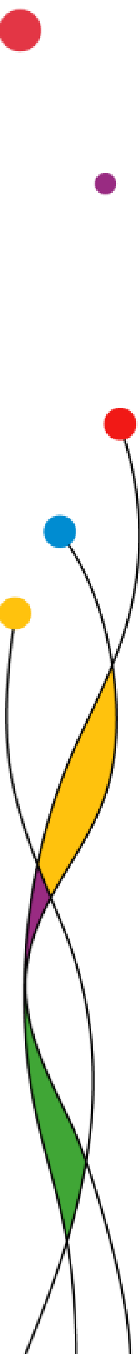
OECD

The purpose of risk management is the creation and protection of value. It improves performance, encourages innovation and supports the achievement of objectives.



WHY IS IT IMPORTANT?

All development co-operation is exposed to risks.

Acknowledging and managing risks allows development co-operation actors to achieve their objectives. On the other hand, not managing risks well can:

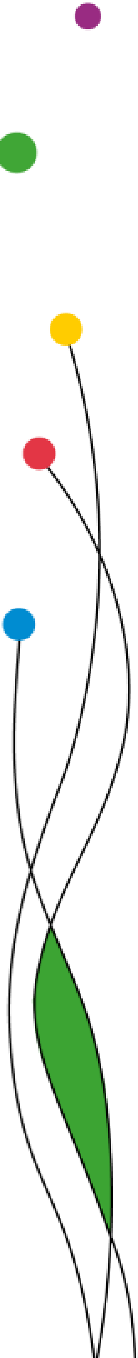
- do harm, slowing progress towards the Sustainable Development Goals (SDGs)
- lead to failure, wasting resources and damaging reputations
- require additional human and financial resources or cause delays
- endanger staff or partner safety
- undermine support for development co-operation.

Risk management policies and processes are developed and implemented. They set risk appetite and incentives.

Risks are identified, assessed and continuously monitored.

Responses to risks balance risk and rewards.

Risk is managed, while other objectives are preserved.



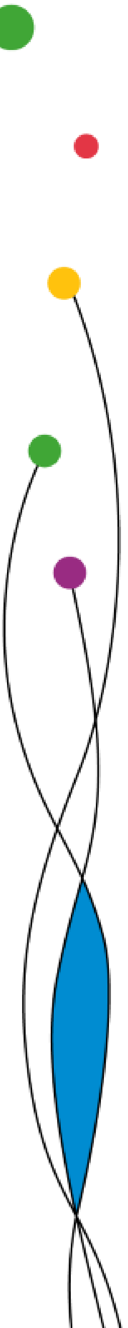
BASIC STANDARDS

- **Risks should be managed, not avoided** (Busan 18(a))
- **Risk management should be an integral part of governance and decision-making** (ISO 31000)

Four key steps for risk management

Identify risks and opportunities for reaching set objectives	**Assess** the impact and likelihood of risks	**Decide** measures to address and mitigate risks	**Implement** measures, and **monitor** the evolution of new and existing risks

Section D.2 of the OECD DAC Peer Review Analytical Framework sets out the expectations of the Development Assistance Committee (DAC) on risk management, including as this relates to the OECD Council Recommendation on managing risks of corruption for development co-operation actors, and the DAC Recommendation on ending sexual exploitation, abuse, and harassment.

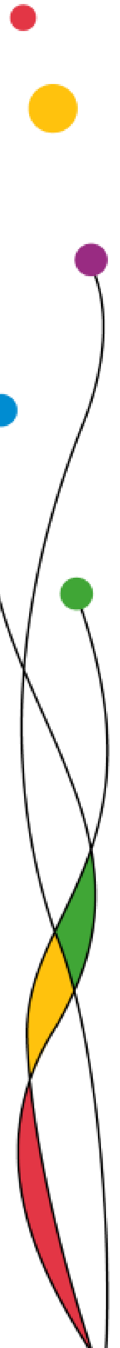


GOOD PRACTICES

Leadership and policy

Policy frameworks for all providers clearly state the need to actively manage risks at all levels (corporate, portfolio, project) and of all types (operational, financial, security, reputational). Policy frameworks outline the approach to identifying and balancing different risks with the potential rewards. They assign responsibility and resources, including incentives for good risk management.

- The Austrian Development Agency has a Risk Management Policy that states succinctly the objective, scope and processes of its risk management. It makes explicit that risk avoidance and aversion are not its objectives.
- The USAID Risk Appetite Statement helps staff understand which risks can be acceptable and how to manage trade-offs between risks and objectives.

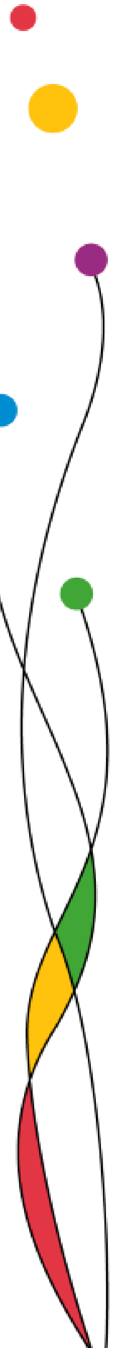


GOOD PRACTICES

Institutional management

Responsibility for managing risks is clearly assigned, including the capacity to escalate and de-escalate. Internal and external oversight bodies review risk management comprehensively. Measures are openly discussed and, where appropriate, agreed. Effective communication underlines the need to take risks and explains how risk management works in practice.

- Ireland has clearly assigned risk responsibilities for each level of authority and created the function of a Chief Risk Officer at management level. A multi-layered system of internal and external oversight assesses the quality of risk management, and is not limited to financial risk.
- Australia provides guidance on when to escalate or de-escalate risks.
- Sweden has evaluated risk management from the perspective of Sida's partners.
- Finland included a section on risk management in its development co-operation reporting.

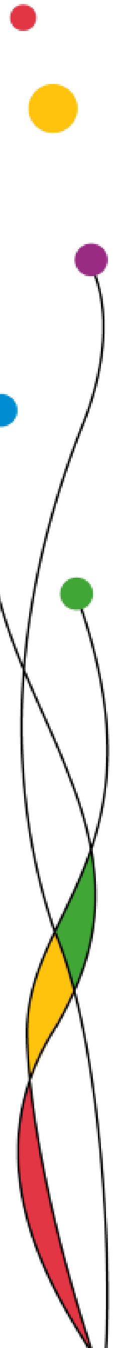


GOOD PRACTICES

Staff and partner capabilities

Codes of conduct along with training, guidance and advice on risk management are provided to staff and, as needed, partners. There are rewards for good risk management and transparent reporting with no penalty for assuming residual risk (if deemed acceptable), should risk materialise. There is fair risk sharing between development co-operation provider and implementer, allowing for flexibility particularly in fragile contexts.

- Australia has detailed guidance on its risk management process and specific categories of risk.
- Switzerland provides training on corruption and sexual exploitation and abuse for staff and partners.
- Norway mobilised its Office of the Auditor General to strengthen capacities of Supreme Audit Institutions in partner countries, strengthening country systems for corruption risk management.
- Smart risk-taking is a criterion for rewarding staff for good performance in the United Kingdom.
- UNDP offers guidance for staff to categorise the likelihood and impact of risks on a 5-point scale.

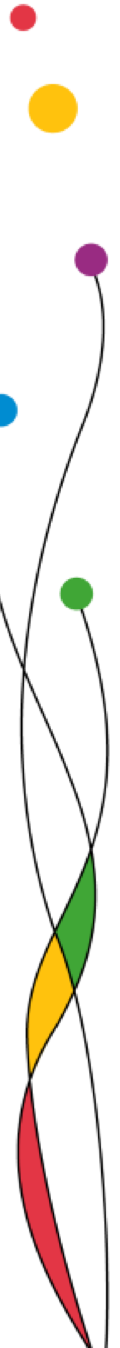


GOOD PRACTICES

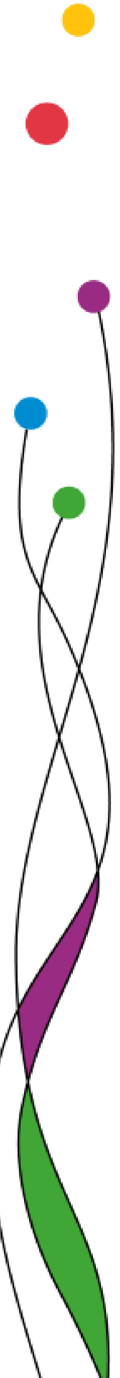
Processes

Risk management is integrated into general operational processes. Regularly updated risk registers document risks and responses. Mechanisms are in place for internal and external monitoring and reporting (including whistle-blowing). Contracts outline responsibilities for risk management and sanctions for severe violations. Partnering is used for both risk assessment and response.

- Switzerland's country strategy in Burkina Faso includes scenario planning to reflect the fragile context. Comprehensive risk monitoring at country level is regularly conducted.
- In Ireland, all units at headquarters and Ireland's missions maintain risk registers that are regularly discussed and updated.
- France has a database of incidents to improve learning from risk management.
- Many DAC members conduct or use joint assessments, for example the World Bank's Country Policy and Institutional Assessments (CPIA) and Public Expenditure and Financial Accountability assessments (PEFA), and share analyses.



MEASURING SUCCESS



Risk management is effective if it strikes a balance that helps maximise the achievement of objectives. This means:

- focusing attention on the **most relevant** risks
- considering **mitigation measures** such as capacity-strengthening, insurance and risk sharing, responses at country level (rather than just project level) or jointly with partners (e.g. political dialogue, disaster preparedness, action on anti-corruption and public financial management)
- putting the rewards and costs of risk management **into perspective**
- taking a **portfolio perspective** to balance high and low risk interventions
- ensuring that risks are **understood and accepted** by key stakeholders.

RESOURCES

The OECD Council issued this Recommendation on Managing the Risk of Corruption for Development Co-operation Actors in 2016. In 2019, the DAC also adopted a Recommendation on Ending Sexual Exploitation, Abuse and Harassment in Development Co-operation and Humanitarian Assistance.

The Anti-Corruption Task Team (ACTT) developed operational guidance to support the formulation of co-ordinated responses to risk, published in June 2020. The OECD also produced guidance on risk management in procurement.

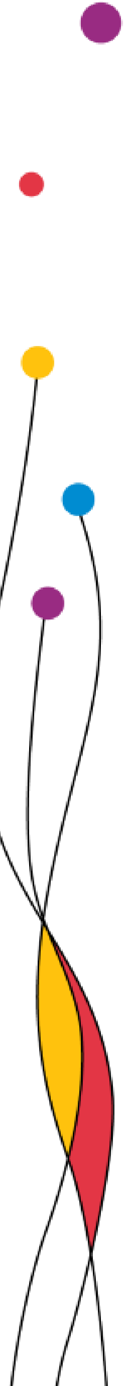
An OECD publication provides evidence on balancing risks and opportunities in fragile contexts, and this comparative study looks at risk management in four fragile contexts.

Evaluations from the UK and Sweden illustrate how sharing risks with implementing partners remains challenging. Find other relevant evaluations via the DAC Evaluation Resource Centre (DEReC).

Relevant topics in this series

Crises and fragility, as fragility leads to increased risks [*forthcoming*]

Innovation requires risk appetite



Last updated: June 2021

DEVELOPMENT CO-OPERATION **FUNDAMENTALS**

This series unpacks development co-operation standards and illustrates how DAC members are applying them. Applying standards can help all actors to fulfil their ambitions and commitments.

Each ***Fundamentals*** document introduces a ***key aspect*** of effective co-operation, sets out ***basic standards***, offers ***good practice*** examples, and identifies ***relevant resources.***

Other topics in this series, which is being expanded and updated regularly, can be found here. For any comments contact DCD.TIPs@oecd.org.