IMPROVED AID EFFECTIVENESS: HOW CAN GOVERNMENTS AND DONORS MORE EFFECTIVELY USE FIDUCIARY RISK ASSESSMENTS TO PROVIDE INCENTIVES FOR BETTER FINANCIAL MANAGEMENT

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• Effectiveness & Efficiency
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CHALLENGES

- Limited availability of development aid
- Increased demand for effective results
- Need for more effective use of resources
- Institutional capacity shortcomings
Aid Effectiveness – How effective is the aid to achieve expected development outputs and objectives?

Development Effectiveness – Planning, management and deployment of efficient aid targeted to development outcomes
EFFEC TIVEN ESS & EFFICIEN CY

• Effectiveness is producing the intended results, and
• Efficiency is performing in the best possible manner.

One can be completely effective and totally inefficient or effectively attain the expected outcomes but at an exorbitant cost or violating all applicable laws and procedures.
RELEVANT QUESTIONS

• Does the program/project respond to a widely accepted/legitimate development need?
• Will resources be applied to required inputs to obtain expected outputs?
• How are resources being applied?
• What is the risk that we do not attain expected results?
• What is the risk that funds are used ineffectively or misused?
WHY ASSESS FIDUCIARY RISKS?

• Risk causes variability in the attainment of results
• Fiduciary risks directly affect institutional capacity to plan, implement, and monitor.

Challenge: How to balance risk and reward?
RISK ASSESSMENT

• A way to understanding relevant causes for variability that might adversely affect use of resources.
• Assessed risks shape development of a risk response plan.
• Risk response plan is the cornerstone to designing a tailored implementation plan.
WAYS TO IMPROVE AID EFFECTIVENESS THROUGH RISK ASSESSMENTS

Case 1 - South Africa, USAID grant to support HIV/AIDS education of youth involving a fiduciary agent and the departments of Social Development and of Basic Education – June/August 2019.

Case II – Honduras, USAID grant to support health, sanitation and rural programs through the FHIS; PRONADERS and IDECOAS – March – September 2014.

Both cases through contracts with USAID
CASE 1 - SOUTH AFRICA HIV/AIDS – AUGMENTATION PROGRAM

- IBI assessed fiduciary risks at the three entities
- The RDP Fund was assessed to carry a low level of fiduciary risk
- Risk assessments yielded various levels of risk ranging from medium to high affecting performance of key functions
- Risk response plan and a tailored results-based implementation plan overcoming major fiduciary risks
- Capacity strengthening component to overcome identified risks in program monitoring and procurement
HONDURAS – REALIGNMENT OF THREE ENTITIES WITH SIMILAR PROGRAMS UNDER ONE

- Risk assessment of existing capacity of three separate government entities, FHIS, PRONADERS and IDECOAS
- Development of a comprehensive proposal to implement a single entity by identifying realignment and cost saving opportunities
- Single entity concept was approved and implemented resulting into a much stronger entity and freeing 25% of personnel costs by realigning common functions and restructuring processes
TOWARDS A RISK MANAGEMENT APPROACH

- Threat
- Uncertainty
- Opportunity
- Strategic
- Reactive
- Proactive
- Best practice
LESSONS

- Application of existing methodologies needs to contemplate local idiosyncrasies, laws and culture
- Need to balance risk and opportunity
- Development occurs in countries where institutional capacity is lower than in the developed world
- Every plan needs to have the right incentives in the long run
“A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.” - Sir Winston Churchill, (1874-1965, British Statesman and Prime Minister)

“All of life is the management of risk, not its elimination.” - Walter Wriston, former CEO and Chairman, Citicorp (Risk and Other Four-Letter Words, p. 101)