NEW YORK UNIVERSITY

CENTER ON INTERNATIONAL COOPERATION

UN Development System Risk Management in Fragile States

A White Paper for the 2014 Utstein Group Spring Meeting

Marc Jacquand and Shelley Ranii

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The world faces old and new security challenges that are more complex than our multilateral and national institutions are currently capable of managing. International cooperation is ever more necessary in meeting these challenges. The NYU Center on International Cooperation (CIC) works to enhance international responses to conflict, insecurity, and scarcity through applied research and direct engagement with multilateral institutions and the wider policy community.

CIC's programs and research activities span the spectrum of conflict, insecurity, and scarcity issues. This allows us to see critical inter-connections and highlight the coherence often necessary for effective response. We have a particular concentration on the UN and multilateral responses to conflict.

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Preamble

The following white paper on UN development system[1] approaches to risk management in fragile states has been commissioned by the Permanent Mission of Denmark to the UN in New York to inform discussions to be held under the auspices of the Utstein Group. It was drafted by the Center on International Cooperation (CIC) at New York University (NYU), on the basis of consultations with the Government of Denmark and interviews (written or verbal) with other donors and UN agencies, to include the following:

UN Development Programme (UNDP)

UN Children's Fund (UNICEF)

UN Population Fund (UNFPA)

World Food Programme (WFP)

UN Office for the Coordination of Humanitarian Affairs (OCHA)

UN Multi-Partner Trust Fund Office (MPTO)

UN Development Operations Coordination Office (DOCO)

UN Resident Coordinator Office Nepal

OECD International Network for Conflict and Fragility (INCAF)

Government of the Netherlands

Government of Sweden

Government of Australia

Government of Norway

Purpose of the study

The purpose of this study is to inform donor consultations on UN development system risk management approaches in fragile states by reviewing current practices and presenting a set of recommendations for both donors and UN agencies on a range of risk management challenges.

Abbreviations/Acronyms

BCPR: Bureau for Crisis Prevention and Recovery (UNDP)
CIMS: Contractor Information Management System
CO: Country Office
DAC: Development Assistance Committee (OECD)
DaO: Delivering as One
ERM: Enterprise Risk Management
EU: European Union
HACT: Harmonized Approach to Cash Transfers
HRDD: Human Rights Due Diligence
IASC: Inter-Agency Standing Committee
IGAD: Inter-Governmental Authority on Development
INCAF: International Network on Conflict and Fragility
IPCAT: Implementing Partner Capacity Assessment Tool
ISO: International Organization for Standardization
NGO: Non-Governmental Organization
OECD: Organization for Economic Cooperation and Development
PCF: Programme Criticality Framework
RBM: Results Based Management
RMU: Risk Management Unit
SOP: Standard Operating Procedures
SRA: Security Risk Assessment
SRP: Strategic Response Plan
UN: United Nations
UNCT: United Nations Country Team
UNDG: United Nations Development Group
UNDP: United Nations Development Programme
UNDS: United Nations Development System
UNDSS: United Nations Department for Staff Security
UNFPA: United Nations Population Fund
UNHCR: Office of the United Nations High Commissioner for Refugees
UNICEF: United Nations Children's Fund
WFP: World Food Programme
WHO: World Health Organization

Executive Summary of Main Findings

1. More than 50 percent of the world's poor are projected to live in conflict-affected and fragile states by next year (2015), with latter ballooning to 82 percent by 2025.[2] Correspondingly, country donors and the UN development system (UNDS) have and will continue to increasingly place an imperative on delivering transformative development results in complex post-conflict and fragile contexts. These are risky development situations, where the cost of implementation is high and the potential for project failure and financial losses is significant. In response, UNDS donors have placed an emphasis on greater risk tolerance, coupled with greater emphasis on risk mitigation, management, and sharing. However, challenges currently impede 'smart' risk management methods, many of which emerge from the donor domain and are primarily political in nature.

2. The paper begins by defining the context in which UN agencies are developing and implementing risk management approaches in fragile states. This context is one of operational complexity on the ground and confusion at the policy level, where definitions and understandings of risk management remain fragmented. The paper provides an overview of many UN agency risk management practices, making the point that current challenges do not result from a lack of policies and instruments. In fact, many agencies have undertaken vast efforts to develop or upgrade their risk management 'toolbox', and experiences from Afghanistan to Somalia demonstrate the range, depth, and diversity of practices meant to allow agencies to engage while factoring in many risk dimensions.

3. The challenges reside in the application of risk policies and procedures. While many donors agree that agencies have significantly strengthened their risk management approaches, it is not evident that individual efforts ultimately add up to effective overall risk management architecture for the UN's work in fragile states. Yet efforts to harmonize risk management approaches face significant hurdles, starting with varied organizational objectives, incentives, and definitions among actors, and the case for harmonization across the UNDS remains to be made. It should be noted that donor behavior, messages, and incentives provide further centrifugal pressures on the UN system. The various ways in which agencies are funded also provide a significant disincentive to further harmonization.

4. Harmonization of risk approaches is seen as a means to address a second, perhaps larger, complaint often voiced both within and beyond the UN: the uneven quality and relevance of the risk related information provided to development actors and donors. From project documentation to progress reports, the information generated is often of limited depth and range. Questions on the definition and nature of the risks faced, the mitigating measures put in place, and, perhaps even most importantly, the choices that UN agencies make in such contexts, including ex post measures when a risk has materialized, remain insufficiently addressed or answered too late to support a meaningful dialogue with donors. The underlying causes relate to issues of confidentiality, systems, capacities and skills, and process, including quality assurance.

5. Improved information would go a long way in bringing the UN system together, along with donors, around more effective risk management practices, but it will always face a complexity barrier, which constitutes a third challenge. The contexts that UN agencies face are such that risk management is about trade-offs and resolving operational tensions, many of which cannot be anticipated. This reality speaks to the need for:

i. Enhancing current use of risk management instruments such as Results Based Management (RBM), monitoring, and pooled funds;

ii. Empowering UN management to make real time decisions on the basis of established policies and procedures; and

iii. Conducting a regular dialogue grounded in comprehensive contextual analysis where UN agencies can then discuss these decisions with donors.

6. The need for sustained dialogue, supported by much clearer, timelier, and more accurate risk related information is based on the recognition that donors themselves are subjected to competing pressures from their various constituencies. This fragmentation exists from *within* (a single donor faces multiple imperatives) and *among* donors, who have different risk appetites, shaped by different fiduciary approaches, policy and funding cycles, and strategic interests.

7. While these constitute some of the areas where the UNDS can itself improve on current practices, there are also a number of practical measures that donors can use to support UN agencies in managing risks in fragile states. The paper argues, however, that the **feasibility of joint approaches among donors must be based on convergence of political choices**, notably as these relate to the strategic objectives pursued in a particular context, the degree of risk aversion, and the nature of the relationship that donors seek with UN agencies. Ignoring these considerations undermines any joint technical solutions that donors choose to adopt jointly.

8. These joint technical solutions are focused on four practical issues:

1. The adoption of common language on risks and a common framework for risk management;

2. The development of common UNDS minimum risk management standards in fragile states, on the basis of existing policies and instruments brought together under reliable due diligence process, which would lead, *inter alia*, to an agreed discontinuation of compensation claim policies;

3. The revision of donor guidelines for joint risk management assessments; and

4. A more strategic use of pooled funds as a platform for common risk management responses, as well as greater engagement with national governments.

9. The paper also highlights additional proposals that donors and the UN may wish to explore jointly to raise the overall quality of risk management discussions and solutions. Many represent "trust-building" measures, requiring a reciprocal UN agency commitment to be more forthcoming in discussing internal risk management procedures and in providing quality, timely information on risks faced and problems encountered.

10. As both the UN's work in fragile states and the global appetite for improved risk management practices are on the rise, now is a critical time for donors to engage with each other as well as their UN counterparts. The Utstein Group, as a powerful group of likeminded donors, should pursue such a dialogue with the UN, governments, and other donors in the spirit of partnership, with each one taking measures to promote a shared understanding, address respective constraints, and approach comprehensive risk management as a foundational element of engagement in fragile states.

I. Introduction

1. Somewhere in a remote area of a war torn country, a local NGO is distributing water and health kits provided by a UN agency through a local implementing partner to a group of internally displaced persons, including children fleeing violence and abduction at the hand of militias and government forces. The implementing partner has dedicated staff but rather rudimentary management and fiduciary systems. This implementing partner is also the only organization with enough contacts on the ground with all parties to the conflict to have continuous access to the population.

2. At the same time, in the capital, the government, which recently won the elections, is embarking on an ambitious governance and institution-building program. It is growing increasingly frustrated at the reluctance by the international community to adhere to the New Deal principles of national ownership and the use of country systems. UN agencies have committed to supporting the reform process through sector-based programs and increased national execution procedures. Such procedures however are untested, and trust between donors and the government is very fragile.

3. This is the reality which UN agencies face across the spectrum of fragile states and contexts. It is one of uneasy choices, which transcend the humanitarian-recovery-development divide. These choices are playing out in the Central African Republic (CAR) now, where the UN is being asked to provide relief in life-threatening situations and to disburse stipends to the police to avoid further chaos. Other countries, such as Afghanistan and Somalia, present similar risks and similar dilemmas.

4. How these UN agencies, donor states, and the international community more broadly manage these risks is now an integral part of a growing conversation at the policy level. Numerous initiatives are underway, ranging from internal UN work streams related to the Inter-Agency Standing Committee (IASC) on UN integration to donor-led exchanges, including the 2013 Utstein group discussions, which were supported by a Danish working paper on the issue of risk management, as well as the OECD Development Assistance Committee (DAC)'s International Network on Conflict and Fragility (INCAF)'s forum and its 2011 "Managing Risks in Fragile and Transitional Contexts: The Price of Success?" report.

5. The reasons for the degree of interest in this issue are varied. The environment in which the UN operates has turned more complex, more fluid, and in many instances, riskier. Next to this ground level reality lays the fiscal environment, in which those working in fragile states are often asked to do more with less. These resource constraints, in themselves a source of risk, inevitably call for more attention to effective and efficient risk management approaches. There are also growing constituent pressures for greater accountability, including from non-OECD DAC donors, such as Brazil and South Africa, not only in terms of accountability for results, but also for tighter public resource stewardship and a more consistent application of principles and agreed-upon standards (e.g. human rights, due diligence, environmental protection, etc.). Across most OECD DAC countries, aid agencies are under increasing scrutiny from parliaments, and public scepticism about cooperation is growing. Finally, the anti-terrorism agenda has also added a new dimension to the risk management discourse and practice.

6. The plethora of causes has resulted in a plethora of responses. On the donor side, just to name a few of these initiatives, several countries are now increasingly exploring, and even applying, compensation claims procedures to recoup financial losses that have occurred following financial irregularities in UN development projects. Around the world, both private and public sectors have developed new risk assessment tools and methodologies. Within the UN, risk management policies and guidelines have been updated. Old risk mitigation measures are being revisited, and new approaches are being tested. The conversation is growing, undoubtedly fuelled by, *inter alia*, recent cases of perceived or real risk management "failures" by various parts of the UN development system in conflict affected states such as Pakistan, the Democratic Republic of Congo, Somalia, and Honduras.

7. This white paper on UN development system risk management approaches in fragile states is aimed at supporting this conversation. At a time when almost every actor is thinking and talking more about risk management, the purpose of this white paper is to frame, clarify, and distinguish the various elements of the dialogue and propose a number of ways in which donors can come to an agreement on a joint way forward that is most meaningful and relevant to what actually takes place in the field.

8. It is also essential to explicitly state what this white paper is not. This white paper is neither an in-depth evaluation of individual UN agency's risk management policies and practices, nor is it a paper drafted with the goal of providing definitive technical solutions and templates for how UN agencies can best "do" risk management. The white paper also does not address a range of "standard business risks" that UN agencies face, regardless of context, such as foreign exchange exposure when contributions and disbursements are in different currencies. Instead, the paper is aimed, less ambitiously but perhaps more usefully, at informing donor discussions and clarifying the areas where they may wish to explore common approaches on the basis of a shared recognition of constraints, trade-offs, and opportunities.

A word on definitions

9. As the paper later highlights, neither donors nor UN agencies share a common, standard understanding of what risk means, including whether risk should be restricted to what leads to an adverse (negative) impact or if it should also include the opportunity side. The absence of explicit, shared definitions stands at the heart of many of the challenges that donors and UN agencies both face.

10. Nonetheless, to be able to explore these definitional variances, the paper uses as a reference the categories provided in the 2011 OECD INCAF study "Managing Risks in Fragile and Transitional Contexts: The Price of Success?" which distinguishes between contextual risk, programmatic risk, and institutional risk. As the study defined the terms, contextual risk refers to "risks of state failure, return to conflict, development failure and humanitarian crisis and are factors over which external actors have limited control," programmatic risk refers to the "risk of failure to achieve program aims and objectives and the risk of causing harm through intervention," and institutional risk refers to "risks to the aid provider including security, fiduciary failure, reputational loss, domestic political damage etc."

11. Furthermore, in its focus on various tools used by the UNDS in addressing the various elements and stages of risk and in its proposals for a donor way forward, the paper uses a standard risk management framework articulated around the following four steps: (1) identification (which risks); (2) assessment (impact and likelihood); (3) responses; and (4) monitoring. A number of recommendations, for donors and UN agencies, relate to these specific steps.

II. UN Development System Risk Management Approaches in Fragile States: A Complex Context

The daily realities

12. The conversation about UN development system risk management approaches and how donors can best (and jointly) support them must begin with a shared understanding of the operational context in which these agencies operate. Now more than ever, no two fragile states present the same realities, but in any given country, UN agencies are likely to face a combination of the following challenges:

– Physical threats to UN personnel and implementing/collaborating partner staff

– Limited implementing options (partners, delivery methods, etc.)

– Diversion and loss of aid resources (equipment, supplies, cash, etc.)

– Failure to achieve results (outputs) and inability to support intended recipients (people and institutions)

– Attacks on personal and institutional reputation

– Adverse consequences of projects and programmes on recipient communities (i.e. "doing harm")

– Risks of state failure, development failure, and humanitarian crises[3]

13. Two additional factors add to the complexity. The first one is that all of these challenges are *fluid*. A UN agency's acceptance by local actors, and its access, may improve or deteriorate, at times for reasons that are both unknown and beyond its control. The second one is that this list of risks is constantly *growing*. UN engagement in fragile states is not new, but for many entities, as the context itself changes, interventions in peace building areas are still evolving in the form of expanding responsibilities, new partnerships, and/or delivery innovations. This multifaceted evolution is part of a larger reality: the international community is not shying away from fragile states. Many recent studies in fact point to the opposite. This trend means that new, unforeseen challenges will appear and impact UN operations.

14. Such operational realities and trends bring into sharp focus four foundational messages that speak to the risk management nexus between policies, tools, dialogue, and trust, and which this paper will later revisit:

1. Contextual analysis is the starting point of all risk management approaches and discussions.

2. In fragile states, risk management is often about choosing between several sub-optimal options, for the UNDS and donors alike.

3. Not every risk can be fully "matrixed" in all of its dimensions ex ante, so risk management approaches need to empower UN agency managers in the field to manage in real time.

4. Daily realities in fragile states bring into sharp focus the differences in risk appetites, incentives, constraints, and strategic agendas of all actors involved and highlight the political choices that often accompany the choice of technical solutions that are available.

The definitional challenges

15. At the same time, risk management (identification, response, or monitoring) cannot be fully improvised. The international community has exerted significant efforts to name and categorize risks as an attempt, first and foremost, to organize this operational complexity as a basis for appropriate responses. Across UN agencies and donors, the INCAF taxonomy on the three categories of risk[4] (contextual risks, programmatic risks, and institutional risks) is increasingly used as a shared reference and the basis for policies and operational guidance. Within the OECD DAC community, this common language has helped reduce conceptual confusions, promoted greater understanding, and provided impetus for harmonized approaches.

16. Yet, such common understandings are incomplete and fragile. A review of recent policy papers, project documentation, and country-specific engagement practices reveals that **conceptual and linguistic divergences linger within the UN and within the OECD DAC community.**

- *For some actors, risk is primarily defined, and talked about, as what may happen to populations/beneficiaries. For others, it is mostly about what may happen to an institution's resources, staff, or reputation.*

- *Even within one category of risk, actors construe its meaning differently, with confusion as to whether they are "risks to" or "risks from" a certain event or issue*. For example, contextual risks are at times discussed as the risks that political upheaval or violence may pose to the institution (towards its programs and/or staff). Alternatively, such risks are at times assessed as the impact, negative or positive, that a particular program may make to the overall context, beyond the intervention's immediate contribution.

- *For international actors engaged in fragile states, resilience, disaster risk reduction*[5] *, coping strategies, and other concepts related to people's well being constitute an essential but not the sole dimension of what risk management means.*

17. This paper therefore argues that donors and the UNDS alike should adopt a broader definition of *risks*, based on the INCAF approach, and a process-focused understanding of *risk management*, along the following dimensions: identification, assessment, response, and/or monitoring.

<u>Bean-counting and transformational change</u>

18. Beyond language, definitions, and worldviews, progress in the conversation and actual practice of risk management has been further undermined by the trade-offs and tensions in setting goals, measuring results, and attributing success in adverse environments.

19. From a technical perspective, the problems inherent in the use of Results Based Management (RBM) type

Non-traditional donors and risk in fragile states

Non-traditional donors often view engagement in fragile states through different lenses, with issues of fiduciary or reputational risks usually holding less weight with policy- and decision-makers.

For many of these countries, the decision to provide assistance responds to considerations embedded in larger foreign policy goals on the basis of a very different set of principles (e.g. the solidarity model) in which standard risk dimensions do not feature prominently. Another key difference is that they have traditionally operated outside of the UNDS framework, opting to channel support through their own agencies and relying more on the supply of experts (as well as associated procurement services and security support) rather than on the dispensation of financial resources. When financial resources have indeed been part of the equation, it has often been through the use of triangular arrangements whereby they provide the expertise to a recipient country, with all related costs provided by a "northern" donor. This triangular partnership represents a risk sharing approach to the provision of assistance in fragile states.

However, many of these countries, such as Turkey and Brazil (both significant providers of aid in fragile states), are adjusting a number of their practices.[6] With a rising domestic chorus for both greater transparency on engagement choices and stricter adherence to various norms and principles, some degree of convergence with the OECD DAC type of risk management approaches is likely.

approaches in complex environments have been well documented:

- *Strict linearity between agency project outputs and ultimate impact on the ground is the rare exception, not the rule.*
- *Results, and indicators of results, are subject to divergent perspectives, measurement constraints, politicized interpretations, etc.*
- *As such, delineation of specific and exclusive accountability is challenging (and contested).*

20. Actors therefore often disagree on what can be achieved and who is responsible for what. This further undermines the conversation about risk assessment and risk sharing.

21. The challenge is not just technical. **It is in fact, fundamentally strategic and political**. In theory, the international community has agreed on a set of principles of engagement in fragile states, which should translate into a fairly high tolerance of risk. In practice, there are inevitable tensions between many of the agreed principles, and actors place varying emphasis on different imperatives. A focus on immediate results may often mean going for small, easy wins but to the detriment of potentially larger, transformational change. An exclusive emphasis on fiduciary controls often conflicts with calls for greater national ownership.

22. Different perceptions and tolerance of different risks translate into vastly different engagement strategies on the ground and constitute **powerful political signals to the recipient country**. Donors need to be clearly aware of such signals and the position in which they place UN agencies through their risk management demands or expectations.

<u>Donor fragmentation</u>

23. Such demands from donors are often highly fragmented. In addition to conditions on the ground and on-going conceptual and technical barriers, UN agency approaches to risk management are also shaped by new and divergent thinking on the part of OECD DAC donors as to the best way to do risk management, with some adopting more conservative, risk averse practices and others tilting towards a higher tolerance for risks. While all donors share a zero tolerance policy when it comes to corruption, it is *how* this policy is applied in practice, including what is expected of UN agencies, where divergences occur. For some, it means no fiduciary loss no matter what, and compensation if and when such losses take place. For other donors, it translates into a more nuanced approach, with greater emphasis on due diligence and transparency as a condition for risk sharing rather than punitive measures.

24. Hence, donor demands and expectations resulting from a plurality of understandings and tolerances towards risk can drive UN agencies down a slippery slope towards stiflingly risk averse practices that cater to the 'lowest common risk denominator' and lead to mediocre results at best in practice. At the same time, taking a step back, it is important to recognize that donors are also subject to many competing pressures from their various constituencies. This fragmentation exists from *within* (i.e., a single donor faces multiples imperatives) and *among* donors (i.e., donors have different risk appetites, shaped by different fiduciary approaches, policy and funding cycles, and strategic interests). As a result:

- *The range of disparate measures, incentives, perspectives, and signals within the donor community has a centrifugal affect on UN agencies, pushing them in different and, at times, mutually exclusive directions.*

25. To address these various constraints and work towards a more coherent donor approach to UN agency practices, the paper now proposes to examine the issue from the UN agency perspective.

III. UN Development System Risk Management in Fragile States: A Work in Progress

State of play

26. The issue of risk management is now an integral part of UN agency reform efforts in fragile states and beyond. There is now in fact a lot of thinking and work on the issue based on a widely held recognition that, until a few years ago, risk management stood as a marginal, somewhat isolated component of the UN agency's managerial and operational toolbox. Outdated practices, lack of clarity on roles and responsibilities, and insufficient connections between field and corporate decision-making processes were among the several challenges to effective risk management and its application to realities on the ground.

The UN agencies, in various ways and to varying extents, have invested in:

i. Updating their risk management policies and guidance, and

ii. Consolidating various risk management dimensions into more comprehensive frameworks that address the multi-dimensional nature of risk management.

28. In recent years, many UN agencies have undertaken a range of efforts to strengthen the way they identify, discuss, mitigate, and respond to risks, working on, to use a bit of organizational risk management terminology, all three "levels of defense[7] ": (1) operational management, (2) risk management and compliance, and (3) internal audit. These efforts include, first and foremost, the complete panoply of Enterprise Risk Management (ERM) elements including:

- ERM corporate policies and frameworks, aligned (explicitly or de facto) with ISO 31000, supported, in several instances, by ERM reference guides (e.g. UNICEF) and/or Risk Appetite Statements (e.g. WFP)
- Risk logs and registers, as stand-alone corporate tools and as inputs into program/project documents
- Risk classifications of implementing partners (e.g. UNFPA's Implementing Partner Capacity Assessment Tool - IPCAT)
- Risk management focal points (or liaisons) in the field and at HQ, including risk management units/secretariats

29. To ensure adequate mainstreaming into programming and day-to-day operations, risk management responsibilities and procedures are referenced in agency programming manuals and project documents, including templates submitted for review by agency project review committees and HQ managed trust funds.

At the individual agency level, the legal and policy architecture around risk management is, more or less, in place.

30. There is greater awareness and guidance as well on the range of risk management approaches that UN agencies may use to address various dimensions of risks. These include a range of managerial, programmatic, and fiduciary instruments in the areas of:

- Risk assessment
- Financial auditing
- Investigations into irregularities
- Staff safety and security measures
- Conflict sensitivity and 'do no harm' programming
- Remote programming (used in particular in Iraq, Somalia, and Afghanistan): third party monitoring, beneficiary feedback, etc.
- Funding (to implementing partners): in tranches, with bank guarantees, etc.
- Partner vetting (e.g. according to UN anti-terrorism rules and regulations)
- Supply chain and equipment management

Sample of field level risk management instruments	
Instrument	**Description**
Program Criticality Framework (PCF)	The PCF is a systematic process to support decisions on UN agency staff presence in areas presenting high degrees of staff safety risks. The process combines analysis provided by the UN Security Risk Assessment (SRA) with an assessment of need and risks to the population if services are interrupted. It entails prioritization of interventions and assigns rankings of programmer criticality according to standard criteria and definitions. The analysis is captured and presented in a Microsoft Excel based tool. It is a common tool used collectively by all UN agencies
Pooled Funds	(See box on page 24.)
Risk Management Units (RMU)	RMUs constitute a shared resource among UN agencies, tasked with analyzing risks, vetting implementing partners, and supporting the design of mitigation measures. Their scope can vary from an exclusive focus on fiduciary risk to a broader purview encompassing fiduciary, reputational, and political dimensions of engagement in fragile states. (See box on Somalia RMU on page 17.)
Harmonized Approach to Cash Transfers (HACT)	The HACT shifts the management of cash transfers from a system of rigid controls to a risk management approach by simplifying and harmonizing rules and procedures for transferring resources to implementing partners while strengthening their capacity to effectively manage resources. The approach uses macro and micro assessments, conducted with implementing partners during program preparation, to determine levels of risk and capacity gaps to be addressed. It uses assurance activities such as audits and spot checks during implementation and it introduces a new harmonized format for implementing partners to request funds and report on how they have been used. (See www.undg.org.)
Conflict Sensitivity mainstreaming	In many contexts, UN agencies provide conflict sensitivity and "do no harm" training to inform programming and monitoring. Several have developed specific guidance (e.g., UNICEF's policy on peace building and education), and the UNDG has developed common guidance. Adherence to conflict sensitivity principles and practices is often used as a selection criteria in country level pooled funds (see box on page 17) and for HQ based trust funds (such as the BCPR Thematic Trust Fund for Crisis Prevention and Recovery),
Remote programming	In contexts such as Afghanistan, Somalia, and Iraq, where staff may be under severe physical threats, various UN agencies have resorted to remote programming, using a combination of methods and contractual modalities, such as: 1) Web-based project monitoring, through the use of computer system to monitor project activities undertaken by local partners, SMS and uploading of pictures, and payments tied to photographic evidence. 2) Third party monitoring through the contracting of specialized monitoring agents, independent of project implementation. 3) Beneficiary/local community feedback whereby local community groups or beneficiaries are equipped and/or formally contracted to monitor activities in real time, and upon completion of the activities. 4) Triangulated monitoring, through the simultaneous use of vendors, local government officials, and community members to provide feedback and sign off on each project activity.
UNFPA's Implementing Partner Capacity Assessment Tool (IPCAT)	UNFPA uses its own internally developed Excel-based tool to evaluate any potential implementing partner they are considering to implement a UNFPA project. The partner is scored along several lines, including its own governance structure, financial and procurement indicators, in addition to other indicators of interest to gauge the partner's capacity to implement a project. If the partner scores too low on the evaluation, the UNFPA is obligated to do capacity building with that implementing partner if they want to use their services. After a few project cycles, implementing partners are required to be evaluated again, in order to provide updated evaluations of their internal capacity.

31. It is worth noting that few of these instruments let alone policies have been specifically designed for fragile states. For many agencies (e.g., UNHCR, WFP), this distinction would be irrelevant given the nature of their mandate; for others, such as UNDP, the context determines the saliency of a particular risk and its appropriate response, not the underlying approach to risk management. Similarly, UN agency risk management policies and instruments do not make an explicit distinction between humanitarian and development activities: various risks may apply to a range of interventions, regardless of their typology, and various mitigation measures may be similarly relevant to both a humanitarian intervention and a development project. From a UN agency perspective, the operating context seems to be too complex and fluid for making such distinctions. Relatively stable countries may share several risks with conflict-affected countries. Within fragile countries themselves, the risk profile varies widely.

32. However, within this overall understanding, several tools and approaches have been or are being developed specifically for fragile contexts, including:

- *Fast track procedures*, which provide for greater decentralization of decision-making authority on issues such as procurement and recruitment in cases of emergency. From a risk management perspective, the essence of fast track procedures is to simultaneously address a multiplicity of risks at once: to be able to respond to an urgent need (contextual and programmatic risks) with due regard for reputational and fiduciary requirements (institutional risks).

- *Risk management units* (see box), which offer common analytical and training capacities to assess implementing partners.

- *Minimum risk management standards*, such as the ones that UNICEF is currently developing for each of its Country Offices (CO) operating in fragile states. It is important to stress however, that these standards consolidate existing tools and steps, and systematize their use, rather than inventing new ones.

The UN's Risk Management Unit in Somalia

In Somalia, a country that continues to be affected by violent conflict that has spanned decades and is rated as the most corrupt country in the world by Transparency International, the UN Security Council "called on Member States and the UN to take all possible steps to mitigate the politicization, the misuse and the misappropriation of humanitarian assistance" in resolution 1972 in 2011. Following this call for increased accountability, the UN country team in Somalia developed an ERM to be used by all UN entities working in Somalia (UNCT), as well as partners and donors, regardless of whether they were providing humanitarian or development assistance.

The UN country team went further and established a Risk Management Unit (RMU) comprised of two staff and headed by a Risk Manager. The RMU is tasked with facilitating "effective, efficient and harmonized assistance to the people of Somalia while mitigating risks associated with the delivery of assistance" and works within the Office of the Resident and Humanitarian Coordinator, making it somewhat independent and impartial with respect to the individual UN agencies and programmes. Focusing primarily on the fiduciary and reputational risks associated with the selection of local partners, the RMU provides risk management training to UN staff in Somalia as well as to partners and donors. They also created a Contractor Information Management System (CIMS) to allow information sharing regarding due diligence done on potential implementing partners across UN agencies.

The RMU, when designed, was unique within the UN system and, though not without some drawbacks including limited staff capacity and mobility, was noted by the UN Monitoring Group Report in July 2012 as a best practice. This concept is currently being explored in its application to the UN's work in Afghanistan.

Harmonization efforts

34. A critical feature of UN agency risk management relates to past and on going efforts to harmonize its various dimensions. As previously mentioned, the area of greatest commonality resides in staff safety and security under the UNDSS leadership. The Program Criticality Framework (PCF) now constitutes a system-wide tool, designed to support senior leadership decision-making as to whether, when, and how to continue delivery and authorize staff presence in the face of physical threats.

A significant development since the 2009 reform to the UN security management process relates to the increased links between staff security and programmatic risks. Moving from "when to leave", the UN has shifted its thinking towards "how to stay", on the basis of a greater articulation of the risks that the UN's presence/absence may pose to a range of actors, and to programmatic and operational outcomes.

UN staff safety and security: the reforms

In 2009, following a string of deadly attacks on UN personnel, the UN significantly revamped its safety and security procedures, adopting, *inter alia*, a new Programme Criticality Framework (PCF) designed to shift agency mind-sets and practices of "when to leave" to "how to stay and deliver". For the purpose of this analysis, three features of the UN's security framework stand out:

- *Staff safety and security are core dimensions of risk management; they are not however isolated from overall risk management.*

- *The PCF is the most integrated UN risk management process across its agencies and programs.*

- *The PCF follows the OECD DAC INCAF logic of linking agency presence with contextual needs and outcomes.*

35. Harmonization has also extended to other dimensions of risk management. The Harmonized Approach to Cash Transfers (HACT), which focuses on implementing partner fiduciary capacity, has been rolled out by the UNDS in many countries, including fragile ones such as the Democratic Republic of Congo and the occupied Palestinian territory (oPt). By setting out measures, including risk assessments, that all UN entities must take in order to ensure that any support that they may provide to non-UN forces is consistent with the purposes and principles as set out in the Charter of the UN, the Human Rights Due Diligence (HRDD) Policy constitutes a shared approach to programmatic and institutional risks. Finally, the increasing use of pooled funds in a number of conflict-affected countries provides a common fiduciary risk management instrument (see box on pooled funds on p. 22). In fact, fragile states seem to be where there is growth in interagency risk management approaches (e.g., Somalia's Risk Management Unit which is now being replicated, to some extent, in Afghanistan). Despite these initiatives however:

- *Joint/shared UN interagency risk management policies and instruments are the exception rather than the rule:* the use of the common tools (Program Criticality Framework - PCF, Harmonized Approach to Cash Transfers - HACT, HRDD Risk assessment) is either tied to a specific risk (e.g., security, human rights) and undertaken in silos, or uneven (e.g., across countries).

- *Terminology and perspectives at times differ:* while UN agencies all possess tools designed to address the range of contextual risks (e.g., conflict analysis), institutional risks (e.g., HACT), and programmatic risks (e.g., project review criteria and committees), the policy discourse about risk often diverges depending on the source, with risk management being spoken or written about either solely in terms of risk to beneficiaries or only from a fiduciary perspective.

36. This lack of a common approach has been recognized in various fora. Within the humanitarian community, building on agency-specific initiatives such as the WFP Partnership Consultations, an IASC work-stream is currently underway

to survey all risk management practices and explore areas where greater harmonization would be possible. The UN's integration agenda, which focuses on integrated assessment and planning between UN peace operations and UN Country Teams, has identified risk management as a critical gap in how the overall system comes together around similar analysis and common measures. The UN Development Group (UNDG) has also begun discussions around the need to link the risk management agenda with its broader coherence work stream, organized around the Delivering as One (DaO) initiative and its recently released Standard Operating Procedures (SOPs). It is important to notice however that, by nature, the DaO (and the SOPs) includes various risk management elements but it does not explicitly focus on common risk management approaches nor does it aim, for now, to harmonize respective agency frameworks.

The business case for a common comprehensive UN interagency risk management approach, despite its potential benefits, has yet to be made.

37. A priori, the value of harmonized risk management approaches seems obvious, as it is seemingly quite inefficient to have each agency 'fend for itself' with regard to risk management practices. Yet, in practice, there are many difficulties that UN agencies face in translating their internal efforts towards greater comprehensiveness and harmonization in a UN system-wide process . These challenges include:

- Different mandates, identities, cultures, objectives, and incentives
- Different sources of funding (see box)
- Different degrees of (de)centralization
- Confidentiality concerns
- Transaction costs of inter-agency processes
- Additional burden of complying with both agency-specific and common UN processes
- Concerns over additional resources required to support common approaches

38. The first two challenges, which reflect structural differences, often pull UN agencies in different directions, with several having an instinctive bias towards controlling for fiduciary risks and others being more attuned to contextual risks and the harm resulting from not providing support to beneficiaries. These centrifugal pressures exist among agencies, as well as within agencies.

39. It is therefore essential for UN agencies and their donors to ask themselves whether these constraints can be overcome and whether the potential benefits of harmonization, which should include reduced overall risk management costs as well as enhanced information sharing, outweigh its various costs. **The IASC approach, which seems geared towards unpacking the various elements of risk management and strategically selecting those ripe for harmonization provides an interesting middle way.**

Information

40. It is nowadays increasingly difficult to impugn the UN system and its agencies in particular for lack of having policies, guidelines, protocols, and technical tools, including those previously described. As several UN colleagues indicate:

The true challenge lies in how this normative, legal, managerial, and technical framework is applied.

Funding structures, unpredictability, and risk management

UN agencies vary in mandate, size, and governance structures, but one of the most influential factors in how they operate, in fragile states in particular, resides with how they are funded. From UNDP to WHO and WFP, funding structures differ, with several having access to core and non-core resources, others relying almost exclusively on project-level funding, and a few combining a mix of core, non-core, and assessed contributions.

The type of funding structure has significant impacts on the agencies' ability as well as incentives to conservatively or ambitiously manage risk in unpredictable environments, with core or assessed funding providing the greatest degree of flexibility to respond to unforeseen events and/or build new risk mitigation strategies. Other quasi-core instruments such as corporate reserves or thematic or geographical trust funds can provide a similar financial buffer, as long as the level of earmarking remains limited. In addition, agencies that rely almost exclusively on project-specific, voluntary funding may be under more accountability pressure to their donors than those agencies that can combine non-core funding with core resources.

The conversation about UN harmonization of risk management approaches and what can be expected of each agency must therefore take individual agency funding structures into consideration. It must also recognize that the current heterogeneity and the trend towards greater non-core, project-specific funding in the overall share of agency funding constitute severe impediments towards common UN agency approaches.

41. It is essential to be very specific about the nature of this challenge, <u>as it pertains to donor-UN agency relationships</u>, by highlighting the following:

- *UN agency performance in fragile states, across all three main categories of risk, is relatively high, with the number of documented cases of contextual, programmatic, and fiduciary "failures" being somewhat minimal compared to the breadth and depth of UN interventions in such contexts.*

- *The nature of the challenge is therefore not one of poor compliance; it is one of information flow and thus one of dialogue and trust.*

42. The challenge can be described at best as the uneven clarity and quality of risk-related information generated and shared with donors and the public by UN agencies operating in fragile contexts. As both donors and UN staff would attest, despite all the right policies, tools, and instruments, the assessments that guide decisions on staff presence, resource allocation, delivery methods, and so forth are often incomplete, static, and/or insufficiently analysed. The problem can be further unpacked along the following lines:

- *The process issue*: Inputs for a comprehensive risk assessment remain fragmented, with missed opportunities for cross-agency pooling of information that could broaden and deepen individual understandings of the context and the various risks that affect every agency. This underutilization of staff knowledge and sources for in-depth assessment that each entity could draw on is particularly acute in settings where a peace operation is deployed.

- *The human capacity issue:* Comprehensive risk assessment combines data collection and analysis to identify connections, monitor trends, and draw relevant conclusions for programming. **This process requires a specific skill set, one that is able to speak to and bridge the various dimensions of risk (contextual, programmatic, and institutional)**. This task is often undertaken either by thematic staff (e.g., disarmament, demobilisation, and reintegration; governance; job creation; etc.) or administrative specialists who are ill-equipped to properly address components that extend beyond their own specific area of expertise. Such versatile profiles are in short supply given the UN system's fragmentation and history of "silo-ed" approaches (both within agencies and among agencies). At the same time, specific risk assessments (e.g., of a partner's fiduciary systems) are also often left to programmatic staff with limited financial control experience. To compound the matter, staff in country offices move frequently, resulting in the need for almost continuous training on both comprehensive and specific risk assessments. As a result, effectively ensuring the hiring, continuous development, and deployment of the right expertise to generate high quality risk related information takes time and money.

- *The quality assurance issue:* UN agency risk management approaches involve a large degree of decentralization, which is designed to empower local level leadership and ensure that implementation follows contextual realities. However, few of the risk management systems reviewed provide for a meaningful role on the part of regional and headquarters based staff to perform quality assurance functions and/or for sufficient resources allocated to quality assurance. Such a role need not be interpreted as control. Its aim is to ensure that all risk related probabilities are considered and that daily proximity to the field does not result in tunnel vision. As a result, the uneven quality of the risk-related information provided (in risk registers or in project documents) often goes unaddressed.

43. These challenges explain the near unanimous sentiment expressed among donors, as well within various UN agency circles, about the limited quality of the reporting provided by UN agencies. While donors are aware that the UN agencies are using their own risk management processes, donors have stated that they have been kept in the dark about the specifics of the methodologies the UN uses to do its own risk management. This is of especially concern for donors who give un-earmarked funding, as it is essential that agency-wide practices on risk management be in place and work well to ensure proper use of such funds. Furthermore, donors who understand the complexity of engaging in fragile states lament the exclusive focus in UN agency reports on the activities and outputs produced, to the detriment of in-depth and "honest" reflection of the context, its risks, and the rationale for choices made by agencies. In one donor's words, "if the UN and donors are expected to share the risk, we have to share the knowledge." A recent report from the EU Court of Auditors summarizes the weaknesses of UN reporting by highlighting the issues of depth and timing. Both matter. Information that is both superficial and delayed reduces donor comfort and increases donor reflexes towards more risk-averse safeguards and guarantees.

44. On a related note, when there are reports of financial irregularities and the UN agencies undertake an investigation into a project, they may not inform donors about the investigation until it has been completed. Many donors have been taken by surprise by receiving news of financial irregularities in UN projects they have funded through newspapers or other forms of public media, which has caused difficulties with their domestic constituencies. With regard to UN investigations, donors have expressed the desire to be informed when a project they have funded is under investigation, though not necessarily the specifics of the case so as to not compromise any on-going investigative work. Designing improved irregularity notification systems for donors that respect the UN's investigative processes and need for a certain degree of confidentiality is a challenge but also an area for potential progress to be made in discussions moving forward with UN agencies and donor states.

> *Donor trust in agency engagement in fragile states is shaped, inter alia, by the quality, timeliness, and honesty of agency documentation, from project proposals to reporting.*

45. Such mistrust can be pre-empted from the outset, in the project proposal as well as through continued dialogue. However, insufficient or superficial risk-related information undermines agency-donor communication on results to be achieved, respective responsibilities, and risk sharing options. There is significant scope for UN agencies to better shape this dialogue by having project

documents that spell out more clearly the various risks involved and what the agency should or should not be held accountable for.

Operational tensions

46. Harmonized approaches, clarity of information, and quality of reporting constitute important measures to support a constructive dialogue on risk management and shape donor expectations and responsibilities. In fragile states however, they should not be expected to resolve all tensions inherent to risk management.

> *In fragile states, donors must reconcile themselves to some degree of residual uncertainty and accept that UN agencies are often confronted with competing imperatives.*

47. The first operational tension resides in trade-offs, experienced by UN agencies, between various risk management objectives. In fragile contexts, it is often difficult to address various risks simultaneously. In fact, measures to decrease one type of risk often result in an increase in another type of risk. Remote programming provides clear evidence of this dilemma. With UN staff managing projects from abroad, security risks diminish. In most cases, a range of techniques, including third party monitoring, population feedback, and the use of video-technology mitigate the fiduciary risk. The risks that may increase relate to the agency's reputation, with resentment created by the staff's departure, and the perceptions of risk dumping by the UN onto its local partners.

48. Risk assessment processes also often bring into sharp focus the very limited set of options that UN agencies have for programmatic delivery in fragile state contexts. In the first example provided in the introduction, the local NGO with dedicated staff but rudimentary systems may be the only option available to the UN agency mandated and supported by donors to provide relief to the population in need. Similarly, it is difficult for agencies to delve into recipient government practices with the degree of rigor demanded by best risk management practices, and agencies attempting to do so may spend political capital on the issue to the detriment of other critical interventions.

49. These examples also reflect a growing concern within UN agencies, with the blurring of the lines between risk management approaches and politicization of assistance. The most obvious and most documented dimension of this challenge derives from the anti-terrorism agenda, but it is not the only one. There are additional, more subtle, and at times unforeseen ways in which risk management concerns come into conflict with mandate obligations. For donors and UN agencies alike, risk management imperatives can translate into a range of choices such as geographical focus, delivery mechanisms, and depth of intervention that may ultimately weaken both humanitarian and development results. In particular, the "value for money" incentives for quick easy wins, of visible short-term value but dubious long-term effects, often grow out of particular risk management requirements. Similarly, the impact of risk assessment findings on an agency's tendency to closely adhere to "business as usual" varies unpredictably. In this regard:

> *Donors wishing to see risk analysis shape and guide UN programmatic choices must recognize, accept, and at times fund the potential changes (in staffing, etc.) that such analysis may require.*

50. Finally, UN agency interventions in fragile states rarely occur in the absence of a UN peace operation, in the form of a special political mission or a peacekeeping mission. As such, per UN policy, agencies are called to engage with the mission under the principle of integration. The real progress made within the UN system on integration, and on integrated assessments and planning in particular, does not diminish the salience of on-going discussions and disagreements regarding the opportunities and risks that integration poses to humanitarian space and principles. As previously indicated, UN agencies lack a common comprehensive risk management approach. The gap is even wider when one includes secretariat entities, where risk management remains heavily tilted towards its safety and security dimension. Such an absence contributes to the divergence of views on the value and inherent riskiness of integration. Since the UN system is a long way off from developing a common corporate approach, it may be easier, for the time being, to focus on leveraging

UN agency and mission risk-related information-gathering capabilities.

The pooling of risk related information across security, political, governance, social, and economic dimensions remains an oft-missed opportunity across many fragile contexts where the UN has multi-dimensional capabilities.

In mission settings, donors should encourage context-specific integrated approaches to risk management, with a focus on more systematic sharing of information for more comprehensive contextual risk assessments.

51. It is doubtful that many of these challenges can be resolved exclusively through the development of new policies or new tools. Instead, many point to the need to combine selective harmonization with replication of effective approaches and commitments to a systematic dialogue that is context based and transparent.

Pooled funds and risk management

In recent years, UN agencies, under the leadership of the Resident Coordinator function and with donor support, have established pooled funds in a large number of fragile countries and contexts.[8] These pooled funds bring together UN agencies, donors, and government representatives to collectively agree on how to allocate resources based on national priorities. The advantages and limitations of such instruments have been well documented, including the risk posed to context as a result of disbursement delays.

Beyond the instruments' inherent risk-sharing dimension, there are various ways in which they address elements of contextual, programmatic, and institutional risks. Funds in places such as Nepal and Sierra Leone provide resources on the basis of a *competitive process*, with criteria focusing, *inter alia*, on risk assessment and conflict sensitivity to ensure that projects combine fiduciary safeguards with a "do no harm" imperative. Funds often pursue this similar dual objective through *tranche funding*, whereby resources are disbursed to eligible UN agencies gradually, upon verification of delivery and proper financial accounting. Even where a *tranched* approach is not possible, project risk management can be tracked and acted on through mandatory project management milestones such as annual context and do-no-harm/risk analyses and the inclusion of conflict sensitivity considerations in midterm and final evaluation criteria to ensure that risk management remains a focus during project implementation. These risk management procedures are now well established. The pooled funds however often represent a missed opportunity to address risk from a broader and more comprehensive perspective. Few, if any, of them use the governance mechanisms in place to develop a shared understanding among the UN, government, and donors of the overall risk context and feasible mitigation measures in a manner that informs not only resource allocation within the fund but each actor's decision-making in the country overall. As noted in various reviews, trust funds are more than funding channels. They can also offer an organizing platform for common policymaking, including on risk management.

Finally, for many donors, pooled funds bring into sharp focus the tension between control and constituent accountability on the one hand and risk sharing and delegated decision-making on the other, especially when their contributions are not earmarked to specific projects or specific implementers. It is difficult to reconcile and communicate about this trade-off, unless the fund develops clear allocation criteria, on the basis of a shared contextual analysis and an agreed risk appetite that can justify decisions made, and the realities that lead to programmatic successes and failures.

IV. Donor Approaches: Moving Forward

52. In light of the context in which UN agencies operate, and current practices and challenges, this section offers a set of implications and recommendations for donors, with a focus on joint approaches. The analysis distinguishes the political choices that donors face from the range of technical solutions they may consider. However, the two are linked, as the relevance of various technical proposals will inevitably be a function of the political choices made.

Political choices

53. Donor discussions on risk management (and what donors expect from UN agencies with whom they partner to deliver assistance) are intrinsically linked to decisions on the nature, rationale, and objectives of UN engagement in fragile contexts. These must precede, and inform, rather than follow the choice of technical solutions and the desirability of harmonizing risk management approaches.

54. This paper argues that such decisions must combine three inter-related dimensions:

1. The strategic goal(s) pursued in a given context
2. The prioritization of risks that matter
3. The nature of donor relationships with the UNDS and the role the UNDS should play in fragile states

55. How donors assess, manage, and even talk about risks carries significant political value. The right risk management approach, and the potential for harmonization with other donors, is a function of the goals being pursued in a particular context, and the messages that one seeks to convey to counterparts. As within the UN system, joint risk management approaches among donors are more likely to be effective if they correspond to and support joint strategic objectives.

56. In this discussion, donors must also recognize that not all risks are equal for any given actor. It is important for each one to assess, on the basis of various factors (including domestic politics), which risks (fiduciary, contextual, etc.) matter the most and the least for each donor, determine the appropriate risk appetite, and compare and contrast accordingly. Even in situations where donors may share similar strategic objectives, difference in risk priorities and appetites will undermine efforts to harmonize approaches.

57. Finally, donor approaches on UN risk management in fragile states brings into focus **the nature of the partnership that donors want to have with the UN system**. An approach that views UN agencies exclusively as project implementers, on par with NGOs or private companies, translates into a standard business relationship, with the letter of the contract as the sole reference. An alternative perspective, one that recognizes that UN agency presence in these contexts is also about norm setting or protection and as an impartial facilitator (of processes and agreements), requires a deeper partnership in which both the spirit and the letter of the contract matter. It is therefore important for donors to recognize that their expectations and demands on how the UN manages risks constitute ***important political choices***, which shape UN engagement in these contexts. Such expectations and demands affect agency space, capacities, and identity in the eyes of those they serve.

58. These suggested filters (commonality of goals, risk appetites, and UN roles) are not designed to discourage donor harmonization efforts. They are however meant to allow for a more informed discussion and ensure that decisions made on a technical way forward for harmonization rest on solid strategic foundations. Without clarity on these three dimensions, this paper argues that the following proposals for harmonized approaches may not meet expectations.

Technical solutions for greater harmonization

59. Assuming clarity on these political questions, the following set of proposals is based on an explicit choice as to the nature of the relationship between donors and the UNDS in fragile states. It is one that views the role of UN agencies as extending beyond that of mere implementing contractor, by recognizing the UN's value in a range of important roles in such settings: a provider of research and analysis, a neutral gatekeeper for international norms, a

political voice and an advocate, a facilitator and mediator, and a capacity builder.

60. Under this approach, it is important for donors and UN agencies to approach the issue of risk management as *partners*, as both sets of actors face similar challenges, and few of the risks can be met without close alignment between the two. In this partnership, the way forward may consist, first and foremost of a "help me to help you" approach whereby steps taken by each side would provide the comfort and space required by the other to move forward.

61. For donors to reduce the centrifugal pressures on UN agencies, it is essential for them to consolidate their approaches, messages, and expectations, seeking both greater internal coherence (among the various departments that engage with UN agencies) and greater alignment among donors themselves. In particular, donors may want to explore greater harmonization in the following, mutually reinforcing areas:

- <u>Common donor language and definitions:</u> It is difficult to envisage much forward movement on harmonized risk management approaches unless and until donors adopt a common "risk language". The OECD INCAF taxonomy offers a useful starting point for this first essential step. But as this paper has indicated, some confusion lingers. Therefore, it is important for donors to consider a two-pronged approach to risk management definitions.

  Potential donor action: Donors should adopt the OECD INCAF categorization of risks (contextual, programmatic, institutional) and ask the INCAF task team to clarify, under each category, the relationship between the event and the target of impact.

  Potential donor action: In addition to this broad and multi-faceted understanding of risks, donors should also agree on a joint framework for risk management, which encompasses the four key risk management dimensions of identification, assessment, responses, and monitoring.

- <u>Minimum UN agency due diligence</u>: Following the UNICEF approach, donors may explore having UN agencies develop a set of minimum managerial, operational and fiduciary steps to be undertaken in each fragile context, drawing on the range of policies and tools currently in place. However, rather than requesting new risk management instruments, these minimum steps would bring together existing instruments under one standard process that is reliably undertaken by each agency, and one that combines corporate wide elements with country specific needs. The two framing pillars of such an approach would include a *rigorous contextual analysis with all possible risks assessed* used both as the starting point and the rationale for any deviation required, and timely reporting that dedicates more attention to choices made rather than just activities undertaken and results achieved. The minimum steps would provide the foundation for a genuine *quid pro quo*: the UN agencies could provide greater clarity in project documents on risks (what type and whose risks), mitigation measures, and choices made, and **donors could truly share the risks with the UN** and refrain from requesting additional measures. Provided that all elements of due diligence are in place, the UN and donors would assume the consequences jointly, on the principle of "united we fall".

  Potential donor action: To increase coherence, donors should advocate for common minimum standards across all UN agencies operating in fragile states (with due regard for agency specific requirements) and common tools/systems/mechanisms, through the DaO/integration or Transformative Agenda processes where relevant

- <u>A harmonized agreement to forego compensation claims:</u> Beyond the myriad technical and legal issues that compensation claims generate, it must be stressed that the logic of such a measure runs in many ways counter to the principles of, and rationale for, engaging in fragile states, and to the type of transparency, risk taking, and decision-making processes that are conditions for success in such environments.

Potential donor action: A joint donor agreement to forego compensation claims could be linked to the minimum due diligence steps above, by stating that such claims will be discontinued upon evidence of reliable and systematic due diligence.

- Revised guidelines on joint risk assessments: In theory, these initiatives meet a number of well-established principles of engagement in fragile states, as they theoretically should lead to lower transaction costs on everyone and greater harmonization of practices based on a shared understanding of contextual realities. Yet, as with many other good ideas, the practice is often underwhelming and even problematic. To make such exercises more useful, donors may wish in particular to agree on guidelines that ensure that greater attention is given to a number of practical considerations

  Potential donor action: Joint risk assessments should, to the extent possible, be conducted with government counterparts and UN agencies, on the basis of agreed definitions and common objectives (including links to funding decisions/instruments).

  Potential donor action: To minimize transaction costs, joint risk assessments should be embedded in on going planning processes (national plan, humanitarian SRP, etc.), rather than conducted in isolation – country-wide assessments should provide a common basis for the conduct, if required, of specialized, sector-based, risk assessments.

  Potential donor, government, and UN joint action: Conflict analysis should form an essential element of joint risk assessments: donors, government, and the UN will need to agree on methodology and ensure greater links between the findings of the conflict analysis and the operational responses

- Donor agreement on risk assessments for pooled funds: It is often difficult to find the space and platform to conduct meaningful and inclusive discussions on risks assessment, due to political sensitivities, absorption capacity limits, time constraints, etc. In this regard, **country multi-donor trust funds offer donors and the UN the opportunity to achieve multiple risk management objectives at once**. The governance structures constitute a platform to develop a shared understanding of the context, harmonize donor requirements adapted to the field realities, and engage the government on risk management challenges. As previously discussed, few of the current UN trust funds are used in such a manner.

  Potential donor, government and UN joint action: As part of their funding policies, donors, governments and the UN could agree to come together within UN multi-donor trust funds to develop risk management strategies that clarify the following elements: the stakeholders' shared understanding of context, the fund's risk appetite, the common risk management safeguards that eligible recipients must present in order to obtain funding, and common reporting and messaging strategies.

Additional technical measures

62. A number of practices cited in the literature, implemented in the field or discussed in policy circles merit greater consideration. The first one relates to the *transparency on budgets and costs associated with risk management approaches*, from assessments to mitigation measures. The aforementioned need for greater clarity on context, risk allocation, options, and decisions made needs to be supported by greater clarity on the financial implications of various responses, in order to inform a more honest dialogue with donors. Few project documents allow for strategic engagement on different programming options based on the various dimensions of risks and costs of each approach. Several donors are now calling for risk (mitigation) costing, based on clear analysis of trade-offs, which would facilitate risk sharing en connaissance de cause.

63. A related practice that is receiving increased attention relates to the establishment of *risk reserve funds or the inclusion of insurance costs in project budgets*. For reasons at times similar to those associated with compensation claims, this approach appears more problematic than useful. The potential risks of such solutions are fairly evident: moral

hazard on the part of the UN agency and free riding on the part of donors who do not participate but may benefit. The costs and challenges are also relatively apparent: lengthy discussions on rates, triggers, and definitions. And the contradiction is patently clear: a donor contribution used to cover another donor contribution.

64. Several donors have already made it clear that they would not support such an explicit risk reserve fund. However, a related idea of having a higher cost recovery rate in certain fragile and conflict affected countries in which the risks of 'doing business' are greater than in standard development settings could present an alternative method to generating extra funds to cover potential losses. Increasing the project level cost recovery rate in certain countries would have to be something that was well documented, justified, and ultimately agreed upon by the governing bodies of the UNDS, and thus would provide a *de facto* cushion to the UN operations in high risk environments while potentially avoiding the freeriding problem of a general risk reserve fund.

65. Another more promising alternative resides in the replication, and strengthening of existing common field-level approaches. Given the salience of context for any risk management to be meaningful, donors may want to prioritize the development of common risk management instruments at the country level, including *pooled funds and risk management units*. These initiatives would also provide the field level practice and lessons learned to inform corporate level reforms. They do however require tailoring to each situation. They also necessitate additional financial resources. Pooled funds need risk management expertise that can be combined with monitoring and evaluation capacity, as part of or in addition to traditional secretariat functions. Risk Management Units also require dedicated support, above and beyond the managerial or backstopping role that coordination offices (under the Resident Coordinator or in an integrated mission) can provide.

66. Finally, a highly effective way to address elements of programmatic risk in particular may reside in *new approaches to results definition and monitoring,* along the lines of those currently implemented in the Intergovernmental Authority on Development (IGAD) South Sudan civil service program. In this civil service capacity building program, the donor (Norway), the implementing partner (UNDP), and the host ministries have agreed to define the specific capacity building results to be achieved *progressively*, as part of the daily interaction between advisors brought in from neighbouring countries and the institutions receiving the advisory support. For the donor in particular, this approach carries, a priori, more risks and less up-front certainty, but there is already evidence that it is generating more contextually relevant results.[9]

67. In environments such as South Sudan, the *ex ante* definition of results to be achieved at the output level is technically and politically challenging. Such difficulties often translate, for peace building interventions in particular, into risk averse behavior, with the UN agency going for the easy win, and donors either shying away from more uncertain but high reward alternative programming choices or contemplating termination of support if and when the predefined outputs have not been delivered. The alternative approach, which requires a higher degree of comfort with uncertainty, embeds the definition and monitoring of results into the delivery of support itself, as an on-going exchange between partners. A greater emphasis on contextual realities and on transformational change further incentivizes risk-taking to achieve long-term goals. What matters here is not strict adherence to targets set on the basis of limited information, but regular (re)examination of the situation and informed discussions, between the donor and partners, on what can be realistically achieved.

Dialogue

68. As the previous point illustrates, the common theme throughout this analysis is not the need for new tools or policies on the UN agency side. And while there may be scope for new donor guidelines (see joint assessments in particular), a critical conclusion is about strengthening current practices and improving and increasing the nature of dialogue on risks within the UN and between the UN and donors to make such information sharing timely, contextual, honest, and transparent. Engagement on risk

management is highly contextual and while it benefits from the existence of robust corporate policies (which are in place), it is most productive if tailored to specific country realities. As such, donors and UN agencies alike should explore practical ways to increase the depth and predictability of risk-related exchanges.

69. To ensure that such dialogue is substantive, relevant to needs, and makes transaction cost light, the following considerations should apply. Dialogue should:

- Be contextual, based on comprehensive risk assessment and availability of clear options, costs, and accountabilities.
- Recognize of respective constraints and obligations (including, on the donor side, politically driven priorities and requirements).
- Be a platform for engagement with national partners.
- Embed in existing planning and programming processes (e.g. New Deal, national planning, Strategic Response Plan [SRP], etc.) and existing mechanisms (e.g. pooled funds), rather than conducted as isolated, stand alone initiatives.
- Relate to informed choices and rationales for decisions, not just about what has been done.
- Be comprehensive, linking all relevant dimensions of risk in that particular context, and recognize trade-offs.
- Aim at greater clarity on context and greater delineation of choices, accountabilities, and decision-making responsibilities.

70. Country specific dialogues could then feed into broader corporate discussions on how risk management approaches fit into the respective agencies' institutional strategies. Already, the most recent generation of UNDS strategic plans (2014-2017) has seen a marked increase in references to risk management, yet these references continue to be fragmented, with limited strategic links between various categories of risks, including staff security, programmatic outcomes, and funding constraints. Greater clarity on corporate-wide risk management approaches would constitute a significant incentive for core funding.

Conclusion

71. The analysis presented in this paper and the ideas proposed for further examination rest on three fundamental tenets:

1. Risk management is contextual.
2. Risk management reflects technical as well as political choices.
3. Risk management requires informed and empowered leadership.

72. As such, policies, tools and instruments go a long way in building context awareness and facilitating leadership empowerment. UN agencies have undertaken significant efforts to enhance their policy, legal, and technical arsenal to address the risks they face in fragile countries.

73. This arsenal is designed ultimately to increase the comfort level of all partners involved to engage in what are, ineluctably, highly fluid and unpredictable environments. Several obstacles remain, some of which are structural (e.g. funding structures), while others are self-inflicted.

74. This white paper has attempted to focus, ultimately, on the latter issues, the ones that are within relatively easy grasp of both donors and UN agencies to address. Such 'self-inflicted' obstacles to effective risk management speak to the trust that donors have in the UN's comparative advantage to operate in such difficult environments and to the ways in which such a trust can be strengthened.

75. At the same time, trust in the comparative advantage of the UN cannot be merely claimed. It needs to be earned and justified, not just enumerated through the existence of policies and procedures. General guidelines are useful but cannot replace the context specific decisions that need to account for expected challenges as well as unforeseeable risks and opportunities. Such decisions require, in turn, solid, comprehensive analysis and clear communications with dialogue between the UN, donors, and governments.

With the use of assessment, planning, and programming tools, UN agencies have a responsibility to improve the quality, clarity, and timeliness of their analysis and choices. In conjunction with meeting this responsibility on the UN side, donors also have their own responsibility to clarify their expectations and, upon delineation of risks, options and responsibilities, commit fully as equal partners, for better or for worse, in success and in failure.

76. This partnership also requires greater alignment of donor needs and responses. Continuous fragmentation of approaches on issues such as minimum standards, compensation claims, and reserve funds will persistently weaken UN practices, by incentivizing contradictory behaviour and undermining innovation and informed risk taking. Common donor risk appetites, both at the general corporate levels and specific country levels, should facilitate the identification of common approaches.

77. Enhanced donor coherence would also, ultimately, strengthen the case for common UN risk management approaches. As we have seen, centrifugal pressures from donors often raise the costs of joint analyses and the value of shared mitigation measures. In cases where effective risk management benefits from clear dialogue, these donor divergences often yield cacophony. The way forward cannot, therefore, bypass a partnership lens, whereby UN agencies and donors alike can take on more responsibility for helping the other party help them.

78. To conclude, as both the UN's work in fragile states and the global appetite for improved risk management practices are on the rise, now is a critical time for donors to engage with each other as well as their UN counterparts. The Utstein Group, as a powerful group of likeminded donors, should pursue such a dialogue with the UN, governments and other donors in the spirit of partnership, with each one taking measures to promote a shared understanding, address respective constraints, and approach comprehensive risk management as a foundational element of engagement in fragile states.

Endnotes

[1]For the purposes of this white paper, the term "UN development system" includes UN Funds (e.g. UNCDF), Agencies (e.g. WHO), and UN Programmes (e.g. UNDP). For ease of reference, the term UN Agency is used throughout to make reference to all three types of UN entities.

[2]Chandy, Laurence and Geoffrey Gertz, *Poverty in Numbers: The Changing State of Global Poverty from 2005 to 2015*. Brookings Institution, 2011; Kharas, Homi and Andrew Rogerson, *Horizon 2025*: *Creative destruction in the aid industry*. ODI, 2012.

[3]Taken from the definition of contextual risk in OECD INCAF's 2011 report "Managing Risks in Fragile and Transitional Contexts: The Price of Success?"

[4]See p. 7 for definition of the three types of risks.

[5]The Disaster Risk Reduction (DRR) agenda provides an interesting illustration of the "language" issue: its emphasis is almost exclusively on identifying, mitigating, and/or responding to the risks posed by natural disasters to vulnerable communities. As such, it is all about risk management. However, it is only one component of what risk management entails.

[6]"Institution-building in post-conflict and post-crisis situations: Scaling up South-South and triangular cooperation"; United Nations Civilian Capacities Initiative; October 2013

[7]"The three lines of defense in effective risk management and control": IIA Position Paper, January 2013.

[8]See list at http://mptf.undp.org/

[9]For more information, see "Regional civil servants support South Sudan in state building efforts." UNDP – Democratic Governance, Our Stories. Available at: http://www.ss.undp.org/content/south_sudan/en/home/ourwork/democraticgovernance/successstories/regional---civil-servants-support-south-sudan-in-statebuilding-e/

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