

Annex E

Conclusions and proposed next steps: “Risk and Results Management in Development Cooperation: Towards a Common Approach”

Copenhagen 26 November 2010

On 25 and 26 November 2010, experts and policy makers from a wide range of member states and international development and humanitarian organisations met in Copenhagen to explore issues relating to the risks inherent in development cooperation, including both humanitarian, development and stabilisation interventions. The conference aimed to review different organisational perspectives on risk and risk management, to share learning from the experience of aid engagement in selected contexts, and to identify practical options for managing results and for improving financial, operational and political risk management.

The conference focused particularly on risk management in “transitional” contexts. The term “transition” captures the need for urgent and rapid support to lifesaving activities, while at the same time reflect the notion of countries transitioning out of conflict and/or instability towards sustainable development, greater national ownership and increased state capacity. These contexts often involve multiple overlapping policy agendas and principles for engagement, and require shared spaces between many different institutional actors.

A starting point for the discussion was the recognition that development cooperation is inherently political, and that risk is inherent in engaging in the contexts described above. Participants agreed on the overarching principle that the risks inherent in engagement in such contexts are largely outweighed by the risks of *not* engaging. The issue was not whether to engage but *how* to do so most effectively and in ways that minimise harm or involve acceptable levels of risk. In that sense, risk management is closely related to the achievement of results: attempting to achieve more ambitious strategic objectives is likely to entail higher degrees of risk.

Participants expressed a commitment to work towards a more coherent approach to risk management, noting that this might require more harmonized approaches to risk management within and across the different policy spheres. Taking note of the conclusions and recommendations of the forthcoming OECD INCAF Study on Aid Risks in Fragile and Transitional Contexts, participants agreed on the following key conclusions and recommended actions.

Key conclusions

- *Be willing to accept certain risks*: Risk management involves *taking* risks as well as avoiding or minimising them. It is about finding a balance of risk and opportunity, and the ability to take advantage of sometimes narrow windows of opportunity or transition points.
- *... and make sure to communicate the case for engagement and risks involved*: Greater honesty about risk and the political challenges of aid engagement is required in public communication by donor governments. Greater transparency is to be encouraged, recognising that there may be sensitivities around particular initiatives. It is essential that the case for engagement is clearly formulated and communicated, including the anticipated consequences of *not* engaging. The risk of non-engagement may often be much higher than the risk of active engagement.
- *... but make clear that accepting risks does not imply tolerance for risk outcomes*: Exposure to corruption and fiduciary risk is an inevitable part of engagement in fragile states – but that does not mean that it has to be tolerated, or cannot be managed.
- *Be context-specific*: Risk analysis and risk management has to be context-specific, starting with the contextual risks and in particular the risks faced by affected populations. It is this that justifies the cost and risks of engagement. Tools to manage contextual risks has to be further developed.
- *Manage risks at the country-level through appropriate engagement with a clear political mandate*: Critical to effective engagement with contextual risks is maintaining sufficient presence on the ground and engaging consistently over time. That engagement has to be *political* as well as through technical aid programmes: this cannot be reduced to an aid management agenda. Bilateral donor governments should stay politically engaged, and aid approaches require a clear political mandate.
- *Identify appropriate results*: Greater realism is required in the setting of targets and in the reporting of results. The timeframes within which

strategic objectives can be expected to be achieved in these contexts may run to decades, but it is important to be able to demonstrate interim results and establish milestones for progress. The high risk of failure to achieve objectives and the need for flexibility in relation to changing circumstances has to be recognised from the outset.

- ... and be realistic about the level of ownership required to achieve these: It must be recognised that full implementation of the Paris principles takes time in these contexts, and may require a gradual approach. This in itself should not be an excuse either for non-engagement with national actors or for delaying implementation of critical aid programmes.
- Adopt appropriate accountability standards: The accountability standards that are applied in more stable development environments may not be appropriate to transition contexts. Accountability frameworks have to be realistic, tailored to the demands of high risk environments and designed to facilitate delivery in such contexts. The cost of controlling aid must be kept in proportion to the scale of the intervention.
- Focus on prevention: The best risk management approaches involve preventive action. This is partly a question of efficiency: the cost of preventing problems is much less than that of fixing them when they arise. In particular, more needs to be done to articulate the case for disaster risk reduction and conflict prevention.
- Explore options for differentiated approaches to risk management: Different actors bring their own mandates and comparative advantages to these contexts. The diversity of approaches can be a strength: rather than search for a single system of risk management, aid actors should seek complementarity between their respective approaches. This allows for greater flexibility, including different modes of engagement with national and local authorities.
- ... and for transferring/ pooling risks: Related to the above, the benefits and limitations of risk transfer and risk pooling must be recognized. Those to whom risk is transferred have to be enabled to manage the risk in a way that does not compromise their effectiveness.

Towards a new approach

Establishing a more appropriate risk culture within and between organisations is essential to progress, in particular in contexts that require shared space between humanitarian, stabilisation and development actors. A new approach to risk and results management would require:

- *Agreement on terms and concepts:* Jointly defining terms and categories related to risk, including distinguishing risk outcomes and risk factors, as a basis for a more coherent approach across the different policy spheres. The three categories of risk proposed in the forthcoming INCAF Risk Study¹ provides a useful starting point in this respect;
- *Information sharing:* Pooling information and sharing learning between the different actors on the most effective and appropriate risk management approaches is an important step towards more coherent, harmonised approaches;
- *Differentiated risk management approaches:* Donors should increase flexibility in their risk management approaches, including by developing differentiated risk management models that are adaptable to individual contexts;
- *Multilateral reforms:* Donors should also support efforts to enable multi-lateral actors, including the UN and the World Bank, to amend their operating rules and procedures in order to adopt financial risk mitigation measures that better support innovative programme approaches and, ultimately, successful humanitarian and development outcomes;
- *Effective communication:* More effective public information strategies highlighting the risks inherent in these contexts and in appropriate responses, may assist in managing expectations of results and support greater flexibility for donors;
- ... *based on joint messaging about risks:* As part of this, more joint work at the global and country level to develop a narrative around the need to engage and accept certain risks. The case for engagement needs to be clearly documented, as should the consequences and costs of *not* engaging;
- *Effective coordination:* More effective coordination at global and field levels between the different policy spheres would facilitate better understanding of the differences in current approaches, acknowledge potential tensions, and support progress towards greater coherence;
- *Shared understanding of risks through joint risk assessments:* For operational agencies, a capacity for risk assessment, pooling of information and analysis, as well as a capacity to facilitate common risk management strategies where appropriate, is required at global and field levels. A shared understanding of risk between different actors at the country level is essential to more coherent risk management.

Opportunities for follow-up action

Delivering on the above will require continued and coordinated efforts over the coming period at both policy and operational levels. More specifically, the following processes and actions should be used as vehicles:

- The conclusions outlined here should be tabled at the OECD International Network on Conflict and Fragility, the Development Assistance Committee, and the International Dialogue on Peacebuilding and Statebuilding for further elaboration and translation into concrete actions;
- The results of these further deliberations should feed into the Fourth High-Level Forum on Aid Effectiveness in Korea in 2011 for endorsement;
- The conclusions and recommendations from this conference should also be included in subsequent guidance on engagement in fragile states, such as the forthcoming INCAF Guidance on Transition Financing;
- Further consultation is needed with existing humanitarian and development coordination mechanisms such as IASC, ECHA, UNDG at the global level, and the UN Country Team or Humanitarian Country Team at the field level. The conclusions from this conference should also be raised with the boards of relevant international organisations for deliberation;
- Further collaboration is needed on information and evidence sharing and on development of appropriate tools for shared risk analysis and assessment, particularly at the country and regional level. At the global level, better frameworks are needed for assessing risk to enable more coherent approaches to risk management. Opportunities for piloting new risk management approaches in the field will also be explored.

Note

1. See OECD DAC INCAF, “Aid Risks in Fragile and Transitional Contexts: Key Messages from the forthcoming publication Aid Risks in Fragile and Transitional Contexts”.



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