

Customized Risk Management Framework

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Risks to aid effectiveness can be exacerbated in countries experiencing fragility and conflict. Fragile and conflict-affected situations (FCAS) might include political instability, weak governance, economic insecurity, domestic or international conflict, ethnic tensions, and vulnerability to natural hazards. The circumstances in FCAS require a different approach. There is no one-size-fits-all solution in FCAS, wherein standard business processes can be challenged by the need for flexibility and customized solutions. The Asian Development Bank (ADB) has committed to enhancing its effectiveness in FCAS with its 2007 Approach¹ and its operational plan.² One of the initiatives identified in the operational plan is the development of a customized risk management framework to guide ADB staff in managing risks in FCAS. The framework presents ADB's existing business processes, which are customized in each



phase of the project cycle (identification, preparation, and implementation) to better address or mitigate the four major risks (economic, political, statebuilding and governance, and natural hazard) identified during the 2013 High-Level Forum on Building Resilience to Fragility in Asia and the Pacific.³

¹ ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries (The Asian Development Bank's Approach to Engaging with Weakly Performing Countries)*. Manila. www.adb.org/documents/achieving-development-effectiveness-weakly-performing-countries-asian-development-bank-s-a
² ADB. 2013. *Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations*. Manila. www.adb.org/documents/operational-plan-enhancing-adb-effectiveness-fragile-and-conflict-affected-situations
³ ADB. 2013. *Building Resilience to Fragility in Asia and the Pacific: Proceedings*. Manila. www.adb.org/publications/forum-building-resilience-fragility-asia-and-pacific-proceedings; ADB. 2013. *Building Resilient Societies: Evolving Solutions. Engagement in Fragile and Conflict-Affected Situations*. Manila. www.adb.org/publications/building-resilient-societies-evolving-solutions

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What Differentiates the Major Risks in Fragile and Conflict-Affected Situations?



Economic risks. FCAS countries are more vulnerable to external shocks including fluctuations in world prices than non-FCAS countries. Nondiversified economies generally expose the FCAS country to external market shocks more severely compared to diversified economies. They may also have weak microeconomic structure and policy that leads to a lack of supply-side investment and weak macroeconomic policy that impedes demand, growth, and development. As a result, these countries can be overly dependent on volatile and, sometimes, uncoordinated and unpredictable international development assistance.

Political risks. Some FCAS countries are exposed to civil conflict and subnational fragile situations that may cause the exclusion of some citizens from government support, including security, justice, basic services, and economic opportunities.

Statebuilding and governance risks. Weak governance presents a complex and varied situation of fragility that may result in poor public sector performance, lack of transparency and accountability, and patronage and clientelism. All these factors lead to poor delivery of essential public goods and services and limited private sector growth. The

underdeveloped and small FCAS countries may give rise to certain institutional and capacity constraints in procurement and contract management, inevitably increasing governance risks.

Natural hazard risks. FCAS countries may also be more vulnerable to natural hazards and the effects of climate change such as flooding, landslides, volcanic eruptions, drought, and sea-level rise. Large-scale

natural hazards destroy infrastructure and harm community livelihood. Some FCAS countries are characterized by mountainous terrain, scattered islands, and other geographical barriers that make some communities isolated. Risk mitigation can be more difficult and costly in geographically isolated states, particularly those in the Pacific (e.g., small island states). Oil, minerals, and other resource endowment may also fuel conflict.

A Customized Risk Management Framework for Fragile and Conflict-Affected Situations

The four major risks (economic, political, statebuilding and governance, and natural hazard) are exacerbated in FCAS countries and require more attention and customized solutions. Assistance modalities and business processes are available and can be flexibly applied in ADB's FCAS developing member countries

(DMCs) without compromising due process.⁴ Areas of FCAS risks where adequate business processes and modalities could be considered are mainly related to exclusion from state delivery of public services, lack of public sector capacity in the broadest sense, and a concern over the volatility of aid (see table on next page).



⁴ For further details on flexibilities and customized processes, see ADB. 2012. *Working Differently in Fragile and Conflict-Affected Situations: The ADB Experience*. Manila. www.adb.org/documents/working-differently-fragile-and-conflict-affected-situations-adb-experience

Customized Risk Management Framework for Fragile and Conflict-Affected Situations

Major Risks	Project Phase	Customized Process
Economic, Political, Statebuilding and Governance, Natural Hazard	Identification	<p>Alternative strategies (interim operational strategy, regional strategy, watching brief)</p> <p>Assessment tools (political economy analysis, governance assessment, peacebuilding tool, private sector assessment, climate risk assessment)</p>
	Preparation	<p>Investment financing modalities (project loan, sector loan, grant financing, additional financing, multitranche financing facility, technical assistance)</p> <p>Program financing modalities (policy-based financing, trust funds):</p> <ul style="list-style-type: none"> • Use of multidonor trust funds with necessary adjustment to local context to support project preparation advance, especially for small and fragile Pacific DMCs where advances could be extended as grants • Use of trust fund for start-up activities through grants including outsourcing of procurement and management <p>Project design facility for detailed engineering design, feasibility studies and due diligence, safeguards, and other pre-implementation work</p> <p>Special assessments (political economy analysis, risk and vulnerability assessment, capacity assessment, gender analysis, climate proofing and disaster risk management, peacebuilding tool):</p> <ul style="list-style-type: none"> • Use of capacity assessment and capacity building measures to strengthen procurement and project management capabilities of executing and implementing agencies <p>Flexibility in timing of safeguard assessments:</p> <ul style="list-style-type: none"> • Outsourcing of safeguard assessment and preparation • Temporary deferment of safeguard concerns from project preparation to project implementation, especially when security issues exist <p>Special arrangements for nonsovereign operations:</p> <ul style="list-style-type: none"> • Faster, more streamlined processing for small transactions likely to be involved in fragile Pacific DMCs
	Implementation	<p>Customized procurement plan to improve project readiness and project costing (including the use of a project design facility, development of the executing agency's project management capacity, and efficient and professional management of procurement)</p> <p>Customized procurement and delivery modalities under a multitranche financing facility</p> <p>Single source selection and liberalized sourcing in procurement</p> <p>Bundling of small packages to form larger contracts</p> <p>Use of turnkey contracts—each backed by fixed execution periods and appropriate premiums and penalties</p> <p>Parallel cofinancing mode</p> <p>Direct payment and reimbursement methods of disbursement</p> <p>Outsourcing of financial management:</p> <ul style="list-style-type: none"> • Training of domestic consultants under ADB and other development partner programs in a country • Recruitment of private firms to assist with project management and administration in conflict-situations

ADB = Asian Development Bank, DMC = developing member country.

Source: ADB Fragile and Conflict-Affected Situations Team.

Some Common Directions for Addressing the Major Risks



The framework reveals potential areas that can be considered by ADB and other development partners in addressing the major risks in FCAS countries:

Shared risks. It is important to note at the outset that all investment and operational risks are shared risks. They are shared by both the recipient FCAS DMC governments and their development partners. If a development assistance loan fails, it may be of no corporate operational risk to the development partner. The FCAS government may have guaranteed repayment, adding up to its debt burden. If the assistance is in the form of a grant, this also requires scarce FCAS counterpart input, and is therefore a high opportunity cost to FCAS.

Assistance should be realistic. The ADB electronic operations risk framework covering design and monitoring indicators, safeguards, contract awards and disbursements, technical progress, and financial management must be realistic and not over-optimistic. Greater attention should be paid to design and use of risk assessment and risk management plans.

Existing modalities and business processes can be flexibly applied. Some business processes have been revised (safeguards) and some are under revision (procurement).⁵ However, experienced operations staff and management comment that existing processes are not a problem when it comes to assisting FCAS. It is how existing processes and

⁵ The Procurement Governance Review, approved in February 2013, looked at procurement in ADB and set out key directions to improve and transform ADB's current value-based approach to procurement governance to a more streamlined risk-based approach. ADB's Operations Services and Financial Management Department, in consultation with all stakeholders, will implement the Procurement Reform – 10 Point Action Plan to help reduce project delays, increase administrative efficiency, and improve project delivery. See ADB. Procurement Reform – 10 Point Action Plan. Unpublished.



modalities are applied that matters; if they are not appropriately applied, this can create difficulty in FCAS operations. New ADB staff, especially in FCAS, need to be made aware of existing flexibilities (see table and footnote 4). The use of such flexibilities needs to be driven by operations management.

Sufficient time and resources are the greater constraint. Assistance can be designed for more effective impact, but more time and resources are needed. This includes employment of FCAS-experienced staff that can design interventions tailored to FCAS special needs. Assistance should allow for redesign during implementation to respond to evolving unforeseen, difficult circumstances. All support to building resilience in FCAS DMCs has to be long-term and should include more modest

objectives. This conforms with the operational plan's proposal to consider preparing long-term country partnership strategies that cover 10 years or more. These long-term strategies should be accompanied by short-term interim strategies to adapt to sudden changes and evolving situations in the case of conflict-affected DMCs.⁶

Give priority to building central agencies and core government functions over the long term. FCAS DMCs require a consistent, predictable, and long-term (10- to 20-year) focus on strengthening the operations of central agencies and their core government functions, if ADB or other development partner sector assistance is going to yield in FCAS.⁷ This requires all major development partners to agree to a common focus on helping to strengthen these agencies and their functions.

⁶ The interim strategies could be renewed automatically or changed with shorter and simpler approval processes. The terms of the approval process depend on the extent of the change involved.

⁷ Central agencies are the Office of the President or Prime Minister, the Ministry of Finance, and the Public Service Commission or other central public sector human resources management agency. Core government functions are (i) central government policy formulation; (ii) public revenue generation and financial management; (iii) public sector administration; and (iv) improving regulatory environment, especially for private sector development. See also ADB. Forthcoming. *Institutional Strengthening Framework for Fragile and Conflict-Affected Situations: A Staff Guidance Note*. Manila.



A compact to build country systems. The need to strengthen central agencies and core government functions should be considered as one component of a compact or contract between development partners and FCAS DMC governments where longer-term capacity development or statebuilding, including building country systems, is packaged with more immediate and expedient delivery of assistance in the shorter term.⁸

Map FCAS to direct design. As recommended by the High-Level Forum on Building Resilience to Fragility (footnote 3), mapping fragility and conflict in each FCAS DMC would assist all country partnership strategy, program, and project formulation in FCAS.⁹

For development assistance to be sustainable in fragile and conflict-affected situations, it needs to be locally owned and country driven by local demand

Know the demand and understand the context better. For development assistance to be sustainable in FCAS, it needs to be locally owned and country-driven by local demand (footnote 8). It also needs to be fully contextual and focused on the long term. Speedy processing for approval of loans, grants,

⁸ International Dialogue on Peacebuilding and Statebuilding. *A New Deal for Engagement in Fragile States*. www.newdeal4peace.org/

⁹ This recommendation conforms with the World Bank's own evaluation of its assistance to FCAS. See World Bank, International Finance Corporation, and Multilateral Investment Guarantee Agency. 2013. *World Bank Group Assistance to Low-Income Fragile and Conflict-Affected States: An Independent Evaluation*. Washington, DC. <http://ieg.worldbank.org/evaluations/fcs>

and technical assistance will not compensate for a lack of ownership and relevance to context. Indeed a development partner is likely to “do harm” if the development assistance is not harmonized with others and aligned with country priorities.¹⁰

Participation to overcome exclusion. Support to building resilience in FCAS DMCs should be undertaken in a participatory manner to help overcome a political economy that may detract from a pursuit of public interest.¹¹

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¹⁰ Organisation for Economic Co-operation and Development. Principles for Fragile States and Situations. www.oecd.org/dac/fragilestates/

¹¹ ADB. 2013. Building Resilient Societies: Evolving Solutions. *Engagement in Fragile and Conflict-Affected Situations Series*. Manila. www.adb.org/publications/building-resilient-societies-evolving-solutions