contexts is matched by pressure to meet strict accountability and reporting requirements. Meanwhile, standard aid procedures are often slow and inflexible, reflecting a generally risk-averse aid culture.
3. Achieving long-term transformational results demands acknowledgement that appropriate risk taking is essential to effective engagement in these contexts. This requires political backing, together with the adoption of institutional processes and control measures appropriate to the context.
4. The necessary concern with corruption and other fiduciary risks in these contexts needs to be balanced against programme demands and the nature of the contextual risks that aid interventions are designed to tackle. Local procurement is one area where a better balance needs to be struck.
5. Devices for transferring and sharing risk, particularly pooled funding mechanisms, have potential that is not yet being realised. A more differentiated approach to risk management is required, allowing fund managers to balance disbursement risk against opportunity costs.
6. Real progress in this area may depend on more collective approaches to managing risk, a better balance of high- and low-risk forms of engagement, and more realistic mutual expectations between donor governments and their implementing partners.

INTRODUCTION[1]

The subject of aid to fragile and transitional contexts is of growing significance. The past few years have seen increasing international engagement as well as a growing convergence of development, security, peacebuilding, statebuilding and related agendas. From the anarchy of Somalia to the relative stability of Nepal, the contexts of fragile and transitional situations cover a broad spectrum. However, they do share some common features. These are risky environments – for the people who live there, for their governments and for those who seek to provide assistance. Positive outcomes are hard to achieve, and the risk of regression in countries emerging from armed conflict is high.

Standard aid approaches are widely considered inadequate, in part because related instruments and processes are too cumbersome and inflexible.

> *"I urge donors to be bold and innovative in finding solutions that will establish flexible, rapid and predictable funding modalities for countries emerging from conflict."*
>
> - Ban Ki-moon, UN Secretary-General

What seems to unite international opinion is that the risks of failing to engage in these contexts – both for the countries themselves and for the international community – outweigh most of the risks of engagement. Fragile and transitional contexts might present the most significant challenges to peace and development but also hold the highest potential for rewards in terms of achieving positive results. The question is not whether to engage but how to do so in ways that do not cause harm and do not come at an unacceptable cost.

1. The report *Aid risks in fragile and transitional contexts* was commissioned by the Task Team on Financing and Aid Architecture of the International Network on Conflict and Fragility (INCAF) of the OECD Development Assistance Committee (DAC). It is the result of a collaborative effort led by the Overseas Development Institute in London with the Clingendael Institute in The Hague and Peace Dividend Trust in New York. The findings and conclusions have also benefitted from input during a conference entitled Results, Risk Assessment and Management in Development Cooperation – Towards a Common Approach, hosted by the Danish Government in Copenhagen in November 2010. For questions, please write to: *asbjorn.wee@oecd.org*

Aid Risks in Fragile and Transitional Contexts considers risk mainly from an official donor perspective and in that sense presents only a partial view of aid risks. For many of the international agencies (UN and INGO) that implement aid programmes using either official donor funds or their own, risk often has a different meaning – particularly concerning the security of operational staff in conflict settings. While donor attitudes may set the tone, systemic behaviour with regard to risk must be considered as a function of mutual attitudes and expectations within the international aid system.

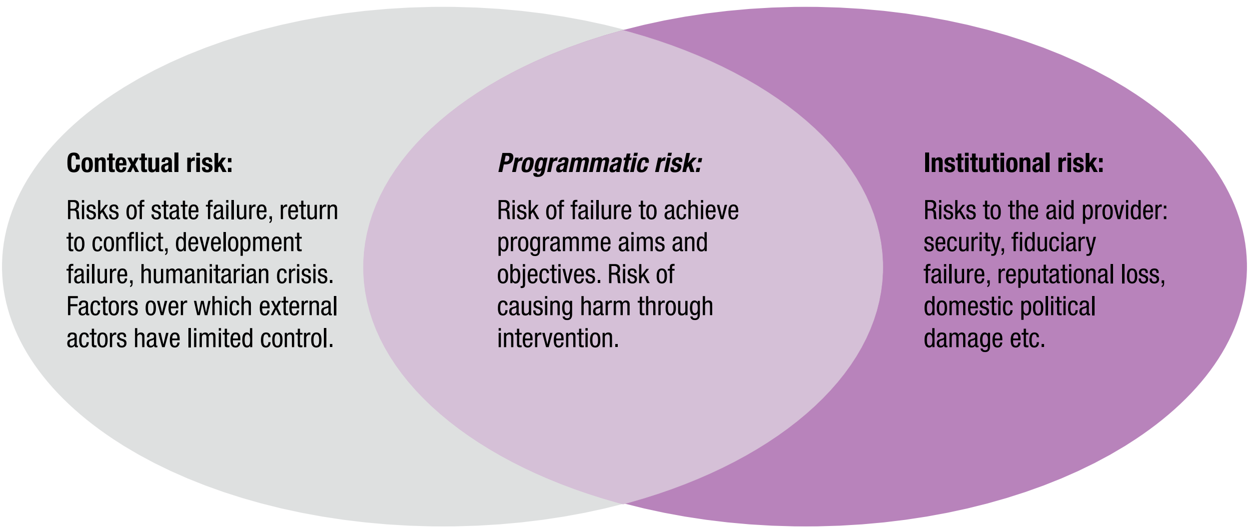
Any wider view of aid risks must of course take account of risk as seen from a country perspective. There is no one viewpoint here: the attitude of a community affected by violent conflict, for example, may be very different from that of a government ministry or military authority. Attempts to harmonise and align international policy must be mindful of these differences.

UNDERSTANDING RISK

Risk can be expressed as the possibility of future harm – where harm is taken to mean any undesired event or outcome. All statements about risk involve propositions about the (uncertain) future. But to say that a venture is risky can mean a number of different things: that there is a risk it may fail, cause harm to those who engage in it, cause harm to others and so on. We have to ask: risky for whom, how, and to what extent? Two aspects of risk in particular are often considered in setting priorities for action: the likelihood (probability) of an event or outcome occurring, and the likely severity of its impact.

In discussing risk in this context, a distinction can be made between contextual, programmatic and institutional risk (see figure 1).

Figure 1. Conceptual framework: Related spheres of risk



Aid risks are taken to be the combination of programmatic and institutional risks. *Risk management* consists partly of the attempt to reduce exposure to the most serious risks by identifying, monitoring and tackling key risk factors. But risk management is not just about risk reduction or avoidance: it involves balancing risk and opportunity, or one set of risks against another. Risk management should be seen as an enabling process, not simply as a precautionary one. Aid effectiveness in these contexts may demand a significant degree of risk taking.

While the logic of risk management applies to all three spheres of risk above, attempts to reduce risk in one sphere may be at odds with attempts to reduce it in another. A balance must be struck between control and flexibility.

KEY TERMS

RISK	The potential for an adverse event or outcome to occur
RISK FACTORS	Those factors that may cause the risk event or outcome to occur, or make it more likely
RISK OUTCOMES	The adverse outcomes themselves

DILEMMAS OF MANAGING AID RISKS IN FRAGILE STATES

The idea that risk-taking is essential to a successful enterprise is commonplace in the commercial sector but less so in the aid sector. Much of donor risk management is focused on avoiding institutional risks such as major corruption (fiduciary failure) or political scandal. But too exclusive a focus on reducing or avoiding risk can lead to perverse results: the more risk-averse the approach, the narrower may be the range of achievable goals. Indeed, the ways in which risk reduction is pursued – for example by imposing tight reporting requirements or tough financial controls – may frustrate the very objectives of the enterprise. Low institutional risk may come at the cost not just of programmatic risk but of strategic failure.

This tension gives rise to a number of dilemmas related to the aid effectiveness agenda. One such dilemma concerns national ownership and accountability. Most national partners in fragile and transition situations lack the human and institutional capacity to take on full responsibility for recovery or transitional aid programmes once the acute humanitarian phase is over. A gradual approach is generally required, expanding responsibilities as capacity increases. There are risks inherent to this process, given the reduced level of control over aid. But clearly there are risks in states failing to achieve a successful transition, in such a way as to build confidence in the capacity of the government and the governance of its institutions.

Growing demand for donors to be accountable to their own tax payers has increased focus on results chains (input – output – outcome – impact), results-based management and reporting, and monitoring and evaluation (M&E) systems. One of the paradoxes here is that in order to demonstrate good practice, donors may consider that they need to by-pass the central element of the aid effectiveness agenda – i.e. national ownership.

The pressure to demonstrate results appears to be making donors more risk-averse. Yet successfully engaging in high-risk environments requires risk-taking, flexibility, innovation and a willingness to risk failure. These expectations are difficult to reconcile and they raise tough questions for policy makers and managers. How to ensure adequate confidence that aid is used well without imposing stifling controls and conditions? How to avoid the moral hazard that could result from reducing control and scrutiny?

The answer lies partly in greater honesty and transparency about exposure to risk between donors and those they fund; and partly in more realistic conversations between managers and financial controllers – and between donors and their implementing partners – about the parameters within which aid interventions in these contexts can realistically be conducted and accounted for. Too often, those on the front line of programme delivery are faced with irreconcilable demands.

APPROACHES TO RISK IN CURRENT DONOR POLICY: EMERGING PATTERNS

While most donors have, since 2001, shown an increasing strategic interest in fragile states, few have developed approaches to risk that are specifically geared towards working in fragile and transitional contexts. Most acknowledge that the policy tensions identified above, exacerbated by the fact that development decision-making and financial procedures tend to be slow and cumbersome, reduce the scope for flexibility and responsiveness. Some acknowledge that the normal rules need to be interpreted with a degree of latitude in fragile settings. Some rely heavily on humanitarian mechanisms which are better adapted to such demands, but these are by definition restricted in their application. A few have established specific financial and programme mechanisms for engaging in such contexts (generally under a stabilisation rubric) that allow for much greater flexibility, quicker decision-making and devolution of control (Box 1). But these currently account for only a small fraction of the aid funds allocated to these contexts.

Aid channels

One observable pattern in donor practice concerns the choice of funding channels and instruments. Increasing pressure to account for public expenditure and a growing intolerance of corruption have led to a particular aversion to fiduciary risk among development actors. Few things are more feared than a bad audit, whether from internal or external controllers; and this is true of both donor bodies and their implementing partners to whom this concern is passed on. In this light, the perceived risks associated with typical developmental modes of funding – general budget support in particular – are judged by most to be too high in fragile and transitional contexts. Concerns about corruption, weak governance, lack of absorptive capacity and the political risks associated with transitional regimes, lead most donors to choose other channels. While there is some donor support for government-led, sector-wide approaches and technical assistance even in the more unstable contexts, many donors prefer to fund projects and programmes implemented by trusted UN, NGO or commercial partners.

Box 1. Examples of financial and programme mechanisms for engaging in fragile states

The US Office of Transition Initiatives (OTI) was established by USAID specifically to deal with risk issues – i.e. to operate in contexts where standard development approaches would be too limiting. The OTI has its own budget account with special authorities that allow immediate spending where it is most needed and an innovative contracting mechanism that preserves the principle of competition while allowing quick start-up in new countries and direct grants to small, indigenous organisations.

The Peacebuilding and Stabilisation Unit in the Netherlands Ministry of Foreign Affairs is responsible for policy formulation and implementation for fragile and conflict-affected situations. Two key elements enable the Unit to act quickly and take risks if necessary: 1) the unit has direct access to its own central funds – the Stability Fund containing ODA and non-ODA funds, and the Reconstruction Fund; and 2) a fragile states strategy supported politically and backed by Parliament.

The Afghanistan Task Team in Denmark was set up to ensure the involvement and buy-in from a broad group of actors, namely representatives from Foreign Affairs (development, security, political), Defence and other relevant ministries, civil society and the private sector, as well as a special group in Parliament. This allows for a joint risk assessment and development of a joint risk management strategy, as well as the ability to make exceptions to the general rules and regulations which increases flexibility.

The Canadian Stabilization and Reconstruction Task Force (START), an inter-departmental mechanism, was established to enhance Canada's ability to produce timely and co-ordinated responses to international crises and to act as a catalyst for whole-of-government humanitarian, stabilisation and reconstruction efforts. START has direct access to the Global Peace and Security Fund (GPSF) which is administered by the Foreign Affairs ministry, while finances are drawn from a governmental account (the International Assistance Envelope). The Fund's activities are regularly reviewed by a whole-of-government oversight committee, which encourages a joint approach towards risk assessment and management.

The preference for project aid can be seen as a risk management approach, involving both retention of a degree of control by donors and a transfer – or at least sharing – of aid risk with the implementing agency concerned. In practice, donors and their implementing partners have quite different perspectives on risk sharing. While most donors express the view that channelling funds through, a UN agency, for example, allows for shared programme and institutional risks, implementing agencies tend to feel that donors simply transfer risks. When problems arise, the implementing agency is held publicly accountable – and so bears a high degree of reputational risk. In other words, there is no truly "collective" approach to risk.

In recent years, new forms of risk transfer and risk sharing have involved pooling donor contributions in designated funds. The preferred pooled funding model in transitional contexts – the Multi-Donor Trust Fund (MDTF) – is seen in part as a way of overcoming the problems of bilateral budget support and of sharing risk, but it has proved problematic in practice, perhaps most strikingly in the case of South Sudan (Box 2). This again appears to be partly a result of irreconcilable expectations. Fund managers are expected both to provide watertight fiduciary guarantees and to be able to disburse large amounts in relatively short time frames in the absence of the normal assurances on the part of those they are funding. Adapted models involving separate UN and World Bank funding windows with different risk parameters (as used in International Reconstruction Fund for Iraq) could help overcome some of the problems involved. But donors have to accept that there are trade-offs.

Donors need to acknowledge the true costs of doing business in fragile contexts. Standard overhead rates tend to be used – i.e. those applied to normal development situations – even where it is clear that the costs of managing a programme in a given context are in fact much higher, especially in an insecure context. This relates not just to the higher costs to maintain adequate security arrangements, but also higher operational costs in terms of programme delivery, monitoring and reporting. Again, greater transparency and honesty is needed here. Implementing agencies have to be clear and realistic about what is needed (for example, to manage an MDTF) and should spell out the required capacity, time and actual costs. Donors for their part should be willing to pay reasonable project-related overheads where they are justified. Detailing any higher-than-normal management and running costs in the project budget, rather than simply including standard overhead rates, would help to make these costs more transparent.

Box 2. Pooled funding in Southern Sudan: The MDTF-SS

The MDTF Southern Sudan (MDTF-SS) has been highly criticised for its slowness to disburse funds and its lack of results. This is an example of the limitations created by unrealistic donor expectations, and by fiduciary rules and regulations that are too strict.

In the case of the MDTF-SS, the World Bank was appointed by the donor community to act as the Fund's trustee, as it was felt that the Bank's fiduciary rules and regulations would provide the best guarantee against corruption and misuse of money (a very real threat in post-Comprehensive Peace Agreement Southern Sudan). However, it is partly due to the preconditions and safeguards requested by the donors that there have been serious delays in Fund disbursement. The donors, nevertheless, have been competing to brand the Fund a failure and to attribute blame for that failure to the World Bank.

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Box 2. *Continued*

The World Bank did indeed make major mistakes in setting up the Fund and its operational facilities; but blame cannot simply be assigned to the Bank. The Bank has not been able to allow for more fiduciary risk-taking because its Board (made up of the same donors that criticise its performance in Southern Sudan) does not allow easing up on the fiduciary rules and regulations. Board representatives are usually staff from Ministries of Finance/Treasury Departments, whose perspective is different from that of the donor representatives that deal with fragile states issues.

To make things more complicated, donor representatives at field level are usually less risk-averse than their counterparts at Headquarters. With all these different perspectives, there is a great risk of miscommunication, misconception and varying levels of expectation.

Setting objectives, measuring results

A further characteristic of current donor practice concerns setting objectives and measuring results. Here the main issue lies in the tension between ambition and reality. Donors' tolerance of aid risks seems to depend largely on the strategic priority given to a particular context and on the perceived potential of a particular aid intervention to contribute to wider strategic objectives (peace, statebuilding etc.). The result is that implementing partners tend to overstate what they can achieve in this regard and to understate the time and resources it will take to achieve it. Donors seem to encourage this. Because contribution to these "meta-results" is so hard to measure, and the risk factors are so high, apparent failure to achieve the anticipated results is easily explained away. Donor tolerance for this kind of "built-in" risk of programme failure is too high, creating false expectations about what can be achieved through aid. On the other hand, donors are surely right to encourage ambitious programmes even where there may be a relatively high risk of failure if the stakes are high enough and the proposed approach offers the best prospect of (at least partial) success.

Risk-taking in these contexts generally involves a relatively high tolerance of failure to achieve objectives, but one of the issues that arose consistently in the course of the study was the question of what constituted a successful intervention. This is often a matter of opinion and individual judgement. To give an example, one of those interviewed for this report cited donor support for the attempt to set up ten enterprises in Afghanistan run by women. Of these, eight were in fact established – but the project was deemed to have failed. When judging the success of more intangible objectives such as capacity building or peacebuilding, the verdict become even more subjective. There are related problems as to the timeframe in which results are measured, the indicators against which they are measured and the extent to which contribution to a wider outcome can be gauged with any degree of certainty. Perhaps "measurement" is simply the wrong term for intangible objectives: it can only ever be a matter of judgement based on proxy indicators of success, making the question of cost-benefit (and risk-benefit) hard to determine with any certainty.

Risk cultures

Another observable pattern among donors is that organisational cultures discourage appropriate risk-taking because incentive structures are stacked against it and instead tend to encourage risk-averse behaviour. Most of the interviewed donors stated their desire to foster innovation, initiative and appropriate risk-taking by staff members; yet few could claim that such behaviour was rewarded in practice. On the contrary, conspicuous failure tended to mean being "hung out to dry" by managers, other departments or political leaders. Success, particularly in relation to wider meta-objectives, was often much harder to identify and might not be apparent for years, giving little professional incentive to the staff involved. Interviews also found the same to be particularly true of the culture in many UN bodies and the World Bank, where "playing it safe" is the dominant approach. These questions of tolerating and encouraging risk taking and setting organisational incentives are crucial – as is the question of political protection for those expected to take risks on the organisation's behalf.

This report finds that building an appropriate risk culture involves a number of elements:

- A defined structure and system of oversight in which risk can be appropriately managed, allowing relevant decisions to be delegated or taken by senior management, as appropriate. This may require prior agreement by a board or minister, defining limits above which their explicit approval is required. Bottom lines may be defined but should not be so restrictive as to inhibit appropriate action.
- A system of regular reviews of institutional risk, with senior managers accountable for managing risks. A culture of open and regular discussion of institutional risks is needed between line managers and their staff.
- Incentives put in place for appropriate risk-taking – and removal of disincentives. Whatever risks are licensed are likely to need political and institutional protection and support.
- A similar culture needs to be fostered between donors and their implementing partners.

Corruption and procurement

Corruption is frequently identified as one of the key risks for donors providing funding to fragile states, both as a harmful outcome in its own right and as a risk factor for other outcomes. The term "corruption" can refer to official corruption, e.g. in the form of bribery or embezzlement; or it may be used in relation to corrupt practice by organisations or individuals in the aid chain. A distinction is made between the latter and taking or diverting aid resources unrelated to those involved in the aid delivery chain.

Donor policy is highly risk averse with regard to corruption, yet increased exposure to corruption risk is a feature of engagement in fragile and transitional contexts. Donors need to accept that they will be more exposed to such risks in these contexts, and adapt their control measures accordingly. Acceptance of heightened exposure to corruption does not imply acceptance of corruption itself. In other words, donors appear to accept a high degree of risk through exposure to corruption in certain circumstances but seek to manage this risk in many different ways. Different contexts and different forms of corruption present what could be called different "risk profiles" – and the way corruption risks are managed depends in part on the nature of the trade-offs with other risks. In reviewing the practice of local procurement of goods and services, this report considered some of the trade-offs, in particular the tension (noted earlier) between the desire to invest in local institutions and the need to control the use of aid funds. There is little doubt that local procurement in fragile states tends to be more prone to corrupt practice than in more stable states; but local procurement can also bring immediate and tangible benefits to the local economy and livelihoods. Indeed, bypassing the local private sector risks bypassing a key opportunity to help build stability and sustainable growth – integral to encouraging independence from donor support.

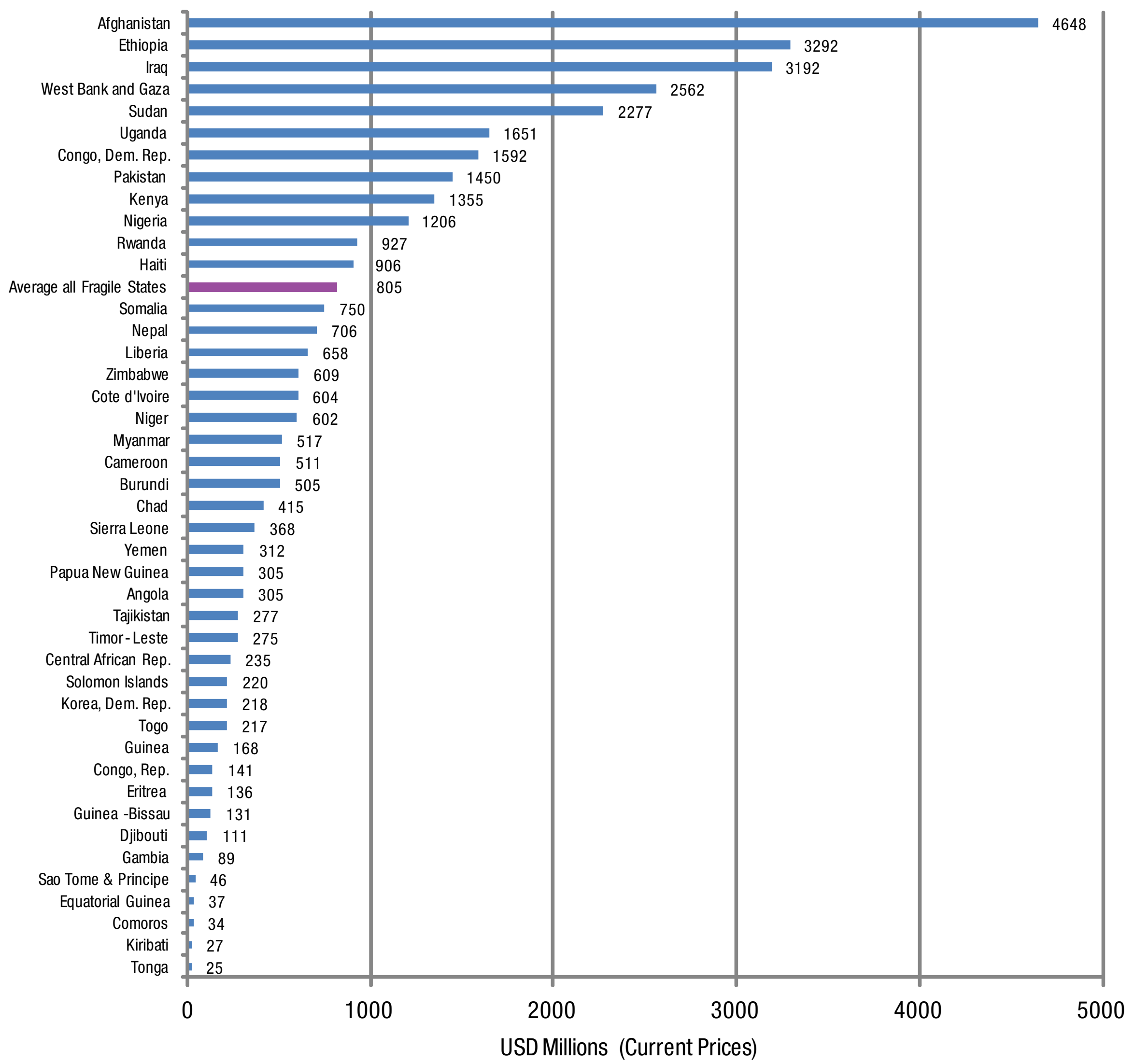
Here, this report finds current practice in transitional contexts to be unduly cautious, putting too little weight on the benefits of local engagement. Certainly the associated risks need to be managed and reduced to a realistic minimum, but this should not prevent international actors from taking available opportunities to engage in constructive and innovative ways with local institutions and markets.

RECOMMENDATIONS TO IMPROVE DONOR BEHAVIOUR

CHALLENGE #1: DONORS ARE UNDULY RISK-AVERSE IN THEIR AID ENGAGEMENT IN FRAGILE AND TRANSITIONAL CONTEXTS.

Although donors have proved willing to invest large amounts in high-risk environments of particular strategic concern like Afghanistan and Sudan, this has been highly selective (Figure 2). Donors also tend to be risk-averse in the way they engage. Dominant political and security agendas tend to dictate the scale of aid operations and seem to encourage more aid risks, but traditional approaches and standard operating procedures today are often ill-adapted to the contexts of fragility and transition. For more effective aid in situations of transition, donors need to change their individual and collective behaviour, allowing their implementing partners greater flexibility.

Figure 2. Highly concentrated aid to fragile states in 2008, by country



Source: OECD 2009

RECOMMENDATIONS

Establish an appropriate risk culture and related processes

- Donors should review their working culture and incentive structures in relation to organisational goals, as well as the behaviour expected of staff, when engaging in fragile or transitional settings.
- Specific risk management frameworks should be developed for fragile and transitional contexts.
- If exceptions to standard procedures cannot be made, then consideration should be given by those donors who have not already established them to the creation of special units, or at least of special funds, governed by more flexible rules and procedures.

Establish appropriate funding and finance mechanisms

- Donors need to review their expectations of MDTFs and those who manage them. More flexible models need to be explored that reduce transaction costs and the speed of disbursement without compromising the essential fiduciary role of such mechanisms.
- 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.

CHALLENGE #2: LACK OF SHARED CONCEPTS AND FRAMEWORKS FOR RISK ANALYSIS 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. Most management frameworks in use are not well adapted to the challenges of managing risk in fragile states. There is some evidence of change in the adoption of specific "enterprise risk management" and "portfolio risk management" approaches that attempt to balance risk exposure within and across programmes.

RECOMMENDATIONS

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.

Strengthen the use of joint assessment and analysis

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

CHALLENGE #3: THE PRESSURE TO DEMONSTRATE NARROWLY DEFINED RESULTS AND ACCOUNTABILITY REQUIREMENTS IS MAKING BOTH 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 what are considered 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.

RECOMMENDATIONS

Agree on realistic objectives and results measurements

- Donors should be less tolerant of built-in programme failure. Setting more realistic objectives and success criteria is a prerequisite for better programme risk management.
- Donors and their partners should agree on realistic frameworks for measuring results in difficult environments, including methods based on demonstrable reduction of known risk factors.

Invest in monitoring and evaluation

- A higher level of monitoring and evaluation investment is warranted in these environments. This should include investigating the impact of aid on the wider context.

CHALLENGE #4: CURRENT ACCOUNTABILITY AND REPORTING REQUIREMENTS ARE OFTEN UNREALISTIC AND POORLY ADAPTED TO CONTEXT.

Current accountability expectations are often unrealistic in fragile and transitional contexts, which can lead to perverse results. 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 the diversity of different contexts. This requires dialogue and agreement in advance between controllers, programme managers and partner organisations; and adaptation in the light of changing circumstances.

RECOMMENDATIONS

Tailor accountability approaches to the context

- Donors need to introduce greater flexibility in their financial procedures in relation to fragile and transitional contexts. Particular attention should be given to speed of transfer of funds and conditions for disbursement.
- Donors should agree to establish more realistic expectations for the level and detail of financial reporting in fragile and transitional contexts.
- Donors should tailor their expectations for reporting against outputs and outcomes to the circumstances of fragile and transitional contexts, allowing that full accountability may be impossible to achieve.

CHALLENGE #5: CURRENT APPROACHES TO CONTROLLING CORRUPTION AND OTHER FIDUCIARY RISKS ARE STIFLING EFFECTIVENESS.

Zero tolerance policies on corruption are the norm; but working in these contexts inevitably involves a higher degree of exposure to corruption and 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 create higher fiduciary risk exposure for the institution, it is often crucial for effective and responsive engagement in volatile and fact-moving environments.

There is a difference between accepting exposure to risk and tolerating risk outcomes. While operating in fragile and transitional contexts 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

Agree common positions on fiduciary risks

- Donors should, as far as possible, develop common positions on corruption in relation to a given context 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.

CHALLENGE #6: LACK OF STRATEGIC CO-ORDINATION AND USE OF COMMON APPROACHES PREVENT COLLECTIVE RISK MANAGEMENT.

While the overall risks of aid engagement can probably not be reduced by much, the exposure of individual donors can. Working through trusted partners may reduce risk, although the transfer of risk to implementing partners may simply relocate tensions. Evidence from Uganda and Nepal, for example, suggests that concerted donor approaches to risk management work better than bilateral approaches. Donors have increasingly looked towards pooled funding mechanisms like the MDTF as a means of sharing risk. 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 bilateral mechanisms, with the added complication of having to satisfy multiple stakeholders.

This relates to the wider issue of co-ordinating strategy. The primary rationale for pooled funds is to create greater strategic coherence and shared ownership of a common plan, underpinned by predictable and flexible funding. This is fundamental. Whatever the approach of individual donors to risk management, perhaps the greatest risk factor of all is the failure to co-ordinate donor strategy – the likely result of which is collective failure to tackle the main contextual risks that justified the cost of engagement in the first place.

RECOMMENDATION

Manage risks collectively

- In addition to the recommendations on common terminology and analysis, DAC donors should review their approach to risk so that it maximises the collective impact on contextual risk and facilitates risk burden sharing or pooling programme and institutional risk.