GLOBAL MENTORING INITIATIVE

AT LAST: MORE APPROPRIATE PERSPECTIVES ON RISK AND RISK MANAGEMENT IN THE AID SECTOR

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Photo: K. Van Brabant

ABSTRACT

Risk management has gained ever greater prominence in the aid sector. Is it fueling an atmosphere of fear where risk avoidance or ever stronger attempts to control risk become an obstacle for achieving aid objectives in contexts that are becoming more complex and unpredictable? Drawing also on recent reports, this working paper recommends that, first, we need to be very specific what risk we are talking about. Then we can articulate our general organisational appetite for different types of risk. If risk reduction does not become the mission and purpose of our organisation, but a means to pursue our mission in challenging circumstances, then for every specific action in a given context, we need to weigh risks against potential benefits. Sometimes we may decide to exceed our general appetite for a certain risk – where we think it is worth it. 'Risk reward', the positive benefits from taking a calculated risk, need to be part of our vocabulary and decision-making. Where we collaborate with others in pursuit of certain objectives, we also need to consider the risk for them – and recognise that our ego-centric measures to reduce risk for us may actually increase certain risks for them. A shared objective requires shared risk. To do all this, we need to control also for subjective factors that influence risk perception: distance versus proximity where much more information is available; prejudicial negative narratives about certain actors like governmental authorities and national/local CSOs; and the inclinations of individual staff members which can vary significantly and break any organisational consistency. Last but not least, the way the international aid sector functions, with regard to risk but with its fragmentation, incentives for competition, tendency to dominate the decision-making in other societies etc. leads to negative consequences which, seen from a longer-term perspective, are not desirable. These too now need to be included in risk matrices and risk management.

I. BEWARE OF 'EXCESSIVE RISK AVOIDANCE DISORDER'

Anybody with a longer trajectory in the international aid sector notices how obsessed with 'risk' the sector has become. If thirty years ago risks were insufficiently paid attention to, today risk seems to have become a central preoccupation of governmental and intergovernmental donors, and of the Boards of operational agencies. The tolerance for risk in the aid sector, certainly among governmental and multilateral donors, has been in steady decline. Are we at risk of '*excessive risk avoidance disorder'*?[1]

One major risk management strategy of international aid agencies is to transfer it along with the grant money. The risk reduction strategy then consists of ensuring that those receiving those grants meet an ever-growing number of 'compliance' requirements.[2] Whether a potential grantee meets these will be evaluated via an organisational 'due diligence' assessment. This is then complemented by ever more elaborate grant contracts in which legal advisors insert every possible clause to protect their agency from any possible risk if something has or is believed to have gone wrong.[3] One de facto result, is more paper and less aid.[4]

Such donor-initiated strategies cascade down the aid waterfall: A UN agency, INGO or private contractor who is the first recipient of institutional donor money will impose similar requirements on those it gives subgrants to, and possibly add some extra ones of its own.

The international aid system can talk as much as it wants about '*putting people at the heart of the response',* but structurally its accountability is radically upwards. That is revealed in the language used such as how '*downstream partners'* need to '*comply*' with requirements set by upstream actors. The term '*compliance*' unambiguously signals the power relationship.

There is a broad level of discomfort with the importance that risk has gained in decision-making in the aid sector. But conversations about risk, risk management, risk transfer or risk sharing tend to be superficial, leading to no meaningful change. Only very recently have reports started appearing that invite a significant shift in perspective on risk management which – if taken seriously – should lead to significantly different practices. This working paper summarises the most important new perspectives and adds some from GMI.

II. BE SPECIFIC: WHAT RISK ARE WE TALKING ABOUT?

1. Categories of risk

Conversations about 'risk' in general lead nowhere, we need to be specific: What risk are we talking about? Three types of risk tend to dominate on the grant maker side: *fiduciary*. *reputational* and *legal.*

- ***fiduciary risk*** relates mostly fraud, corruption, or serious misuse of aid funds. There are other financial risks as we shall see later.
- ***reputational risks*** can be associated with different scenarios: A fraud or corruption scandal is an obvious one; real or alleged incidents of sexual harassment and -abuse another. Some other reputational risks exist. For example, agencies that receive donations directly from wealthy individuals or from private sector companies need to consider whether it is ethical to

[1] A reference to Natsios' (after his role as head of USAID) article about the 'counterbureaucracy", in which he refers to '*obsessive measurement disorder*': only what can be measured counts. see Natsios, A. 2010: *The Clash of the Counterbureaucracy and Development*. Center for Global Development

[2] For example, ECHO, the European Civil Protection and Humanitarian Aid Operations, will only directly fund entities legally registered within the EU, so that they have effective legal leverage over them. It will not directly fund an agency, however capable and relevant in a particular crisis-context, not registered in the EU.

[3] For example, in certain warzones, contracts with private transport companies hold them accountable to reimburse the value of any goods damaged or lost even if this occurs because of an ambush or attack by armed non-state actors. As a totally different example, one international aid agency inserted a clause in its contracts with national agencies receiving from it a sub-grant, forbidding them from having any direct communication with the back-donors. Obviously, they saw a risk in this, and one must wonder why?

[4] A partially related strategy to reduce the risk of 'ineffectiveness' is to oblige aid recipients to 'deliver' certain, contractually specified, 'results' – even in a volatile situation where the aid recipient has hardly any control over most factors. In the worst case, from the implementer's perspective, they even must advance the funding from their own resources and will only get the aid grant when the results have been 'delivered'.

accept those, based on what activities are likely to have generated that money. And those who invest part of their reserves, like many foundations, need to consider the ethics of those investments.[5]

- ***legal risks*** can relate to national legislation in the donor or aid-recipient country, and often broader legislation related to aid money ending up in the hands of sanctioned individuals or groups designated (internationally or nationally) as 'terrorist'.

Operational agencies in addition face ***safety*** (e.g. health and accidents) and ***security*** (acts of violence) risks.

An excellent study in 2019 already identified other types of risk. [6] It adds

- ***informational*** risks (unauthorized persons get access to data including private data and cyber-attacks).
- ***operational*** risks such as the inability to achieve objectives for reasons internal and/or external to the agency.
- ***ethical risk***: harm caused by unethical behaviours, including sexual misconduct/exploitation, inadequate duty of care, or insufficient consideration of humanitarian principles.[7]

In its 2022 '*Risk Appetite Statement*', USAID further identifies

- ***human capital risks***: 'events or circumstances that potentially affect the capacity, productivity, recruiting, retention and wellbeing of the USAID workforce and implementing partners'.[8]
- ***programmatic/development outcomes risks:*** 'events or circumstances that could potentially improve or undermine the effectiveness of USAID's programmatic goals, the achievement of sustained development outcomes, and the delivery and effectiveness of humanitarian assistance.' [9]

Note that 'reputational' risk is of a somewhat different nature because reputational damage tends to be a consequence of failures in the management of other risks such as ethical, financial, legal or security.

Several aid agencies, implicitly or explicitly, also consider ***organisational risks*** in their decision-making, for example not maintaining enough cash flow (a possible incentive for direct implementation rather than working with local partners) and, more broadly, organisational financial survival and preferably growth. In our very rapidly and profoundly changing world, we can add another organisational risk: That of remaining stuck in past roles and ways of operating rather than adapting, as proactively as possible, to be fit for various possible futures.

Within each category of risk, further distinctions are required: Conversations about financial risks tend to concentrate on fraud, corruption and serious misuse of aid funds, and the risk that aid money ends up financing sanctioned individuals or terrorist groups. In today's volatile financial markets, we must also consider loss of purchasing power due to strong inflation, exchange rate fluctuations or

[5] Donors (bilateral, multilateral and platforms that rapidly raise money from the public for a particular high-profile crisis) may also be concerned about accusations they are not spending 'fast enough', or that their spending is not 'visible' enough.

[6] Stoddard, A., M. Czwarno & L. Hamsik 2019: *NGOs and Risk. Managing uncertainty in local-international partnerships. Global report*. Humanitarian Outcomes & Interaction

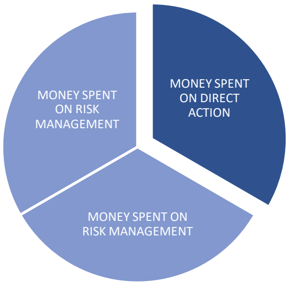
[7] A more recent reflection process on risk-sharing uses the typology of the 2019 study and like it quite mistakenly associates 'legal' and 'compliance' risk ('compliance' seeks to reduce risk, it is not a threat in itself) and 'political' and 'reputational' risk. See Hughes, E. 2022: *Risk Sharing in Practice. Success stories, enablers, and barriers to risk sharing in the humanitarian sector*. Commissioned by the Netherlands Ministry of Foreign Affairs and the ICRC. See also *Risk Sharing in the Humanitarian Sector 2021: An account of a meeting between experts on risk hosted by Netherlands Ministry of Foreign Affairs and the ICRC*, facilitated by Clingendael Academy pp. 11-12

[8] A realistic risk as a recent article flags how USAID's humanitarian bureau staff are overstretched and leaving. https://www.devex.com/news/usaid-s-humanitarian-bureau-is-under-pressure-and-overstretched-103667?access_key=f25ad138385627d5acf8f35d02df9a72188d7496

[9] USAID 2022: *Risk Appetite Statement. A mandatory reference for ADS Chapter 596*

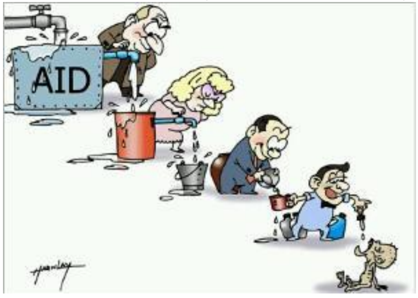
devaluations of a currency. Two other real financial risks are seldom recognised let alone acted upon: The first is the '*proportional cost of risk management*', the second *'wastage'* at sector/system level.

So far, we have never seen individual agency accounts or wider research studies that calculate the cost of risk management, even just financial risks: What if we would find that of every 100 Euro, dollars, Pounds, or Swiss francs, we were spending 62 to ensure that nothing goes wrong with the remaining 38? Where is the line beyond which the financial cost of managing risk is said to be disproportionate to the beneficial objectives we seek to achieve?



And what about the high level of wastage in an aid sector that is very fragmented, competitive, and sometimes operates with multiple layers of intermediaries/subcontractors? One example: In late 2017, the rapid influx of some 700.000 Rohingya from Myanmar into Cox's Bazar district in Bangladesh created the then largest refugee crisis in the world. They were settled in two sub-districts which together have a small geographical surface. Within three months, some 130 agencies were operating from Cox's Bazar town to respond. While the scale and speed of the refugee crisis were undeniably huge, did this justify so many agencies all setting up offices and investing in office facilities, recruiting lots of new staff, renting accommodation for international staff and meeting facilities, hiring or buying cars etc. Is this type of international response 'cost-effective'? Localised inflation was predictable. There were additional costs that never make it into the accounts or even management audits: Large numbers of responders significantly increase the cost of 'coordination': there were so many weekly coordination meetings that they easily took up more than a full-time of a staff member per agency. Should we add environmental accounting then such typical 'comprehensive response'[10] of the international relief sector also comes in for a very high carbon footprint! All these operational establishment and running costs are covered by money raised to assist the refugees in need.

The large number of international aid agencies also all need headquarters' infrastructure with running costs; donors organise conferences on topics that have already been extensively conferenced about; donors and operational agencies alike commission research on topics that have already been extensively researched without taking the findings and recommendations of earlier work into account; or do not publish reports so they can be used for common good; joint evaluations that cover the interventions of multiple actors and whose costs (and learning benefits) therefore can be shared, are the exception rather than the rule.



There are furthermore many instances of multiple intermediaries where a bilateral donor gives money to e.g. a UN agency, which in turn subgrants part of it to an INGO, which may itself subgrant to a national agency or even to another INGO etc. Can we be confident that the cost of multiple intermediaries is less than their combined added value?

Take the director of a local CSO whose base is in a zone where militant activity has interrupted all electricity supply for over a year. International 'partners' refuse to fund them to install solar panels or to increase the budget line to cover the rising cost of fuel for their generator. They are of course expected to continue communicating by email and produce reports written on computers, for which electricity is needed.

What might this director think when s/he sees the senior staff or Board members of the INGO 'partner' in a retreat in a well-equipped venue in Europe or North America, with good food and drinks all included – paid for with aid money?

[10] Ramalingam, B & J. Mitchell 2014: *Responding to Changing Needs? Challenges and opportunities for humanitarian action.* Discussion paper for Montreux XIII Donor Meeting:28-35, ALNAP

International agencies talk a lot about the alleged higher risk of fraud and corruption in national/local ones but have a blind spot for the wastage in their ranks, something that national/local actors see all too well.

A last but not least category of risk that needs to be included is that of unintended negative consequences. Some of these relate to particular contexts, but others to the way the international aid sector is set up and functions. Examples are given in section VII.

Be Specific: What Risk are we Talking About?

1. **Legal**: e.g. not complying with applicable legislation; funding ends up in hands of proscribed groups etc.
2. **Financial**: e.g. fraud, corruption, theft, inflation, devaluation, disproportionate cost of controlling; wastage etc.
3. **Informational**: e.g. data protection breach; cyberattack etc.
4. **Safety**: health including mental health; accidents etc.
5. **Security**: from acts of violence
6. **Human capital**: the inability to attract or retain capable and committed staff; to invest in their development; to provide them with the minimum equipment for effective work etc.
7. **Organisational**: financial health; visibility; fit-for-possible futures; but also loss of independence or autonomy, reduced connection and collaboration with others actors in the same environment; self-censorship due to political pressure etc.
8. **Collective action capability**: within and between social groups; between organisations and institutions etc.
9. **Reputational**: e.g. allegations or cases of abuse or fraud/corruption; intimidating whistleblowers; failure to keep promises or even contractual agreements; other events leading to loss of legitimacy in core constituencies or key stakeholders etc.
10. **Operational**: e.g. inability to adequately assess existing needs and available capabilities; inability to obtain, store or transport necessary supplies; to access target groups or to access with autonomy; to deliver assistance timely etc.
11. **Programmatic outcomes**: e.g. not delivering life-saving assistance timely; no effective poverty reduction and/or greater inclusion and/or more participatory and accountable governance; low or no sustainability etc.
12. **Unintended negative consequences**: e.g. creating new or aggravating existing tensions and conflicts; weakening the capabilities of national/local actors; altering the evolution of an organically grown civil society or women's movement etc.

III. DIFFERENTIATE RISK APPETITES FOR DIFFERENT TYPES OF RISK – AND DETAIL CONTEXTUAL/ACTION SPECIFIC RISK TOLERANCE

If our risk appetite for all categories of risk is low, we better close shop as we will do nothing meaningful in an increasingly volatile and unpredictable world. We need to be more thoughtful and explicit about our appetite for different risk domains. Inspiration can be found in USAID's August 2022 update of its Risk Appetite Statement. USAID makes an important distinction between general 'risk appetite' and context- and action specific 'risk tolerance'. (p.8) The agency differentiates between eight categories of risk and signals different levels of general risk appetite for each.[11]

RISK CATEGORY	RISK APPETITE
Programmatic outcomes	HIGH
Fiduciary	LOW
Reputational	MEDIUM
Legal	LOW
Security	LOW
Human capital	MEDIUM
Information	MEDIUM
Operational	MEDIUM

[11] The guidance document goes on to explain this in more detail on pp. 8-23

The message is that maximum risk-avoidance across all types of risks is not the objective or requirement. That would lead to missed opportunities to achieve positive outcomes or will reduce the effectiveness of the intervention to do so. Low risk appetite is strongest for legal, fiduciary and security risks. For the other types of risk, the risk appetite is medium.

Tellingly, USAID has a high risk appetite if it increases the likelihood of achieving the desired programme outcomes. By putting the programmatic outcomes first, USAID also signals that it has not lost sight of its mission and primary purpose: bringing about positive change in different contexts, not avoiding any possible problem or failure at all cost (sic).

For concrete actions in specific contexts that USAID funds or is considering to fund, a tailored risk tolerance must be established – and periodically reassessed. For this, '*understanding context is the starting point*', as well as the nature of the action and the collaborating actors.[12] A constant weighing is required, of threats but also of potential benefits if a calculated risk is taken ('*risk reward*'). Depending on the context, the general risk appetite level can potentially be exceeded if justified to achieve the desired objectives. (p. 6)

What the Risk Appetite guidance does not spell out is how its greater tolerance for the medium to high appetite for operational and programmatic risks will be reconciled, in practice, with its low to zero-tolerance of fiduciary and broader financial risks and abuses.[13]

IV. BALANCE RISK AVOIDANCE AND RISK REWARD

Many aid organisations work with organisational risk matrices, while their action-proposals ('project-proposals') have action and context-specific ones. These tend to be based on the classical view of risk management as the measures taken to reduce the likelihood and/or impact of a particular threat.

RISK MANAGEMENT= likelihood and impact of a particular threat
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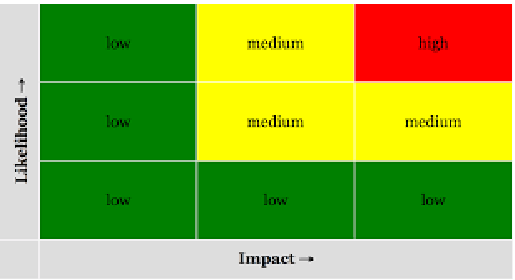
measures taken to reduce the likelihood of the threat and/or the impact on you

For those not familiar with this: We cannot influence the likelihood of an earthquake occurring, but we can reduce its impact by building earthquake-resistant structures. On the other hand, we believe we can reduce the likelihood of fraud, corruption, sexual abuse etc. occurring, for example by writing and disseminating organisational policies of zero tolerance on it and creating a confidential alert mechanism– as we cannot ensure 'zero occurrence'. If an incident occurs, we try and reduce the impact on our organisational reputation by taking quick and firm disciplinary action and offering effective support to the victims/survivors (and perhaps the whistleblowers). Certain risks (e.g. road accidents) may be quite likely to occur but the overall impact on the agency is probably low to medium. Having some of the aid money end up in the hands of a terrorist group on the other hand may be not very likely but could have a major legal impact on the agency.



Likelihood →			
	low	medium	high
	low	medium	medium
	low	low	low
	Impact →		

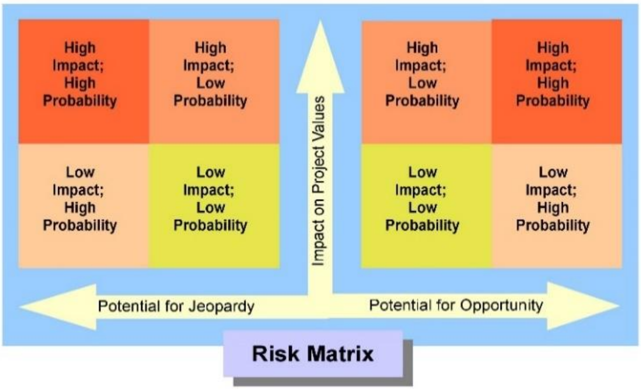
Such risk matrix assessments then help to identify priorities and more precise actions to reduce the likelihood that a certain risk materialises or has serious impact. However useful, risk matrices also pose three important problems.

- Constantly focusing on risk eventually creates a mindset and emotional atmosphere of fear and distrust that affects organisations and individuals working in and for them. Taken further to its level of absurdity: the ultimately safest action (for the organisation and/or individual considering only themselves) when confronted with a certain risk is to stay put, act timidly or withdraw. This is not fictional: When unrest or violence break out or escalate, international

[12] USAID 2022:4
[13] Smith, C. & J. Thoretz 2022: *Understanding the 2022 USAID Risk Appetite Statement*. Humentum

development agencies, like many others, tend to suspend their operations and recall all or all non-essential staff. Relief agencies have a higher tolerance for risk, but that too is limited, and lower for most international ones today than it was thirty years ago.

- Only those risks will be attentively managed that have made it in the risk matrix. What about potentially serious risks that were not included?
- Low appetite for risk does not fit well with a world that the private sector describes as becoming increasingly VUCA (Volatile, Uncertain, Complex and Ambiguous). A 2016 report by the UK's Independent Commission for Aid Impact that reviewed the then UK's Department for International Development's approach to managing fiduciary risk in conflict-affected environments, did not encourage zero risk appetite: On the contrary, it encouraged it to also consciously consider 'risk return' or 'risk reward' (i.e. the benefits from having dared to take a considered risk), and do so in a manner that is consistent across offices and staff.[14] In other words, potential risks have to be weighed against potential benefits – a risk matrix needs to be complemented with an opportunities/benefits matrix.


High Impact; High Probability
High Impact; Low Probability
High Impact; Low Probability
High Impact; High Probability
Low Impact; High Probability
Low Impact; Low Probability
Low Impact; Low Probability
Low Impact; High Probability
Impact on Project Values
Potential for Jeopardy
Potential for Opportunity
Risk Matrix

Here, the different understanding of 'risk' in USAID's 2022 Risk Appetite Statement is particularly interesting. 'Risk' is not framed in the usual manner as a combination of probability & impact of a threat, but as '*the effect of uncertainty on the agency's objectives*'. From this very different starting point, risk '*can present potential opportunities, not just negative outcomes, that can threaten or enhance the likelihood of a set of objectives. Using this definition of risk, the agency emphasises the importance of continual weighing of risks against performance, cost, and short- and long-term benefit.*' (p. 3)

V. A SHARED OBJECTIVE REQUIRES SHARED RISK

Effective aid-supported action often requires the collaboration of different agencies. One very direct interdependency between agencies pursuing specific objectives in a context is the money flow from back-donor via international operator/intermediary to national/local partner/subgrantee to the intended beneficiaries. Such interconnectedness towards a shared objective can be expected to lead to a holistic risk assessment across the collaboration chain. This is not the case. In current practice, the international aid sector manages risks from the perspective of the individual agency only. Such '*ego-thinking*' rather than '*collective action thinking*' is a significant enabler for the practices of 'risk transfer'.

First, consider different types of risks as they manifest themselves for the collaborating agencies. For many national/local agencies that receive international aid funding, being too dependent on international aid poses a strong risk of losing their autonomy of decision-making. If persistent, the organisation will lose its original sense of mission and identity and its ability to set and pursue its own strategy (***organisational risk***). In the absence of other sources of income, they may have no option. The presence of international agencies paying higher salaries and extra benefits, introduces a real risk they will lose their best and most experienced staff or at least undermine a more voluntary motivation (***human capital risk***). Strong connections with international agencies may also distract attention and effort away from strong connections with other local and national actors, and even increase the competition with them. This weakens the collaborative capabilities of local/national actors. This seems a new type of risk: weakened ***abilities for collective action***. If national/local agencies are seen as following too much the agenda of an international actor, they also risk losing their connectedness to a

[14] Independent Commission for Aid Impact 2016: DFID's Approach to Managing Fiduciary Risk in Conflict-Affected Environments. A performance review. https://icai.independent.gov.uk/html-version/dfids-approach-to-managing-fiduciary-risk-in-conflict-affected-environments/

certain constituency which is an important source of their contextual legitimacy. That may also happen if the international agency funding their actions suddenly changes or reduces the intervention or prematurely withdraws from it: the local actor will face the frustration and anger of the intended beneficiaries and wider target group (***reputational risk***).[15]

A Compliance Profile is not a Risk Profile

Due diligence assessments take a close look at organisations that might be recipients of aid money against a set of expectations some of which can be requirements. Due diligence assessments are conducted by donors on international aid agencies, and by international aid agencies on local/national ones. A major purpose is to spot possible risks for the grant or subgrant giver.

Nowadays, aid organisations are expected to have an expanding list of organisational policies in place: on child protection, to prevent sexual abuse and exploitation, on fraud and corruption, on digital security, on anti-money laundering, on non-financing of terrorist/proscribed organisations etc. These are relevant as the risks are real. They are based however on the assumption they signal that the organisation has considered them thoughtfully and will act on them in a predictable and consistent manner. The existence of a policy-on-paper says little however about the actual practices by the organisation or its staff. Agencies can also quickly produce such policies through cut-and-paste from others, to tick the box. The paper policies are at best a proxy indicator. Better indicators about whether they are actually lived are what the managers and teams actively talk about and pay attention to and how the organisation acts when an incident seems to have occurred.

Note that a growing list of paper requirements also carries the risk of turning an organisation into a slow bureaucracy, unable to act timely and with the agility to adapt to what changing situations require.

There are also two ways of handling a list of compliance requirements: Treat all of them as equally essential, so that there is only a 'pass/fail' outcome – unless you meet all you cannot receive any grant. Alternatively, we can treat some of them as essential and others as (for now) aspirational, enabling the organisation that can and has a role to play in achieving our desired objectives to receive at least a certain amount of funding. If that funding covers all their core costs and includes an unearmarked part, the organisation has some resources with which to develop itself, also to meet some of the formal requirements still missing.

Still, such due diligence assessment provides information about the degree to which an organisation meets expectations or requirements and can therefore be considered a '*compliance profile'*. It says little to nothing about programmatic and contextual risks and is therefore inevitably incomplete. It cannot cover, for example, the sometimes-vital organisational capability to navigate a landscape full of political sensitivities. Where funding is considered for a particular action in a given context, a broader risk (and benefits) assessment will be required. The implication is that the compliance profile should not be the only consideration in the decision to provide funding to that organisation.

Secondly, attention is required to how the risk reduction measures of one may increase the risks for another in the collaboration chain. For example, international agencies may avoid reputational and even legal risks by refusing to fund even lifesaving actions in areas controlled by actors considered unsavoury or designated as terrorists. Afghanistan today is one case: the reluctance to fund actions in the Islamic Emirate of Afghanistan contributes to some 20 million people currently being at very high risk, including of acute hunger. Reluctance to provide even humanitarian aid during the 2011 famine to parts of Somalia with strong Al Shabaab presence, was a contributing factor to the estimated 260.000 deaths. In both cases, the reduction of risk for the aid holder increases the risks for people already in dire need.[16] A different example is the Irish famine 1845-1849: Here the British government refused to provide large-scale food aid or cap high food prices to avoid the risk of disturbing the free-market dynamics and create disincentives for commercial food traders and retailers. This was a major contributing factor to the tragedy that caused an estimated million deaths and another million to migrate.[17] Again, the reduction of risk for certain interest groups significantly increased that of other, less powerful, interest groups.

[15] See GMI 2020: *No Shared Risk No Partnership?*

[16] Humanitarian and peace actors can find themselves in an serious dilemma: If they engage with certain non-state armed groups that are nationally and/or internationally 'proscribed', they risk severe legal consequences. If they do not engage with them, they may face security threats from these groups.

[17] See e.g. C. Woodham-Smith 1962: *The Great Hunger: Ireland 1845-1849*, Penguin

This points at the need to include the risks also for people vulnerable to or affected by crisis; living below the poverty line; structurally and systematically excluded etc., in other words: the intended beneficiaries of international aid in whose name money is raised. Risk avoidance- or risk mitigation measures across the action chain they are intended to benefit from, can lead to no assistance at all or, more often, assistance no longer being timely, less appropriate and of reduced quality.[18]

The consequences of inaction or slow or timid action due to high risk aversion may be more tragic than possible failures of action.

Another example of comes from Myanmar's current violent post-coup environment. Insisting here that agencies trying to provide humanitarian assistance continue to obtain three written quotes and produce all sorts of documentation about their operations and beneficiaries, significantly increases the risk for vendors and staff of frontline responders. When the military discover aid workers carrying such documentation, they can easily accuse them of supporting the popular resistance.[19] Responsible donors/intermediaries like the Livelihoods and Food Security pooled fund (LIFT) therefore reviewed their compliance requirements and revised all those that increased the risk for their partners.[20] Not all international aid providers do the same.

Self-interested practices creating or increasing risks for others in aid-supported interventions also occur in other types of aid-supported programming. International aid agencies (donors/intermediaries) supporting governance or conflict transformation programmes led by national actors sometimes insist on clear visibility for the programme and for its donor(s), contrary to the local actor's plea for a low profile. The local actor knows that a low profile reduces their risk of attracting too much attention in politically very sensitive settings; a low profile can also be a key tactic to get results, by allowing those with power and influence to claim the credit. High visibility thus also risks reducing the effectiveness of the action. Yet not all donors or intermediaries are willing to see this.

The risk reduction measures of one actor in the aid flow collaboration chain can increase the risks for others in that chain.

A recent report[21] for the Risk Sharing Platform of the Grand Bargain makes precisely those points:

"*Humanitarian actors need to stop looking at risk through an individualised, organisation-focused lens and start considering the aggregated risk in the delivery chains they are involved in, which means a shared approach to understanding risk, risk identification and risk response*". (p. 16)

"… a risk which is a concern for any one organisation performing one of the key functions in a delivery chain represents a potential blockage to the delivery of the intervention, and therefore a potential risk for all organisations performing a function in that delivery chain, that the delivery chain will fail and shared objectives will not be achieved." (p. 16)

"*Transfer of risk to humanitarian actors performing other functions in the delivery chain exposes those partners to additional risk that they may not be able or willing to accept, as they may not be able to tolerate the consequences should the risk materialise. This poses a threat to delivery of assistance to affected populations for both the transferer of risk and recipient of risk, as well as any other organisation involved in that delivery chain."* (p. 18)

The risk sharing report, predictably, finds that which risks a participating agency prioritises depends on the role(s) it plays. Not surprisingly, those that play the role of donors tend to be most concerned about legal, fiduciary, and reputational risks; those that act on the ground tend to be most concerned

[18] Hughes 2022: 31. Certain procurement procedures, created to reduce the risk of fraud in procurement, can also increase the risk of delays and the purchase of goods that do not reflect the intended users' preferences.

[19] GMI & RAFT Maynmar 2022: *Localisation in Myanmar. Supporting and reinforcing Myanmar actors today and tomorrow.* Humanitarian Assistance and Resilience Facility

[20] LIFT Fund 2022: *Guidance for LIFT Partners on Context and Conflict Sensitivity* p. 4

[21] Hughes, E. 2022: *Risk Sharing in Practice. Success stories, enablers, and barriers to risk sharing in the humanitarian sector.* Commissioned by the Netherlands Ministry of Foreign Affairs and the ICRC. The report uses the 8 risk categories of the 2019 report by Humanitarian Outcomes & Interaction

about operational and security risks; and intermediaries find themselves juggling the priorities of both, with concerns certainly for fiduciary but also for operational risks.[22] What it fails to identify is the risk that intermediaries in the aid flow and action-chain ***abuse their power***. Intermediaries are typically the first recipients of institutional aid funds, part of which then are subgranted to other actors. Most intermediaries are international agencies, though sometimes national ones also play that role. [23] As in all sectors of economic activity, intermediaries have potentially great power through their control of who gets subgrants and on what terms. They also control the information and image that the back-donor has about local actors and that the local actors have about the back-donor. Such power can be abused to serve the intermediary's self-interest. This is more broadly known as the 'agency problem': '*the interests of those delegated to make a decision on the part of others (the agent) often do not coincide well with those in whose interests they are supposed to be working, or with those who will have to bear the cost of those decisions.*'[24]

Some other important findings of the risk sharing study are:

- The risk sharing report finds that some progress is being made with proactive measures, notably for safety, security, and operational risks, although this is not standard practice. One would expect that ensuring that all those in the joint action chain have the resources and competences to manage all risks relevant for them. Some agencies are attentive to this, but it is not necessarily a standard practice. It is still more the exception rather than the rule, for example, that national/local agencies can include insurance costs (for personnel, stock and other key equipment) in their budgets. During the spread of the COVID-19 epidemic in Myanmar, at least one donor provided a Myanmar CSO with funds for a COVID-response but refused to include funding for protective equipment for its staff. Local organisations in particular repeatedly find themselves taking huge security risks without relevant equipment (e.g. communications) and expertise, because they need the project money to survive.
- The unwillingness or even refusal (sometimes by organisational policy) to share the internal cost recovery with subgrantees (particularly local/national agencies) can make it impossible for the latter to buy necessary equipment or e.g. insurance and/or to hire and retain relevant expertise. Nor can they build up some reserves with which potentially to cover losses.
- Enabling factors for risk sharing are indeed the ability of the collaborating agencies to speak freely and frankly about the risks they identify in their joint action. Fair understanding by all of the technical and contextual nature of the risks being discussed also helps significantly.[25] Agencies whose default mode is partnering are generally better at risk sharing than those who always or mostly implement directly.
- It is recommended that agencies articulate explicit guidance about their general appetite for different types or categories, their weighing of risks against each other and their readiness for risk-sharing. The 2022 Risk Appetite Statement of USAID is an example along those lines. If an agency can play different roles in the action-chain, it might usefully nuance this per role. When endorsed at the highest levels of the organisation, such guidance can reassure the agency's staff who otherwise might be overly cautious. It should also reduce (somewhat) the subjective factors in risk perceptions and strengthen consistency and predictability in the organisation's behaviour.

The risk sharing report also identifies two areas that need further attention and work:

- How can legal, fiduciary, and ethical risk be shared, in practice? These are risk areas where risk transfer remains the dominant practice.
- What happens when an incident arises and the one most directly had taken all reasonable precautionary actions and cannot be accused of having been negligent? Indeed, no risk management measures can ensure zero occurrence. Some back-donors have legal obligations or policies that demand reimbursement even if the subgrantee cannot be faulted. In practice,

[22] Hughes 2022:14

[23] In Myanmar, 14 CSOs that also act as 'Myanmar intermediaries' launched their network in September 2022, with an articulation of their core principles

[24] Stiglitz & Bilmes 2008: *The three trillion-dollar war. The true cost of the Iraq conflict*: 187, Penguin

[25] Hughes 2022:32

this could be the value of a truckloads of non-food items for distribution to forcibly displaced people in Ukraine, destroyed when their warehouse was hit by a Russian missile. Is this reasonable? In other instances, how the losses from unavoidable incidents are shared among the collaborating agencies may be decided on a case-by-case basis. This may be tactically the best option but leaves the situation very dependent on individuals. Even if a case-by-case approach is recommended, core principles can best be articulated to ensure some consistency and fairness.

A holistic risk assessment therefore should look more like this

RISKS	**Probability of occurrence for us**	**Probability of occurrence for partners/ subcontactors**	**Probability of occurrence for populations of concern**	**Impact on us**	**Impact on partners / subcontractors**	**Impact on populations of concern**
Programme outcomes (specify)						
Collective capabilities (specify)						
Legal (specify)						
Financial (specify)						
Operational (specify)						
Health and safety (specify)						
Security (specify)						
Information related (specify)						
Ethical (specify)						
Human capital (specify)						
Organisational (specify)						
Unintended negative consequences (project-specific / structural)						
Reputational (specify)						

Notes:

- It would be wrong to assume, too quickly, that a number of these risks do 'not apply' for the populations of concern. They may have their associations (organisational); they may have a reputation to maintain, they may have legal concerns and want to keep certain information very confidential etc.
- For 'partners/contractors', the various risks will have to be specified for each individually, as each will have its own type of degree of vulnerabilities.
- A complementary 'opportunities/potential benefits' matrix can also include the various stakeholders, as the potential risk reward or risk return is not necessarily the same for all.

VI. REDUCE THE INFLUENCE OF SUBJECTIVE FACTORS IN RISK PERCEPTION

Formalising risk assessments and risk management measures with a 'risk matrix' conveys an impression of rationality and objectivity. This is partially the case. Once we have had enough incidents and some information on enabling or contributing factors, we can indeed calculate the probability of such incident occurring and of the average impact. Insurance companies do so and determine insurance premiums accordingly. This becomes more difficult once we are dealing with new or volatile contexts[26] where our degree of uncertainty is much higher. There, the perception of risk will retain a strong subjective element to it, which will influence how we attempt to manage it. Some of the influencing factors are distance, bias, and personal attitudes to uncertainty and the unknown.

Distance: The further away one is from the action that carries the risk, the greater the risks may seem. The reflex will be to impose stronger risk management measures. That applies e.g. to donor and international agency personnel in headquarters, often thousands of kilometers away, all the more so if decision-makers there do not have solid personal experience of working in complex and uncertain environments.[27] Proximity by itself is of course no guarantee: we can be unpleasantly surprised by the behaviour of someone close to us and that we had a high level of trust in (as they can be surprised by unexpected behaviour from us!). And there is the risk that those close to dangerous environments suffer from 'risk habituation' – a perhaps excessive acceptance of high levels of risk, including personal risks.

Nevertheless, proximity to the context, the action, and those managing the action operationally may result in quite a different perception of risk, because so much more information is available. No modicum of trust can be built and maintained without regular proximity. And proximity allows a constant re-assessment of our concerns and anxieties. Donors and programming agencies that deploy enough people close to the action and delegate responsibility to them, will perceive and handle risks differently than those where the risk management lies with people far away.

Bias and Stereotyping: There is a persistent negative narrative that national/local actors present -almost per definition- a higher risk of fraud and corruption, poor quality programming and non-respect for fundamental humanitarian principles. That gets reinforced when they are from countries where corruption is also seen to be very prevalent such as Iraq and the DRC. This narrative does influence international aid donors and -agencies. While there may be cases indeed, any such generalization must be challenged as biased. Stereotypes also serve to create 'us' and 'them' opposites – conveniently ignoring that there have been ample cases of fraud, corruption, and abuse of power also in international aid agencies.[28]

Personal Attitudes to Uncertainty and the Unknown: The appetite for risk varies between individuals. Some are more comfortable with uncertainty and unpredictability, others become tense when not everything is and can be controlled. Some are inclined to trust until there is proof the trust is not justified; others are inclined to distrust until they have seen evidence they can trust (more). Some individuals are better at empathising and understanding the challenges, threats and risks that others perceive; others find it hard to see beyond their own. Some will make a serious effort to learn about the context in which the actions take place, others will not and be less inclined to adapt or allow adaptations to be fit-for-context. Some may be in physical proximity to where the action and the other actors are and yet remain in the bubble of their own office or social group, while others will deliberately get out of that bubble to learn more, including different perspectives and experiences.

The organisational implication is that personal attitudes to risk and trust should be an attention point: Most people have observed how impactful a change in key people can be, with a newcomer having significantly different perceptions and behaviours than her or his predecessor on issues that matter, including risk management. The result can be significant disruption in collaborative relationships, even

[26] The presentation of the UK government's 'mini-budget' in September 2022 suddenly caused shockwaves in the market and led, among other things, mortgage lenders to immediately reassess their risk and withdraw many of their mortgage offers. The February 2021 coup in Myanmar was another type of drastic shock that required a complete reassessment of risks – for different actors.

[27] Hughes 2022:32 confirms that donors and intermediaries with staff on the ground are -structurally- better placed to assess risk. The GMI and RAFT Myanmar 2022 evaluation of the Humanitarian Assistance and Resilience Programme Facility, a UK country fund in Myanmar similarly noted that proximity can be a risk mitigating factor.

[28] Between 2020-2022 serious fraud, corruption and abuse of power have been found to occur in several UN agencies, in e.g. the DRC and Syria, and at the highest levels in UNOPS. Yet they are not blacklisted the way a national/local organisation will quickly be.

if the wider institutional framework has not changed.[29] A second implication is that organisations should choose the right people to deal with situations of high uncertainty and unpredictability: Someone personally very uncomfortable with this, and/or someone who is going to stay within the bubble of 'aidland'[30] is probably not the right person.

VII. PAY ATTENTION TO STRUCTURAL NEGATIVE CONSEQUENCES

The previous paragraphs have already hinted at ways in negative consequences, not at the project level but at the collective action level, can result from the way the international aid sector function. These are already visible in multiple areas with recurrent or protracted crises. Here are some:

- Money is no longer a means to an end but has become the end in itself. Operational aid organisations are preoccupied with chasing ever more money rather than collaborating in complementary manner for greater collective impact. Donors are preoccupied with spending fast enough yet also tightly controlling every cent, more than with supporting those who try to achieve some positive changes in often very complex circumstances over which they have very little control.
- Bureaucratization of aid increases the cost and reduces the timeliness, appropriateness, and effectiveness of aid. It also reduces the ability for adaptive management – even when necessary to maintain relevance and effectiveness.
- The cost of control is higher than the cost of action.
- The pure market approach for funding decisions creates far stronger incentives for costly competition than for joined action for collective impact. Competition for money also being strengthened among national actors inhibits their development of stronger collective capabilities to deal with shocks and crises.
- Unrealistic expectations about 'delivering results' in environments where implementers have little control and influence creates incentives to report everything as a 'success', a structural disincentive to learning about how to operate in situations of 'complexity' (in the sense of the Cynefin framework).
- Instrumentalising national/local non-governmental actors into relief service deliverers on behalf of international aid agencies undermines their role and development as 'civil society' – in direct contradiction to OECD recommendations[31] and policy choices of other departments in bilateral and multilateral aid administrations
- Investing in capacity-strengthening of organisations that at the same time are kept financially fragile does not yield returns.[32]
- Intermediary agencies abuse the power they have because of their control of the money but also of the information and narratives.
- The political contract between citizens and governmental authorities is weakened when most aid interventions bypass government or at best passively 'coordinate' with them. No government can hope or be expected to take over a great number of 'projects' all designed by different agencies and heavily dependent on foreign funding. The sustainability of most will be unlikely at best.
- Continued focus on the shorter term and on narrow project thinking blocks the ability to intentionally pursue more strategic objectives in a given context and globally. This is deeply problematic given that many crisis situations are now recurrent or protracted. In 2021, no less than 36 countries are experiencing a 'protracted crisis' [33] but most aid programming horizons

[29] See also Hughes 2022:34 - "*the change of a country lead at an organisation or other senior management in-country could have a huge impact, not just on individual risk decisions, but on the culture of the organisation towards risk sharing in general.*"

[30] See e.g. Mosse, D. (ed) 2011: *Adventures in Aidland. The anthropology of professionals in international development*. Berghahn Books and Autessere, S. 2014: *Peaceland. Conflict resolution and the everyday politics of international intervention*. Cambridge Univ. Press

[31] See OECD 2021: *DAC Recommendation on Enabling Civil Society in Development Cooperation and Humanitarian Assistance.*

[32] Boyes-Watson, T. & S. Bortcosh 2022: *Breaking the Starvation Cycle. How international funders can stop trapping their grantees in the starvation cycle and start building their resilience*. Humentum

[33] Development Initiatives: *Global Humanitarian Assistance Report* 2022:10

remain in the range of 6-36 months. Short-termism also distorts value-for-money evaluations. What is value-for-money in the short term no longer may be so in the longer term – as opportunities for more structural improvements or impacts are missed. Such deeper structural impacts can only be achieved through more collective action, which requires risk sharing.

- Continuation of the practice in which international aid agencies dominate and national/local actors are subordinated is strategically doomed to fail. It is obvious that the cost-inefficient system of competing international aid agencies is not able to provide a country wide, let alone a global, social safety net for any sustained period. It also increases the reputational risk of accusations of racism and neo-colonialist behaviours.

The strategic question: *What legacy do international aid actors intend to leave behind, in terms of greater collective capabilities of national actors?*

Though these risks are real and well known, none of them appears in aid agency risk matrices. So they are ignored. Yet today's global humanitarian, poverty, exclusion, violence, food insecurity, health and other challenges are now of such magnitude and so systemic that everyone's capabilities need to be mobilised and maximised. That cannot happen when the prevailing practice remains one of risk transfer. Collective action requires risk sharing.

Will you turn these new perspectives into practice?

With gratitude to V.H. from the Start Network for the differentiation between a compliance profile and a (fuller) risk profile. Any interpretation of this remains entirely GMI's responsibility. Start Network has been testing this approach to differentiating compliance from risk for the past three years and have operationalised it across its various programmes. To learn more about Start's journey toward reimagining due diligence and reframing risk, you can get in touch with them at due.diligence@startnetwork.org.

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