RISK SHARING IN PRACTICE

Success stories, enablers, and barriers to risk sharing in the humanitarian sector

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Executive Summary

Sharing similar objectives and collaborating in the same delivery chains requires common risk management approaches

Humanitarian action is primarily intended 'to save lives, alleviate suffering and maintain human dignity during and in the aftermath of crises.'[1] However, when looking at the contexts where the 274m people most urgently in need of assistance are located[2], it becomes clear that providing this assistance is an inherently risky undertaking. Delivering humanitarian programmes therefore requires humanitarian actors to consider how best to balance the desire to achieve their objective of providing this support, with the various risks that pursuing their objective entails. Increasingly over the last decade, humanitarian actors have borrowed risk management approaches from the private sector that have helped them identify the inherent risks to their work. Humanitarian actors have similarly copied ways for framing their response to those risks, deploying response strategies for transferring, avoiding and reducing risk and accepting or (less frequently) sharing identified risks. This in turn allows the humanitarian actor to evaluate whether the risk that is left – what is described as residual risk – is of a level that they can tolerate and hence accept, allowing them to proceed with their work.

However, while the context for humanitarian action has become more complex, so too has the cast of humanitarian actors. A multitude of organisations with different mandates and performing different and often overlapping roles increasingly rely on one another to achieve their desired impact, but crucially with a shared objective – to support affected populations. Government donor bodies provide original funding in what could be described as a 'Back Donor' function, a plethora of UN agencies, Red Cross movement entities and NGOs receive funds that they then themselves disburse to other downstream partners working in an 'Intermediary Donor' function, while many of these same organisations and importantly national NGOs, Red Cross Societies and other local responders work in a 'Direct Implementation' function to deliver last mile assistance. These three functions are critical to what can be described as the 'delivery chains' in which humanitarian actors collaborate to provide assistance to affected populations.

The interconnectedness of humanitarian actors within delivery chains however does present a challenge for risk management. Whereas in the private sector, companies may have the *same* objective (i.e. to make profit) and can pursue that in *competition* with other companies, as described above, humanitarian actors have a *shared* objective (i.e. to support affected communities) which they must pursue through *collaboration* with other humanitarian actors. In this respect, risk management approaches that focus only on identifying and addressing risks to single humanitarian actors have a weakness. One humanitarian actor in a delivery chain can identify risks and respond to them with response strategies that seek to transfer, avoid or reduce the risk to their own organisation, which at first glance may appear to address the risk they face satisfactorily. However, this organisation-focused risk management approach can have the effect of transferring a risk to or generating a risk for another humanitarian actor elsewhere in the delivery chain. If that organisation is unable or unwilling to accept that risk, the delivery chain is broken and importantly, both actors fail to achieve their mutual objective. This paper advances the case that increased risk sharing poses a potential strategy to overcome this challenge.

[1] www.oecd.org/dac/peer-reviews/12lessons.pdf
[2] https://gho.unocha.org/

The concept and benefits of risk sharing as a risk response strategy

Whereas addressing risk in the delivery chain as individual humanitarian actors presents a threat to achieving shared objectives, by contrast, looking at all risks to organisations in a delivery chain holistically and then collaboratively working out how those risks can be shared equitably allows for a greater level of risk to be accepted overall. This concept of risk sharing fits well with the ideas of collective action, collaboration and solidarity that are central to humanitarian response. This concept can seem quite ethereal, but in practice it commonly comes down to two elements - sharing risk on preventative measures and sharing on risk consequences:

1. Mitigation measures that can be put in place to **reduce the likelihood of a risk materializing**. These are most often preventative and deterrent measures, such as having staff in place to ensure different policies that control risk are implemented correctly, or physical security infrastructure for premises;
2. Mitigation measures that can be put in place to **limit the impact of that risk event**, should it materialize. These could include for example insurance to cover buildings contents for incidents like theft.

Good risk sharing approaches normally combine agreements for cost-sharing on preventative and deterrent measures (e.g. the policies that allow for inclusion of costs in budgets and the contribution agreements themselves) and agreements on how to deal with residual accepted risks, should they materialize (e.g. agreements on the organisations responses in principle to foreseen incidents, for example on financial losses, crisis management, etc.)

The second component addressing residual risk consequences can appear problematic at first glance; obviously where an organisation has been demonstrated to be grossly negligent in preventing such a risk incident from occurring, there is no question that they should pay the price for this. Accountability demands it. But in the same way, where two partners agree to undertake action in pursuit of a shared objective, if reasonable measures have been taken to prevent and minimise the impact of this foreseen risk, then it is logical that accountability for the consequences of a risk that materialises should also be shared, as a part of that same commitment to collective action, collaboration and solidarity. Put most simply, risk sharing might then be described as:

'A reasonable sharing of the burden of preventative measures and reasonable sharing of responsibility for materialising risks.'

Views of risks differ, depending on the function humanitarian actors perform in the delivery chain of humanitarian assistance

What constitutes a significant risk looks very different depending on where a humanitarian actor is working in the delivery chain. This research clearly demonstrates a clear trend relevant to each of the three critical functions:

1. **Back Donors** – organisations working in this function most commonly described Reputational, Legal Compliance (e.g. with CT/Sanctions measures) and Fiduciary risk (e.g. corruption, fraud, etc.) areas as those they were most concerned with, with comparatively lower concern for Operational and Security risk areas.
2. **Direct Implementation** – organisations working in this function most commonly described Operational and Security risk areas as those they were most concerned with, with comparatively lower concern for Reputational, Legal Compliance and Fiduciary risk areas.

3. **Intermediary Donors** – organisations working in this function described a mix of concerns relevant to those raised by organisations working in both Back Donors and Direct Implementation functions.

The key take away from this aspect of the research is that it demonstrates that there is a broad range of significant risk areas involved in the delivery chain of humanitarian assistance, but that the level of concern differs by function an organisation is performing. This is significant for several reasons. On the one hand it highlights that humanitarian actors need to improve their understanding of risk in the delivery chain as a whole, and not just to their specific organisation, as a shared understanding and appreciation of risk in the delivery chain is a pre-requisite for successful risk sharing. On the other, it serves as a reminder that perceptions of what the most significant risks are in the delivery chain will drive humanitarian actors' responses to risk. When done in isolation, it can shift the dial on compliance measures, standards and reporting in a way that could be beneficial but also potentially detrimental to the response as a whole.

Risk Sharing in Practice: What is working and what is not?

24 Key Informant Interviews (KIIs) with 20 different organisations ranging from national NGOs, international NGOs, Red Cross movement entities, UN agencies to government donor bodies were conducted to inform this research. From these interviews, 26 case studies of successful risk sharing were identified and a further 22 case studies outlining where risk sharing had not worked as well.

Case studies of Successful risk sharing cited examples that were overwhelmingly in relation to sharing of risks in the areas of Security and Operational risk (i.e. those pertaining to physical violence, and those pertaining to inability to achieve objectives, capacity gaps, access issues, financial/funding issues, etc.) The following patterns were identified among case studies of successful risk sharing:

1. All case studies on successful **Security risk sharing** pointed towards policy-based elements of risk sharing in particular for cost sharing for preventative mitigation measures to reduce likelihood of risks materialising, as well as some albeit fewer cost sharing and other measures to address their impact if those risks did materialise, demonstrating the combination of addressing both aspects that is key to good risk sharing.
2. Case studies on successful **Operational risk sharing** were split evenly between 'proactive' risk sharing measures around creating an enabling policy environment for risk sharing (e.g. better partnership guidelines, introduction of derogated procedures, etc.) and 'reactive' risk sharing measures during operations (e.g. addressing capacity gaps as they arise during a response) pointing to the need for both policy and practice to achieve risk sharing.
3. Case studies on successful **risk sharing around Reputational, Legal and Fiduciary risk** were far fewer in number and modest in outcome. Risk sharing in these examples was less formalised and in the majority of case studies relied simply on the proactive sharing of information and discretionary decision making of donors on a case-by-case basis.

In relation to case studies giving examples of Unsuccessful risk sharing, the picture was not a complete reversal of that above[3], but what was most instructive was the significant numbers of examples detailing unsuccessful efforts to sharing of risks in the areas of Fiduciary (e.g. corruption, fraud, etc.) and Legal Compliance (e.g. with CT/Sanctions measures) in particular and the number of references

[3] There were still a significant number of risk sharing shortfalls in the Operational and Security risk areas, but this is in part attributable to the large range of risk types within these two areas and a slight bias in the profile of the respondents, which are described in more detail later in the report

in various examples to attendant Reputational risks. These examples of unsuccessful risk sharing demonstrated the following key patterns:

1. Whereas in positive examples of risk sharing around Operational and Security risks there tended to be clear policy and formal guidance underpinning decisions, in the unsuccessful examples around Legal/Compliance and Fiduciary risks, there seemed to be less formal guidance available and a greater reliance on discretionary decision making, particularly in relation to foreseen residual risks that materialised
2. There is in general across all risk areas a tendency towards focusing on the proactive preventative aspect of risk sharing, with less focus given to proactive sharing of risk associated with foreseen residual risks that materialise. This pattern is however shown in the case studies to be particularly acute when it comes to the examples of unsuccessful risk sharing around Legal/Compliance and Fiduciary risks

The reasons for organisations working in the different functions to prefer these different approaches are complex, but they are important as they underpin the factors that can be both barriers, but also enablers for risk sharing.

Critical Enablers for and Barriers to Risk Sharing

In almost every trend identified in the research for this report, the presence of a factor that enabled risk sharing in one group of case studies, was equally shown in a different group, by virtue of its absence or altered form, to have been a barrier to risk sharing. With this in mind, the following points represent a condensed outlook of some of the key factors as enablers for risk sharing:

Transparent and meaningful dialogue, without fear of prejudice - All respondents across all functions stated that, for risk sharing to be a success, a pre-requisite is for different actors to be able to speak freely and frankly about the risks they identify in the action that they jointly pursue, without worrying that doing so may disadvantage them in some way. In order to make this dialogue meaningful, it is also important that actors share an understanding of the technical and contextual nature of the risks being discussed; this means both parties involved need the relevant contextual and/or technical knowledge to engage constructively. The presence of potential penalties in the background or absence of relevant staff to engage in dialogue will likewise act as a barrier.

Positive partnerships and proactive approaches - There was a consistent theme that ran through the case studies from respondents of different functions, who considered their own organisational culture towards partnership, and the organisational culture of the Intermediary Donors and Back Donors they partner with and the impact this had on the success of risk sharing initiatives. What appears evident is that some organisations have strong 'partnership culture' in their DNA, which seems to foster collaborative engagement and a 'can do' attitude towards partnership and risk sharing, leading to proactive efforts to address risk, suggesting positive partnership culture is an enabler for risk sharing in some circumstances. In short, organisations that saw working with partners as a preferred programming methodology also achieve positive risk sharing outcomes. Likewise, organisations with poor organisational culture towards partnership will likely see this be a barrier to risk sharing.

Policy & guidelines vs constructive ambiguity and discretionary decision-making - Case studies demonstrate that where clear policy and formal guidelines exist, they significantly improve the chances of risk sharing being successful. Case studies point to numerous examples such as where policies that enable use of derogated procedures in emergencies have helped to share risk to achieve objectives. It is also self-evident that with policy and guidelines, the opportunities to transfer best

practice and scale risk sharing in different areas will be significantly improved. By contrast, absence of clear policy and guidelines leads to a reliance on constructive ambiguity and discretionary decision making, while aiding risk sharing in some cases, which this research shows are more often a strategic barrier to risk sharing.

Management understanding and support to risk sharing - As with so many things, management understanding and buy-in proves to be a consistent and significant enabler of successful risk sharing highlighted across multiple examples. Organisations working in the Direct Implementation function gave examples of how the change of one senior manager in-country at an organisation impacted the culture of the organisation towards risk sharing in general, but also had a positive impact on significant individual decisions. Organisations working in the Intermediary Donor function similarly raised examples of how, when they escalated risk decisions to an HQ-to-HQ level, they often found senior management prepared to take risks to stand by principles or exploit opportunities that went beyond what their field level colleagues were prepared to consider. These examples highlight an important aspect of senior management engagement; where risk sharing decisions veer into areas where policy is more ambiguous and guidance largely absent, more junior, less experienced staff without acquired knowledge and political capital within their organisations are less likely to take decisions in the absence of clear policy or formal guidance. This is what makes the role of senior management such a significant enabler, particularly around sensitive risk areas, when there is still a reliance in many cases on discretionary decision making to address some areas of risk.

Equity in partnerships and its impact on risk sharing - Risk sharing in the current risk management architecture is complex and takes resources to achieve. Organisations downstream from Back Donors need technical staff in a range of areas from programme to legal to security to risk who can identify and articulate risks and risk sharing responses to donors, in line with the policy, formal guidance and informal practice of the donor in question. Case studies demonstrate that larger and often international organisations are better able to resource these tasks needed to achieve risk sharing outcomes, whereas smaller and often national organisations are structurally disadvantaged in doing so. Improved equity in partnerships, in particular between nationally based organisations working in Direct Implementation functions and Intermediary Donors, could be a significant enabler to overcoming this challenge and achieving better risk sharing.

The Way forward for Risk Sharing

Despite the challenges, there are already success stories in risk sharing, these should be highlighted. Not all can be emulated, but where no reason exists not to, good examples should become best practice. This will require effort to build clearer policy and protocol, formal and binding where possible, but at least informal and guiding where not. We know that this predictability in approach delivers the best results. While organisations should be bold, it is acknowledged that some issues are tough nuts to crack – but there is more that can be done within current parameters. Organisational culture and judicious use of discretionary decision making by senior managers is central to this.

Finally, despite progress it is important to reflect on areas where progress is needed, of which there are three in particular. Firstly, there is a need to address the knot of ambiguity around the Legal Compliance, Ethical and Fiduciary risk areas that causes such a reliance on discretionary decision making and leads to unsatisfactory risk sharing practices for these risks. Unpacking the role of reputational risk within these areas will be key. Secondly, there is a need to address the paucity of risk sharing on foreseen residual risk consequences. Proactive approaches towards creating clearer policy and protocol for the common risk types here would help. Finally, there is a need to reflect more broadly on the controls-based approach to addressing these key risks which causes barrier to entry for risk sharing for national organisations the humanitarian sector seeks to support through its localisation agenda. Addressing these three issues would go a long way towards seeing risk sharing have the true impact that it offers.

Key Recommendations

1. **Commit to collectively clarifying the meaning and implications of risk sharing and accepting residual risk**

Different actors have different definitions or understandings of the various terms related to risk in humanitarian action. Language matters and nuancing is necessary. Sharing risks implies co-ownership, a process through which all parties take an active part in dividing responsibility between them, be it in equal parts or not. To move from risk transfer to risk sharing, it is necessary to be clear on who takes what responsibility. Likewise, there is a need to develop a consensus on the meaning of zero tolerance, and residual risk in the context of risk sharing.

2. **See all the risk in the delivery chain, not just the risk to a single organisation participating in it**

Organisations need to see and understand risks identified by all functions within the delivery chain, as any risk that impacts one part of the chain poses a potential obstacle to the objective for all organisations working on it, so all risks to all organisations are valid. Organisations working in Back Donor, Intermediary Donor and Direct Implementation functions need to evaluate the ways in which their organisation manages risk affects partners and others in the delivery chain. A more collaborative approach by key partners to developing strategic risk analyses for whole country contexts would support this by setting baselines for risk sharing on key contextual risks.

3. **Agree on an acceptable level of risk and engage the senior level decision makers**

Given that risk is inherent in humanitarian environments, and for risk to be shared, there is a need to look at what might constitute an acceptable level of risk, keeping in mind that different actors may have different views on this linked to their institutional affiliations. The issue of an acceptable level of risk requires political engagement from senior levels. More systematic use of key platforms (e.g. GB Risk Sharing initiative, UN inter-agency engagement on risk, Interaction's Risk Initiatives for NGOs, etc.) could help to raise and streamline this engagement.

4. **Senior Management should highlight successful risk sharing as a means to improve buy in, risk sharing culture and raise sector standards**

Highlighting successful risk sharing where it has proved possible already can help increase buy-in among management and staff necessary to move towards the 'can-do' organisational cultures towards risk sharing that maximise potential for risk sharing within existing frameworks. Highlighting these successes as publicly as possible can also help seed existing best practice across the sector and generate friendly competition to raise risk sharing standards in different functions within the delivery chain, while also demonstrating where there is still progress that needs to be made.

5. **Reflect on the deficit of risk sharing specifically on foreseen risk consequences and seek new principle-based frameworks for action that provide better equity in risk sharing arrangements for these risks**

Risk sharing across the board is dominated by measures to share the more financially calculable and often less controversial element of cost sharing for preventative measures, as opposed to measures to share the impacts of foreseen risks that may materialise. All parties need to recognise that these risk consequences represent a significant aspect of risk sharing as a whole that is not being addressed within the current frameworks. All parties must therefore consider what new framework is appropriate to address this type of risk, in particular incorporating principled approaches around potential financial losses, future funding losses and reputational impacts that represent the most significant concerns to partners in different functions with a view to sharing risk and impact in a more predictable way.

6. **Acknowledge that challenges in risk sharing affect particular risk areas disproportionately and accept that addressing these risks requires a new approach**

Fiduciary, Legal/Compliance, Ethical and Reputational risks see less support in policy and formal guidance on how risk can be shared with partners and a greater reliance on constructive ambiguity and discretionary decision making. This is resulting in more risk transfer than risk sharing in these areas, particularly as it relates to risk consequences. Organisations need to commit to exploring a new approach to these risks that can foster new opportunities for risk sharing. In particular this means meeting the challenge of finding predictable ways to share the impacts of financial losses and reputational impacts for foreseen risks that materialise, where agreed risk response strategies were executed as agreed. These ways may include an expanded role for commercial insurance as accepted in other risk areas.

7. **Shifting mindsets and policies on zero tolerance for key risks**

Back Donors need to accept that zero tolerance is not a feasible expectation when providing humanitarian assistance. Punitive approaches are not conducive to open dialogue. Joint advocacy and messaging for political decision-makers would support these changes.[4]

8. **Consider the impact of compliance measures on the delivery chain as a whole**

All Donors should introduce internal feedback loops to continuously answer the questions of what impact their existing and proposed new compliance measures are having both directly and indirectly on their partners and other humanitarian actors at multiple points in the delivery chain, to assess what impact this is having on their overall objective of assisting affected communities, and to make course corrections as required to support their partners with effective risk sharing measures.

[4] Expanded from *Risk Sharing: A Discussion Paper*, HERE-Geneva & ICRC, 2020

Glossary

ICRC – International Committee of the Red Cross
INGO – International Non-Governmental Organisation
KII – Key Informant Interview
LRRD – Linking Relief Recovery and Development
MFA – Ministry of Foreign Affairs
NNGO – National Non-Governmental Organisation
OCHA – (United Nations) Office for the Coordination of Humanitarian Affairs

Organisation: Generic term to describe any institution, agency, delegation, society or organisation that is a humanitarian actor and part of the humanitarian sector, who is referred to in this research (e.g. NGOs, UN agencies, Red Cross movement entities, government donor bodies, etc.).

Country Lead: Generic term used to describe the senior management figure in charge of an Organisation in-country (e.g. an NGO Country Director, a Red Cross Head of Delegation, UN Head of Agency, Donor ambassador, etc.).

Assistance: Assistance in the context of this report is a term used to capture the full range of sectoral and cross-sectoral interventions that may be implemented by different humanitarian actors as a part of a humanitarian response. For example, these may include but are not limited to Protection, Shelter, Water Sanitation, Food Security, Nutrition, etc.

Delivery Chain: The combination of interdependent functions that are implemented by different organisations with the expected result of delivering a particular type of assistance.

Back Donor: The function of providing original funding for humanitarian assistance (for the purposes of this research, consisting of government door bodies).

Intermediary Donor: The function through which an organisation which may receive funds from a Back Donor, then passes them on wholly or in part to another organisation(s), who may deliver the proposed assistance themselves either wholly or in part, or act themselves as an Intermediary Donor to other downstream partners (e.g. UN agencies, pooled funds, Red Cross Societies to Red Cross Societies, NGO consortia, etc.) Organisations mandates may see them perform multiple functions simultaneously.

Direct Implementation: Where organisations take responsibility for delivering a particular humanitarian intervention directly using their own staff and operational capacity, as opposed to via forms of partnership. Organisations mandates may see them perform multiple functions simultaneously.

1. Introduction

Risk, in its many facets, is inherent to contexts of emergency response, whether they be for example in rapid onset humanitarian situations, or during protracted crises. Increasingly, humanitarians are obliged to support affected populations in situations where factors such as conflict and disasters make doing so complex, requiring the taking and accepting of risks to help achieve objectives. Efforts to manage such risks aim to strike a balance between delivering principled, efficient and timely humanitarian responses that meet the needs of affected communities wherever they are, while minimising the risks to the humanitarian actors involved.

To help manage this risk effectively, humanitarian actors have relied on risk management architecture borrowed from the private sector, which promotes a process of analysing and responding to risks faced by organisations [5] individually, rather than risks to the humanitarian response as a whole. While in many ways effective, this reliance on private sector risk management methodology has a critical weakness. If an organisation working in one part of the delivery chain of humanitarian intervention manages risks to its own organisation by using a risk avoidance or risk transfer response strategy, this can have the effect of creating a more challenging risk acceptance decision for humanitarian organisations working in another part of the same delivery chain. If that elevated risk is too much for the second organisation to tolerate, the organisation may choose not to accept the risk, the delivery chain will fail and neither organisation will achieve its objectives. Even if the second organisation does choose to accept the elevated risk, the consequences for the delivery of assistance may be compromises in its timeliness, appropriateness or quality due to the additional risk mitigation measures the second organisation may have to put in place to deal with the risk. In response, the concept of 'sharing risk' has gradually emerged within the existing risk management architecture as a keyway to address this challenge.

Despite the sense that increased risk sharing could be an appropriate solution to the challenges posed by some risk avoidance and risk transfer response strategies, the idea of risk sharing has not been well articulated in policy or well understood in practice. Moreover, achieving it remains elusive. In response, since 2018, the Netherlands Ministry of Foreign Affairs (MFA) and International Committee of the Red Cross (ICRC) have worked together, under the aegis of the Grand Bargain, to develop a clearer picture of the risk transfer problem, its impact on humanitarian action and how risk sharing within existing frameworks or new risk management approaches might unlock dividends for affected communities. There have followed a number of meetings, research pieces and statements that culminated in agreement that the Grand Bargain was an appropriate forum in which to address this issue, resulting in the formation of a Risk Sharing Platform of interested members, co-led by Netherlands, ICRC and InterAction. This research has been commissioned by Netherlands MFA and ICRC on behalf of the Risk Sharing Platform, with a view to collecting evidence of positive risk sharing practice, together with evidence of where risk sharing has been less successful or impossible. The idea behind the research is to build a picture of what enables successful risk sharing and what forms a barrier to it, so success can be replicated, and challenges addressed, if necessary, by new approaches. To do this, 24 Key Informant Interviews (KIIs) were held with 21 different organisations encompassing National NGOs (NNGOs), International NGOs (INGOs), United Nations (UN) agencies, Red Cross entities and government donor bodies, in total elaborating on approximately 50 case studies of risk sharing efforts in different contexts. The findings from this research are the topic of this paper.

[5] The term 'Organisation' here is used as a generic catch-all for the various different institutions, agencies, societies, delegations and organisations that are part of the humanitarian sector. This is described in the Glossary at the start of the report.

2. Understanding the stakeholders: Functions and focus

2.1 Who are the humanitarian actors?

Humanitarian action is primarily intended 'to save lives, alleviate suffering and maintain human dignity during and in the aftermath of crises'[6]. However, when 'crises' can mean anything from the aftermath of an earthquake to several years of drought or continuous grinding conflict, the 'action' and the modalities needed to deliver it can look startingly different from place to place. This makes for an often-bewildering array of what could be described as 'humanitarian actors' – those organisations who adopt different, often multiple and occasionally overlapping functions within the humanitarian delivery chain, who collaborate to see donated funds inputted at one end become humanitarian assistance outputs at the other. The shared higher objective to alleviate suffering is what binds this group of actors together as the target group for this study.[7]

Organisations providing funds, organisations coordinating and disbursing funds, organisations delivering assistance[8]; no single humanitarian actor has the capacity or willingness to take on every function in the delivery chain at scale. Collaboration by organisations performing the different functions is therefore key to achieving the shared objective. Understanding these functions, and knowing which of them will be performed by which actor is, consequently, vital as:

- Different functions present different risks to those humanitarian actors performing them;
- Humanitarian actors positions vis-a-vis risks change, depending on the function they are performing;
- For dual or multi-function humanitarian actors, the function that they most commonly perform may contribute to the dominant culture of those organisations, and inform the way they consider risk relating to other functions, in both complementary and conflicting ways;
- Identifying and contrasting risk concerns by function rather than organisation type highlights areas of shared concern between different types of organization, helping emphasise the collaboration in humanitarian action, developing consensus on areas for engagement and minimizing possibility for 'us vs them' rhetoric;

It is also important to consider that Humanitarian actors are often only part of larger organisations that have not only 'dual functions' but also 'dual mandates'. Among Non-Governmental Organisations (NGOs), United Nations (UN) agencies and government donor bodies, organisations can have responsibility for providing support not just to humanitarian responses, but also to development and/or stabilization agendas. Inevitably this can lead to trade-offs when it comes to risk management. Understanding 'where organisations are coming from' in terms of their mandate is therefore important.

[6] www.oecd.org/dac/peer-reviews/12lessons.pdf

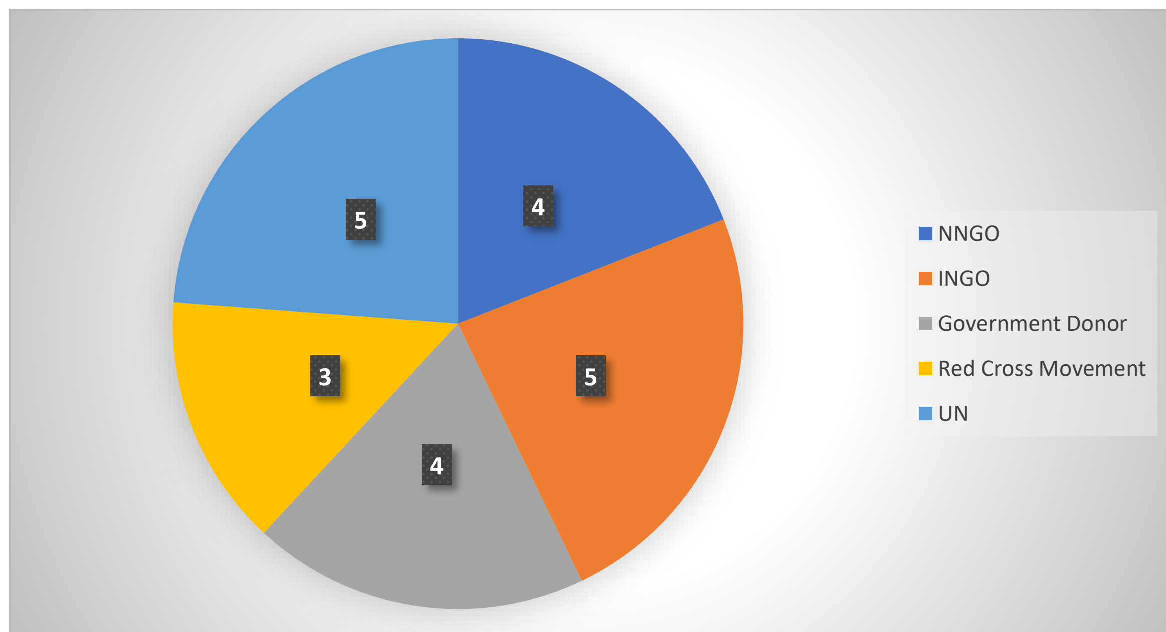
[7] This is in contrast to development or stabilisation actors who may perform similar interventions but working towards different higher objectives, for example political or trade related. It is not to say that risk sharing with these other actors is not possible, but this research starts from the assumption that there is much that can be achieved through engagement between actors sharing the same humanitarian objective and focuses on this group.

[8] Assistance in the context of this report is a term used to capture the full range of sectoral and cross-sectoral interventions that may be implemented by different humanitarian actors as a part of a humanitarian response. For example, these may include but are not limited to Protection, Shelter, Water Sanitation, Food Security, Nutrition, etc.

2.1.1 Mandates of interviewed organisations

KIIs were held with 21 organisations to inform this research. The organisations interviewed are broadly categorised as i) NNGOs), ii) INGOs, iii) government donor bodies, iv) UN agencies and v) Red Cross movement entities.[9] All 21 of these organisations described their mandate for humanitarian action in line with the definition outlined above, with those closest to the point of delivery increasingly making direct reference to humanitarian principles in how they deliver this assistance. It was however notable that 12 of the 21 organisations had dual mandates for providing development assistance and at least 19 of the 21 organisations perform what could be described as 'early recovery' or 'resilience' interventions associated with Linking Relief Recovery and Development (LRRD) or Nexus approaches linking together humanitarian development and peacebuilding agendas.

Figure 1 – Type of organisations participating in research



2.1.2 Key functions identified

Organisations perform a wide range of different functions in humanitarian responses, ranging from tasks such as provision of original funds and further disbursing of funds to downstream partners, through to the direct delivery of interventions at field level. In between these are various other functions organisations perform such as response coordination and partnership functions less oriented around funding than other types of support. All these functions play a part in achieving the successful delivery of assistance to affected populations, so it is important for organisations to give due thought to all functions regardless of whether they are a focus of this research. However, when analysing the humanitarian mandates of respondent organisations, the following functional categories were identified as particularly useful in thinking through how different humanitarian actors perceive risk and hence are of particular importance to dialogue on risk sharing:

[9] This could for example be any of the individual Red Cross/Crescent Societies, the IFRC or the ICRC

1. **Back Donor Function** – The entity from which funds for humanitarian action generally originate, most commonly a sovereign government[10] and where earliest conditions on the delivery of assistance originate. Back donors do not generally work in the other functions below.

2. **Intermediary Donor[11] Function** – An organisation which may receive funds from a Back Donor, which are then passed on wholly or in part to another organisation(s), who may deliver the proposed assistance themselves either wholly or in part, or act themselves as an Intermediary Donor to other downstream partners. Common examples of this function are seen where UN agencies receive funding from Back Donors which are in large part used to contract NNGOs via Project Partnership Agreements (PPAs) to directly implement agreed projects; where Pooled Funds run by OCHA, INGOs, etc. receive funds from Back Donors to disburse to downstream partners via a pre-agreed methodology who may themselves have further downstream partners; and where individual Red Cross/Crescent Movement entities and INGOs receive funding from Back Donors which they in turn use to partner bilaterally, in consortiums or via other arrangements with different Red Cross Societies, INGOs and NNGOs to implement activities. The permutations are limitless and organisations will often perform other closely-related functions as described in the opening paragraph of this chapter, but a key feature of the Intermediary Donor function is that it has largely become the default method for Back Donors to channel funds to front line responses and in particular to national responders. The ramifications of this which in terms of risk sharing are considered later in this report and in particular for those national responders.

3. **Direct Implementation[12] Function** – Where organisations take responsibility for delivering a particular humanitarian intervention directly using their own staff and operational capacity, commonly in coordination with other international and national organisations Direct Implementation as a function dominates the work of NNGOs and many Red Cross/Crescent Movement entities, is common among INGOs and continues to be a function of last resort for many UN agencies. Direct Implementation as a function is rare among government donors.

[10] While it is acknowledged that a small but significant and growing proportion of humanitarian funding is raised through private donations, commercial philanthropy and other sources, the assumption made in the framing of this report is that increased risk sharing is primarily required between the normative actors in the delivery chain, and as such these non-government funding sources are not examined.

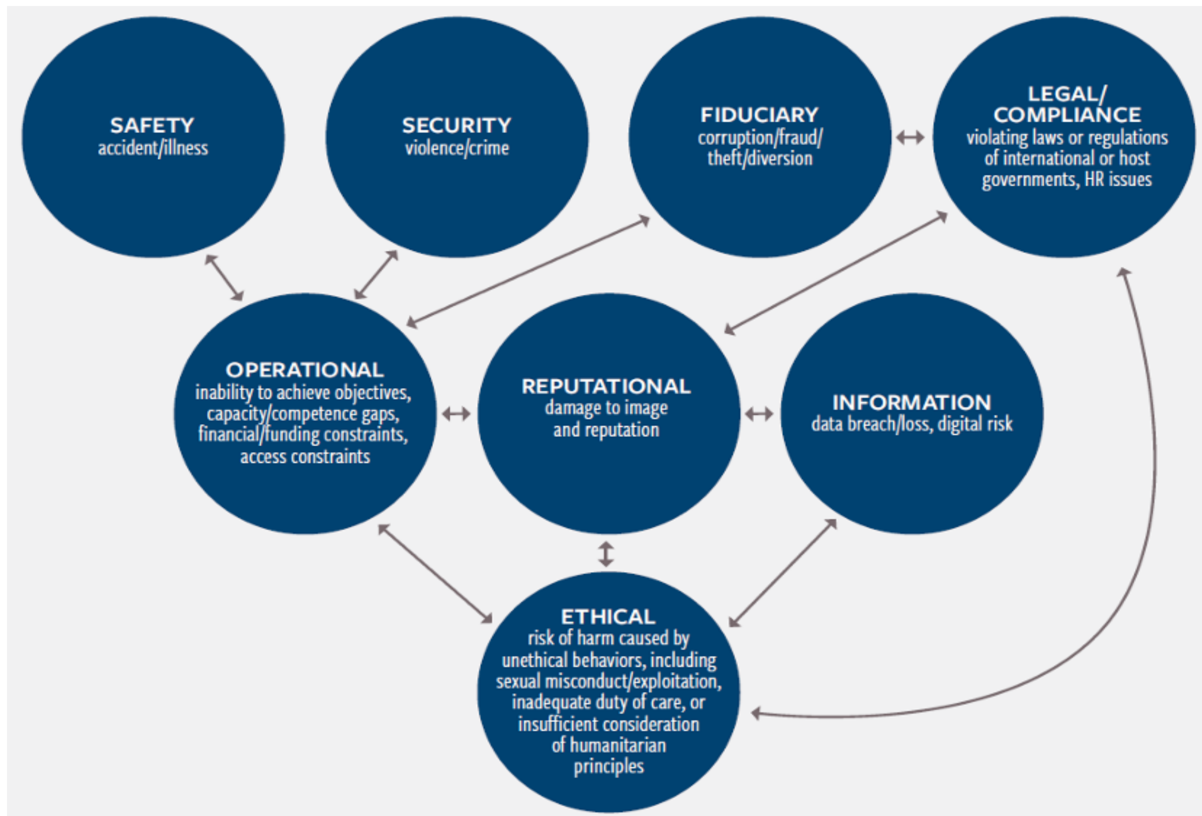
[11] The concept of the 'Intermediary role' was introduced in a study initiated by the Grand Bargain Localisation Workstream to increase clarity and ambition as to how the role of intermediaries should be evolving. The definition includes functions such as coordination, as well as the funding function using funds from upstream donors. In an effort to maintain consistent definitions within linked Grand Bargain processes, this report therefore uses this definition, clarified as 'Intermediary Donor' to make clear the report is concerned only with this second funding function. *Bridging the Intention to Action Gap: The future role of intermediaries in supporting locally led humanitarian action*, June 2021

[12] Similarly drawn from the study *Bridging the Intention to Action Gap: The future role of intermediaries in supporting locally led humanitarian action*, June 2021

2.2 Categorising risk for comparison

As with the humanitarian's dialogue on risk more broadly, in order to discuss risk, there is a necessity to 'talk the same language'. As already mentioned, where there is a multitude of humanitarian actors with different cultures, mandates and terminology, this often presents a challenge. For the purposes of this research, to be consistent with other risk sharing initiatives, this paper does not seek to make a judgement on which terminology is most appropriate but continues to use a categorisation developed by Interaction with NGO partners as part of the *Risk* initiatives in 2019.

Figure 2 – Risk areas[13]



This paper therefore categorises examples and case studies into one or more of these risk areas, recognising that risk is complex, risks can be numerous and interlinked and addressing a risk in one area may lead to the generation of new or exacerbated risks in other risk areas.

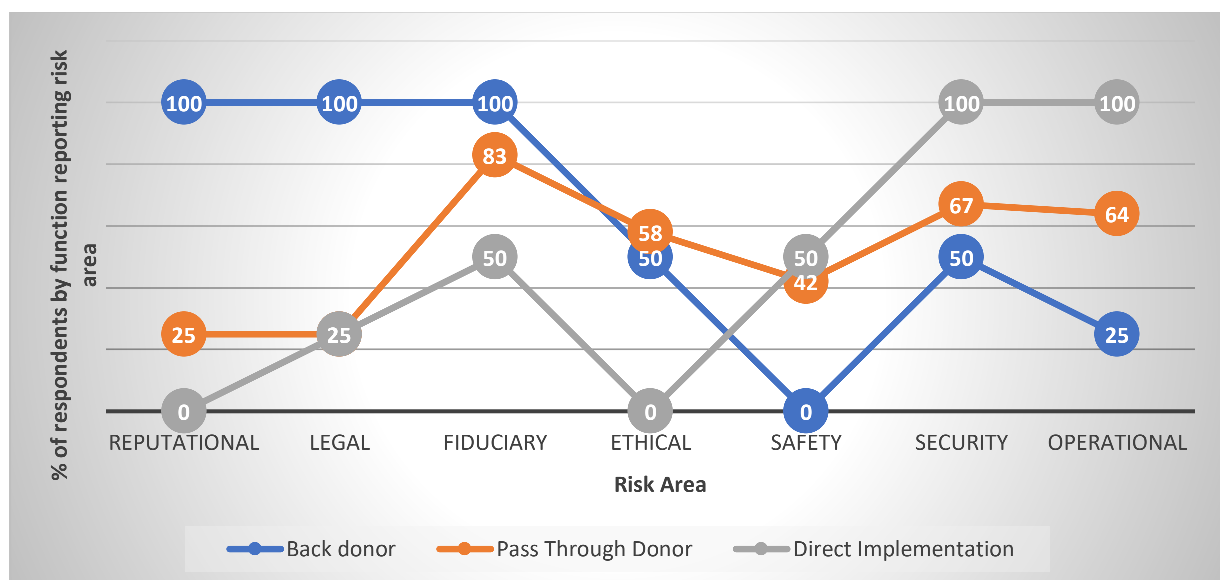
[13] https://www.interaction.org/wp-content/uploads/2019/03/Risk-Global-Study.pdf

2.3 Actor perspectives on risk: A difference of opinions

2.3.1 Variations in perceptions of key risks by delivery chain function

Asking organisations to identify the most significant risks that they faced threw up some clear areas of correlation and contrast, differentiated largely by the function or functions the organisation in question fulfilled. While it was expected that government donor bodies would naturally account for the entire Back Donor function, and not unexpected that the NNGOs sampled overwhelmingly worked in the Direct Implementation function, the fact that almost all the remaining respondents from Red Cross movement entities, UN agencies and NGOs identified themselves as working in both the Direct Implementation *and* Intermediary Donor functions was noticeable. It serves as an important reminder that the concept of *the* 'Delivery Chain' in humanitarian assistance is not always helpful.[14] In practice, a delivery chain relates to an intervention, and every intervention is different – and because every intervention is different, each delivery chain can require a different combination of organisations to perform these key functions, chosen or self-selected based on their strategic focus, resources, capacities and crucially, their appetite for different types of risk. This nuance is highlighted in the figure below:

Figure 3 – Key risk areas of concern by organisational function



Conflicting risk priorities between organisations working in different functions

The figure above demonstrates a clear difference between the risk areas that concern organisations working in different functions, depending on where that function sits along the spectrum of a delivery chain. For example, organisations working in the Back Donor function show most uniform concern about Fiduciary, Legal Compliance and Reputational issues whereas by contrast, organisations working in the Direct Implementation function show far more consistent concern about Operational and Security risks. Meanwhile, organisations working in the Intermediary Donor function reported a more nuanced picture in terms of key risk falling between these two extremes of focus, showing similar levels of concern as a group to that shown by Back Donors for some risk areas (such as Fiduciary risk), while for other risk areas showing similar levels of concern to those organisations working in the Direct Implementation function (such as Operational risk).

[14] If the humanitarian sector temporarily diverged from corporate terminology, it would be better to think not of a delivery chain but of a delivery rope – where each component strand represents a single intervention, which woven together form component-parts of a mutually-reinforcing humanitarian response. However, for the purposes of this report, the term Delivery Chain as common terminology is used, with the reader only asked to consider this nuance.

It is important to recognize that this interview question was only a snapshot. In some cases, respondents later raised examples of risk sharing on risk areas they had not raised as significant areas of concern for their organisation as a whole. It is nonetheless instructive, as it demonstrates why organisations can sometimes find it difficult to approach risk sharing. If each party in a delivery chain only identifies the risks that impact on their ability to complete their functional role and fails to acknowledge the risks faced by organisations performing other functions in the same delivery chain, there is limited room for the 'big picture' compromises needed by both parties to unlock the mutual risk sharing dividend. For this reason, it is necessary to understand where these different perceptions on risk come from.

Organisations in Direct Implementation: A focus on security & operational risk areas

In some ways the key risks perception of a functional grouping that is easiest to understand is that of those organisations working in the Direct Implementation function. These organisations are the last link in a delivery chain. They deal directly with the Security risks inherent to many of the operating contexts for humanitarian action. They also have to grapple with Operational risk challenges such as bureaucratic impediments to access that can delay, degrade or prevent implementation. Facing these sorts of obstacles to achieving the overall objective of assisting affected communities, it is hardly surprising that these organisations would focus on areas of Operational and Security risk first and foremost.

Back Donors: Concerns around fiduciary, legal and reputational risk areas

At the other end of the delivery chain spectrum, those organisations working in the Back Donor function have very different concerns, and rightly so. They don't have 'boots on the ground' in the last-mile contexts where operational delivery is negotiated and where the bulk of physical security and safety risks exist and materialise for humanitarians. They expect to contribute to solutions in this area, but they are not the driving force for identifying them – that belongs to those doing the Direct Implementation. This function demands a different focus, quite simply providing the quality funding that makes the delivery chain work and ensuring that it remains available to keep it working. Looking at the risk focus of Back Donors through this lens makes it much easier to understand the contrast in key risk areas. Back Donor respondents generally highlighted how their governments have a zero-tolerance attitude towards Fiduciary and Ethical risk – in many cases complimented by domestic legal frameworks outside the immediate humanitarian organisation's control – that create, either informally or formally, zero appetite for risk in these areas. Despite most respondents acknowledging that this was unhelpful to risk sharing, there was agreement that if risks in the areas of Fiduciary, Ethical and associated or new Legal/compliance risk (e.g., CT non-compliance) were to occur, the Reputational risk impacts could be severe. Public, media and political reactions to scandals were explained as having potentially significant impacts on these Back Donors' ability to continue funding aspects of the responses affected (due either to political directive or overall withdrawal of government budget support to those departments). With this in mind, it is quite understandable that we should see Back Donors prioritise risks occurring in these areas.

Intermediary Donors: Risks to the left of me, risks to my right, stuck in the middle with you

Which leaves the question of risk focus for organisations working in the function of Intermediary Donor. It is perhaps not surprising to see this group on the one hand putting some emphasis on issues such as Fiduciary and Reputational risk – in order to fulfil their functions as donors they have a similar responsibility to that of Back Donors in the delivery chain, to keep funds flowing towards humanitarian responses. Hence the focus both in the answers Intermediary Donors respondents gave to the question of key risk areas, but also in a number of examples respondents gave where scandals of different types had resulted in reputational damage and associated suspension or loss of funding. However, the nature of organisations working in the Intermediary Donor function is markedly different to those working as Back Donors. Intermediary Donors are demonstrated in this research to almost always have a dual function in Direct Implementation, or by performing other functions (e.g.

coordination) that are closer to the point of delivery. As a result, organisations working in the Intermediary Donor function are commonly more embedded at field level than most organisations working in the Back Donor function and are thus more exposed and knowledgeable as to Security and Safety risks and Operational delivery risks that impact them and their partners' programming in the contexts in which they operate. This may explain the slightly more common preoccupation with these areas of risk among organisations working in the Intermediary Donor function as opposed to those working in the Back Donor function, despite both functional groups having a stake in seeing them addressed.

2.3.2 Commonalities in perceptions of key risks among functional groupings

Despite the contrasts in emphasis on key risk areas between the organisations working in the different functions of Back Donor, Intermediary Donor and Direct Implementation, there were some areas of commonality in responses around key risk areas. Fiduciary risks were highlighted as a key concern by a high percentage of all three functional groups, and also accounted for the largest proportion of responses within one risk area overall. Security risk and Operational risk similarly saw second and third highest proportions of responses as key risk areas and a strong spread of responses across different functional groups, albeit with a slightly lower proportion of Back Donor responses explicitly declaring it an area of concern. This would suggest that there are some key areas of risk which are already collectively acknowledged to be potential spoilers for humanitarian responses. This poses the question: are these areas of risk organisations can address on their own, or do they require risk sharing with organisations performing other functions in a delivery chain? The case studies in this report seek to shed light on this question.

2.3.3 All for one and one for all: Conclusions on perceptions of key risks

A consistent and unavoidable aspect of the delivery chains that make up any humanitarian response is that a risk which is a concern for any *one* organization performing one of the key functions in a delivery chain represents a potential blockage to the delivery of the intervention, and therefore a potential risk for *all* organisations performing a function in that delivery chain, that the delivery chain will fail and shared objectives will not be achieved. Thus, it is not realistic or strategically viable for humanitarian actors to consider only the risks they see as significant to their own organisation, as the risks their partners or collaborators consider significant will have an impact on their ability to achieve their shared programme objectives whether they like it or not. As the case studies in this report show, consideration of partners' risks may have a significant impact upon an actor's ability to achieve shared programme objectives. Humanitarian actors need to stop looking at risk through an individualised, organisation-focused lens and start considering the aggregated risk in the delivery chains they are involved in, which means a shared approach to understanding risk, risk identification and risk response. A second consistent pattern which emerged when looking at the broad concerns of the three different functional groups is that, where organisations working in a particular function are identifying risks that particularly concern them, they tend to be the functional group that are *driving* the effort to find a way to adequately address them. This is not to say they are the organisations who will have the greatest effect on this effort, but as the organisations most intimately affected by the risk in question, they have the most invested in seeing a solution – other organisations performing other functions in the chain may be considered as only helping to *deliver* the proposed risk treatment solutions. However, if the risk treatment solution proposed by the 'Drivers' cannot be implemented by the 'Deliverers', then the approach breaks down. Here lies a challenge for humanitarian actors. It is not enough just to identify the risk areas their organisation are concerned with and run with them alone to find solutions. Organisations need to drive the process for finding some solutions to their main risks of concern, and also actively help deliver on others as well. This means collaboration on preparation of risk treatment options – including risk sharing – between organisations working in different functions.

Taken together, these two points present an opportunity: currently the lack of a response-wide perspective to risk means organisations in one function of a delivery chain leading work to treat one of 'their' risks can be frustrated by the lack of support among organisations working in a different function who need to help deliver that risk treatment. However, that lack of perspective may mean those same organisations not being conscious of frustrations that organisations in other functions may have on their engagement on risk treatment delivery for risks that they are driving, for example not devoting enough time or qualified staff to understanding that risk, making financial and other resources available to help address risks, and so on. Acknowledging the collective nature of risks and shared responsibility for treating them therefore represents an incentive for collaboration on risk management, which is an essential pre-condition for risk sharing, the topic of this paper.

3. Risk sharing: The gap in humanitarian risk management architecture

3.1 What is risk sharing and why does the humanitarian sector need more of it?

The vast majority of actors working in the area of Humanitarian action, including those interviewed for this report, have mission statements that at least nod to the humanitarian principles of Humanity, Neutrality, Impartiality and Independence. The principle of Humanity dictates that those working in humanitarian action seek to help affected populations wherever they might be. Unfortunately, the vast majority of the 275 million people currently in need of urgent humanitarian assistance worldwide are in places where delivering assistance, for reasons including conflict, geography or climate, inherently comes with significant and complex risks. Actors working in Humanitarian Action increasingly use Risk Management systems, largely borrowed from the private sector, to identify and respond to these risks to their organisations, through the options of avoiding, transferring, reducing, accepting and to some extent *sharing* risk. The expected result is that they are able to continue providing support to affected populations in these non-permissive environments in a way that manages risk without unreasonably impacting on the achieving of objectives. As will be explained, the concept of risk sharing as a response strategy is for various reasons becoming increasingly prominent in the humanitarian discourse on risk management.

Gaps in the risk management approach: Organisation-focused vs delivery-chain-focused

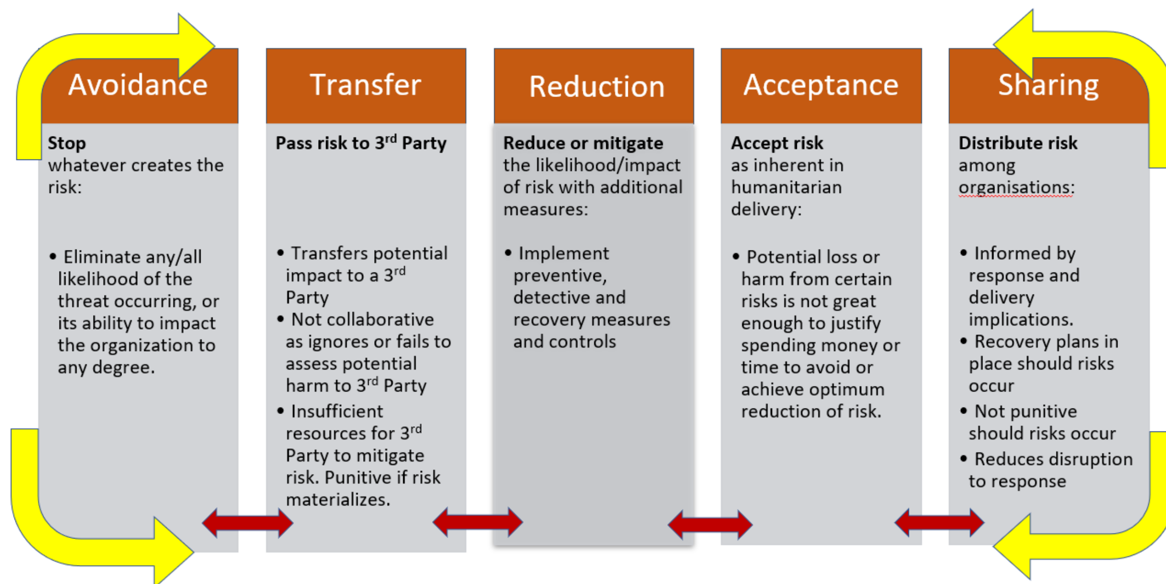
The risk management evolution among humanitarian actors has undoubtedly been a welcome development but it has had some unintended consequnces. The risk management approaches adopted from the private sector tend to focus more on identifying and risk to single organisations, rather than considering risk to the humanitarian response as a whole. This does not pose a problem in the for-profit sector, where commercial entities largely have the *same* objective (i.e. profit, which can be pursued *in competition* with others), but is problematic for humanitarian actors, who have a *shared* objective (i.e. reaching affected populations, which most effectively must be pursued *in collaboration* with others, as has alreay been pointed out earlier in this report). So while it would be normal for a company in the commercial sector to choose to avoid or transfer a risk in order to protect their individual company's profit margin, in the humanitarian ecosystem where the bulk of assistance is provided by multiple actors collaborating in different delivery chains, if individual humanitarian actors transfer or avoid a risk to limit their own exposure, the result could be a significant negative impact on the success of that delivery chain– people will receive less, receive it late, receive assistance that is less appropriate (e.g. not needs based, using a sub-optimal delivery modality, etc.), or not receive assistance at all.

The challenge of an organisational focus in risk management: Together we stand, divided we fall

This is where the commercial understanding of risk transfer and risk sharing[15] can be seen as limiting for humanitarian actors. Transfer of risk to humanitarian actors performing other functions in the delivery chain exposes those partners to additional risk that they may not be able or willing to accept, as they may not be able to tolerate the consequences should the risk materialise . This poses a threat to delivery of assistance to affected populations for both the transferer of risk and recipient of risk, as well as any other organisations involved in that delivery chain. By contrast, looking at all risks to organisations in a delivery chain holistically and then collaboratively working out how those risks can be shared equitably by the organisations actually allows for a greater level of risk to be accepted overall. This concept of risk sharing described in Figure 4 fits well with the ideas of collective action, collaboration and solidarity that are central to humanitarian response.

[15] 'A form of risk treatment involving the agreed definition of risk with other parties' ISO Guide 73:2009, https://www.iso.org/obp/ui#iso:std:iso:31073:dis:ed-1:v1:en

Figure 4 – Risk response strategies



Risk Sharing on preventative measures & risk consequences: The optimal approach

The idea of risk sharing can seem quite ethereal, but in practice it commonly comes down to two elements. On the one hand, there are the mitigation measures that can be put in place to reduce the likelihood of a risk materializing. These are most often preventative and deterrent measures, such as having staff in place to ensure different policies that control risk are implemented correctly, or physical security infrastructure for premises. On the other hand, there are mitigation measures that can be put in place to limit the impact of that risk event, should it materialize, such as insurance covering buildings contents for incidents like theft. Risk sharing approaches normally combine elements of this cost-sharing on preventative and deterrent measures, and agreements on how to deal with residual accepted risks, should they materialize, which can include both cost-sharing elements as well as other elements on principle and approach.

Put most simply, risk sharing might be described as:

'Reasonable sharing of the burden of preventative measures, reasonable sharing of responsibility for materialising risks.'[16]

3.2 When should risk sharing be utilized?

All organisations have a certain level of risk that they are willing to retain or take in pursuit of their objectives. The level of this risk is referred to as a 'risk appetite'. Organisations have different cultures, mandates, and objectives, so they understandably also have different risk appetites, and this fact needs to be accepted by all humanitarian actors. Existing risk management architecture within the humanitarian sector allows for organisations to articulate their risk appetite when working in different functions in the delivery chain. Within the bounds of their risk appetite, there is then an expectation that each organisation will accept (after risk reduction and, if necessary, risk avoidance strategies have been implemented) as much risk as is acceptable within this risk appetite, as this represents the optimum route to maximising opportunities towards achieving their objectives. This element of risk management sits easily within existing organisational -focused risk management approaches that are used by the majority of humanitarian actors already discussed. However, in the contexts where

[16] Paraphrased from *Risk sharing to improve humanitarian response in hard-to-reach areas,* NRC, 2022

humanitarian action is needed there will inevitably be some risks where the residual risk rating – the severity of the risk after risk treatment has been undertaken – will present a risk value outside the acceptable range of the organization. It is these kinds of risks that are most in need of risk sharing. Of course, in some cases risk sharing may be achievable and desirable as the initial risk response strategy, but given the additional time and resources needed to negotiate and agree on risk sharing measures, it is simply more efficient to reduce the scope of which risks require risk sharing as a response strategy from the outset.

3.3 The policy picture on risk sharing so far

The very fact that there is still not a clear and agreed definition for the term 'risk sharing' in the humanitarian context is symptomatic of how the policy and understanding of risk sharing is still under-developed. As one respondent pointed out, it was tough getting good case studies about risk sharing when their Senior Management weren't exactly sure what risk sharing was. However, this fact detracts from the reality that there has been for some time, and continues to be, a good deal of risk sharing happening in practice. For example, previous research points out that 'donors have proven receptive to paying preventive security costs for some years for some partners, while not necessarily seeing this contribution through the lens of "risk sharing". At the same time, the inevitable back-and-forth between donors and NGOs on grant agreement contracts is an effort to balance risks between the two parties.'[17], with both of these examples demonstrating risk sharing approaches in practice.

While there is a limited amount of evidence-based research on risk sharing to date, the concept has increased in prominence since the 9-11 terrorist attacks two decades ago, with the "chilling effect"[18] of counter-terrorism (CT) and Sanctions measures implemented in Somalia shortly after being cited as a critical risk to humanitarian action that needed to be addressed through risk sharing. Since then, the concept has emerged in a number of policy papers and initiatives that have further developed the idea of the need for risk sharing, such as the Interaction-led *Risk I, II & III* initiatives between 2014 and 2022, in *Risk Sharing: A Discussion Paper by HERE-Geneva* commissioned by ICRC and the *Ministry of Foreign Affairs of the* Netherlands in 2020, a closed-door expert panel event held by ICRC and the Netherlands at the Clingendael Institute in 2021 and culminating with the recent statement on risk sharing by Netherlands and ICRC that led to the Grand Bargain membership acknowledging the need for better risk sharing to help achieve their objectives around quality funding and localisation, which led to the creation of the Risk Sharing Platform that initiated this research.

Throughout these various initiatives, a number of recommendations have been made concerning what must be done to improve risk sharing overall and on specific risk issues of concern. Some of these are quite 'tactical' while some are far more high-level and strategic. What is striking however is that few of these recommendations, while seeming obvious to experienced personnel in the areas they involve, are supported by evidence. This is perhaps understandable, given the sensitivity surrounding some of the trickier areas of risk management, particularly where reputational risk is involved. This research was commissioned in part to address this gap, with the hope that it will deliver the same collaboration and confidential sharing of information that has been successful in the Interaction-led *Risk* Initiatives and early initiatives of the Risk Sharing Platform. It was anticipated that the evidence gathered in the course of researching this report would go some way to substantiate some of these recommendations, as well as draw new ones.

[17] *Risk sharing to improve humanitarian response in hard-to-reach areas,* NRC, 2022

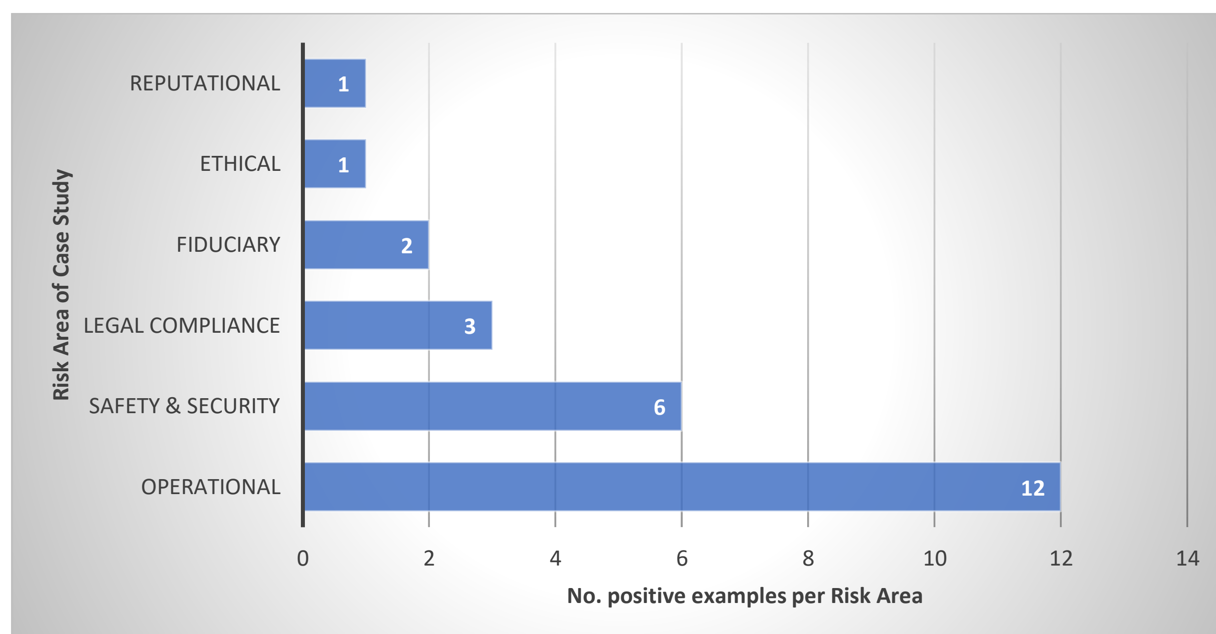
[18] *Study of the Impact of Donor Counter- Terrorism Measures on Principled Humanitarian Action*, Mackintosh & Duplat, 2013

4. Risk sharing case studies

4.1 Risk sharing success stories

The research collated 26 case study examples of where risk had been shared successfully between the respondent's organisation and other organizations performing a different function in the delivery chain. The examples given were split reasonably evenly between cases where risk had been shared with an organisation upstream in the delivery chain and examples where risk had been shared with an organisation downstream in the delivery chain. The breakdown of risk areas addressed in the positive case studies are described in the figure below.

Figure 5 – Distribution of positive case studies by risk area



4.1.1 Risk sharing on costs for preventative measures and residual risks for Security risks

The clearest and most consistent picture that emerged on what respondents raised as risk sharing success stories was around Safety and Security risks. In all six examples cited in this risk area, organisations working in a Direct Implementation function were able to access funds to put in place preventative measures to reduce the likelihood of a security risk materialising as an incident. The text box below demonstrates a positive example of this kind of best practice risk sharing.

It was noticeable however that there were fewer references in these examples to agreements on how upstream partners might support downstream partners working in Direct Implementation in the event of one of the security risks in question materialising as an incident. Among responses from national NGOs, there was also a sense that security risks they identified were not always given credence by their upstream partners, either in terms of organisations taking broader preventative action, or in terms of their own funding for security mitigation measures. As one NNGO respondent put it 'we know the risks are there, we try to tell people, but we are not listened to. Action is only taken when an incident seriously affects an INGO or UN agency – and then everything stops, not just our project.' The inference here is that in the best case, not only funds, but also management focus from upstream partners aimed at preventing risks occurring can be – but are not always – a crucial part of good risk sharing. However, it does not mean that all risk can be prevented. Attention to other aspects of risk management beyond controls for prevention will always be needed, such as detection capacity, and mitigation measures to address incidents that may have materialised.

Text Box 1 – Case study of successful risk sharing for Security risks

An INGO was running programmes for Youth Activists. These programmes bring specific Partnership, Security and Safeguarding challenges due to the age and vulnerabilities of the activists and the type of activism they engage in. At the outset of the programme, the INGO bought together the programme team and the activists for an open dialogue, where the INGO sensitised the activists to the concept of duty of care and the activists share what risks they identify in the work they are planning to undertake. A risk assessment is then concluded between the Programme and Partnership staff and Security staff to ensure that all risks are identified and addressed in an equitable way that does not enforce the INGO's way of working and to ensure that suggested mitigation measures do not inadvertently generate new risks for the activists. This approach is encapsulated in the INGO's policy guideline for self-assessing and meeting standards for risk sharing in emergency responses, which provides a policy framework for how risk should be shared when working in partnership. This approach enabled the introduction and cost sharing of preventative mitigation measures around security risks, which included the INGO training the activists on data security, and risk management processes. It also importantly enabled the INGO to define reactive risk sharing measures for incidents that might materialise; the INGO was able to prepare crisis management measures that clearly articulated to the Activists what the INGO would be able to provide as support in the event of an incident, if they should request such support, giving a predictable basis for the Activists to assess their appetite for this risk, knowing formally how the INGO would respond in support.

4.1.2 Proactive and reactive steps to achieve risk sharing on Operational risks

The second clear trend was around risk sharing in the area of Operational risk, which accounted for the largest proportion of positive examples of risk sharing overall. The examples in this risk area were more diverse, but two key themes emerged. Firstly, there was a reasonably clear split between what might be seen as 'proactive' risk sharing initiatives, where Back Donors and Intermediary Donors were putting in place policies that would *enable* better risk sharing, and what might be seen as 'reactive' initiatives, where organisations sought to use tools already at their disposal to pursue risk sharing solutions to new risks being identified or materialising during the programme cycle.

Looking at the Policy areas involved in the 'proactive' initiatives examples is instructive: Back Donors and Intermediary Donors consistently raised the challenge that they recognised for their partners – and particularly national partners - in meeting due diligence and compliance demands. Respondents in donor functions highlighted policies introduced to help flex compliance requirements for partners of different capacities, enabling them to partner with a wider range of actors. These included for example a Back Donor's grant making mechanism that effectively allow staff to derogate full due diligence of prospective partners where needs require it and an Intermediary Donor who has introduced a framework to reduce compliance requirements for partners based on a local capacity assessment. Donors also cited policies they introduced that helped to explicitly lay out how cost sharing for preventative measures to address risks other than security risks might be included in partner budgets. While it was noticeable that in none of the examples did an organisation working in the donor function manage to pull all such positive practice together at once, it did raise the prospect that, were organisations working in this function able to do so, the impact could be transformational, in that it would create a policy framework for action that required less reactive management action.

Text Box 2 – Case study of successful proactive risk sharing on Operational Risk relating to capacity constraints

A consistent point of reference when discussing the cost-sharing aspect of risk sharing with NNGOs working in the Direct Implementation function and referenced in other discussions with respondents elsewhere in the delivery chain, was the difficulty of meeting steep compliance requirements, given the upfront investments necessary in things like setting up and maintaining accounting software systems and meeting ongoing indirect costs associated with staff positions like Reporting, Finance, Procurement, Integrity (e.g. HR, feedback and M&E, PSEA), etc. There was also a perceived failure on the part of Intermediary Donors to 'pass on' appropriate portions of funds to pay for these elements.

To combat this, one Intermediary Donor explained in the context of a rapid onset natural disaster in a fragile context, how national partners were at risk of being overwhelmed by the complexity and range of compliance and reporting requirements from different donors, which was drawing resources (funds, staff time, etc.) away from the actual response. The Intermediary Donor explained that they had addressed this risk to delivery with their own partners in part by instituting global guidelines that stipulated clear instructions that indirect costs provided by Back Donors for projects should be shared at least 50:50 with downstream partners, to ensure they had the most financial resources necessary to address these compliance-related costs in the most flexible way possible. In addition to this proactive policy measure, a reactive policy measure was also put in place at the country level to dictate that all partners of the Intermediary Donor would report using the same simple narrative format. The Intermediary Donor would then take responsibility for preparing the specific Back Donor report, and in so doing sharing the risk that required information would be available to the different Back Donors as required. This approach enabled a more programme-oriented approach reviewed on a regular basis, rather than a heavier and more fragmented projectized approach, which made the response to affected communities more predictable and coherent.

Although concerning fewer cases raised by respondents, the 'reactive' examples raised perhaps the most interesting of examples, due to the significant impact the risk sharing measures had on achieving programme objectives. These examples are described in the text box below:

Text Box 3 – Case Studies of successful reactive risk sharing on Operational Risk[19] of not achieving objectives: Changing financial arrangements

An organisation working in the Back Donor function has standard global financial regulations for partners dictating that funds transfers should be made via commercial banks. These regulations are intended to mitigate risk to the donor of financial loss in the transfer process and risk of their own non-compliance with various forms of sanctions. In one country of operation, a direct implementation partner initiated a risk dialogue with the Back Donor early in the programme. The partner explained that complying with the regulation was generating a risk that they would not be able to deliver on the programme objectives overall, because the commercial banks in the country were unwilling/unable to support onwards transfers to the areas of field operations and because the host government tracking of funds and their intended purpose created security risks for the partner's staff. The Back Donor and partner agreed on the severity of these risks and jointly developed a mechanism for the donor to transfer funds to a commercial bank account, but via a third-party money transfer agent directly to the partner in the area of field operation, thereby removing the risks posed by the original regulations. The original risk of financial loss and sanctions non-compliance meanwhile were instead mitigated via a capacity assessment and vetting of the third party transfer agent used for the programme. This had the effect of ensuring the programme was implemented, whereas without this risk sharing, there was no way for the partner to accept the residual risks.[1]

A second similar example of risk sharing on Operational risk similarly originates around realistic access to funds. After the takeover of a country of operation by a non-state actor, the national economy experienced a crisis of confidence exacerbated by international sanctions. The result was a widespread shift to demands for physical currency for payment for goods, services and employment, but banks were unable to support cash withdrawals from 'old money', meaning funds already deposited or newly transferred electronically, where that was even possible. Unable to take on the financial risk of directly transporting physical 'new cash' into the country and initially struggling to find other sanctions-compliant routes to bring in cash, humanitarian action ground to a halt. In response to this risk of not achieving programmatic objectives, several Intermediary Donor organisations coordinated to fly physical cash into the country's capital on behalf of their downstream partners, whereupon it was physically deposited in a bank on condition that their downstream partners could immediately withdraw the physical cash to support their operations. In this risk sharing example, the Intermediary Donor working to coordinate the movement of funds into the country ensured the insurance of the cash-in-transit as far as the capital's airport, and then Intermediary Donors shouldered the risk of the cash in-transit as far as the bank where it was deposited. Downstream partners then took responsibility for the risk of the cash in-transit from the bank to their respective locations of payment and disbursement. This example demonstrates the sharing of relatively high levels of financial risk and relatively high risk appetites to accept the risk, due to the enormous impact not acting would have had on the response.

4.1.3 Ethical, Fiduciary, Legal and Reputational risk sharing: At best modest success

In contrast to the successes in risk sharing on Security and Operational risks, the success stories around risk sharing on Ethical, Fiduciary, Legal/Compliance and Reputational risk were far more modest. In 4 of 7 cases, the element of risk sharing revolved around the organisation in the Intermediary Donor function simply sharing proactively information about potential risks that might be arising with the Back Donor, thereby requiring the Back Donor to engage with the risk – though it was acknowledged

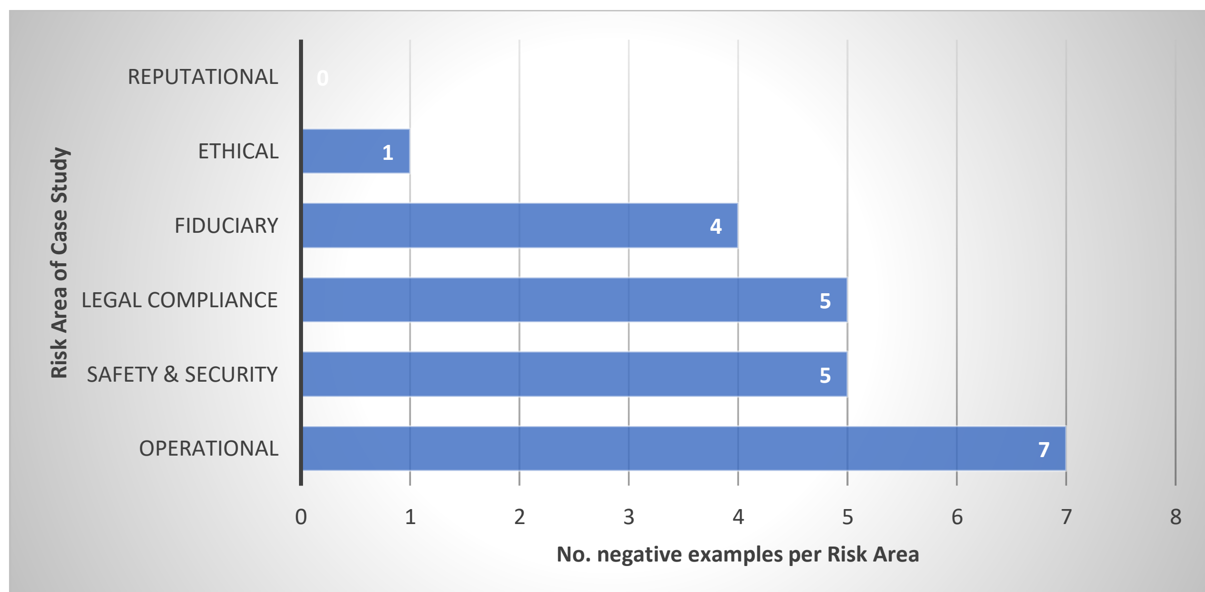
[19] It is important to note that while these are presented as examples of risk sharing in the area of Operational Risk, as with many case studies, there are also elements of risk involved relating to other risk areas

by respondents that there was no significant action as a result of this sharing, with the strategy appearing to be ‘wait and see’. That said, given that in these cases the major concern of Intermediary Donor and Back Donor alike seems to be the attendant reputational risk, perhaps this communication of the risk – and passing on a responsibility to engage with it – is the risk sharing itself. Other examples are more disparate, and while raised as success stories, similarly don’t present a picture of sustained and impactful risk sharing in these areas. When taking these latter examples on Ethical, Fiduciary, Legal/Compliance and Reputational risks collectively rather than individually, it is possible to reach an alternative conclusion – that perhaps these are not so much success stories, as examples of the current limits for risk sharing in these risk areas. This possibility is unpacked in the following section on enablers and barriers to risk sharing.

4.2 Unsuccessful risk sharing: Where is risk sharing failing, or not possible from the outset?

Interview respondents provided 22 case studies as examples of where they felt risk sharing had been unsuccessful, or had not been possible in the first place, between their organisation and another organisation performing a different function in the delivery chain.

Figure 6 – Distribution of case studies of unsuccessful risk sharing, by risk area



When reviewing the examples in case studies of where risk sharing had been unsuccessful, or been impossible, it was noticeable that there was still a substantial number of examples in the Security and Operational risk areas, however the data does skew slightly towards these risk areas naturally[20] and these can be explained to a certain extent, so the volumes are less significant.

This leaves the more significant observation being the number and nature of case studies in the areas of Ethical, Fiduciary and Legal/Compliance risk as the most intriguing, given the modest nature of the success stories for risk sharing in these areas already described in the previous section. These are the main focus of analysis in this section.

[20] As has already been pointed out, organisation working in the direct implementation and to a slightly lesser extent Intermediary Donor functions, are more focused on operational security risk areas; as the number of respondents considering examples within these two functions of their organisations are higher than for back donors, it would be expected to see these risk areas represented slightly more.

4.2.1 Risk Sharing on Security and Operational risks: More to be done, issues to watch out for

In relation to Security examples, it is a fact acknowledged in this report already that, while progress has been made in Security risk sharing, it is still a complex process and not without risk of failure or misfire. While there have been success stories on cost sharing for preventative measures and collaboration on security planning more generally to manage security risks, the examples given here demonstrate that this is not yet consistent practice. Unsurprisingly, examples of unsuccessful attempts at risk sharing were raised mostly by organisations working in the Direct Implementation function, who have already been cited as having a particular focus on this risk area, given their immediate exposure to it. However, a particular theme among these negative examples was a pattern, predominantly among NNGOs, of reports that cost sharing was not being made available to them as part of risk sharing as consistently as with other (often non-NNGO) organisations working in the direct implementation function. Similarly, they felt they were not being consulted or considered in security planning in the same way as other organisations. The conclusion here is that while these concerns were not unique to NNGOs as a constituency and there is obviously more to do in general on these risks, there also appears to be an issue of equity and collaboration in partnership that be addressed. This is picked up later in this report must.

Text Box 4 –Case study of unsuccessful risk sharing on Security risks for national partners

A respondent from a NNGO reported a number of issues relating to organisational culture and organisational policy that prevented proactive risk sharing with an Intermediary Donor. The respondent shared that for many years in their country of operation, the Intermediary Donor had had a policy not to allow NNGOs to request a percentage overhead rate in project budgets in the same way as international organisations. After much advocacy, this policy was changed, but the new policy directed that NNGOs could only apply for a rate lower than that which international organisations could apply for. The reasoning given by the donor for this was that international organisations had higher costs due to their home country HQs, but the respondent indicated the donor failed to listen to the NNGOs arguments that their smaller size and single-country focus actually made it harder to cover costs that were not attributable to single projects, as they still had to meet the same compliance requirements and ensure the safety of their staff, in comparison to larger international organisations who could achieve economies of scale to help offset these costs. The respondent reported that this policy was indicative of a pattern among donors that made it very challenging to build up reserves that could be used to react to security incidents, despite these security risks being an inherent part of their operating environment.

The respondent felt that the organisational culture within this Intermediary Donor was the key issue inhibiting risk sharing, also pointing towards discussions with mid-level national staff on the inclusion of security costs as direct budget lines being met with suggestions that these were not needed and as national staff, they could 'find their own way' to do things.

In relation to examples of unsuccessful risk sharing around Operational risk, two key trends were significant to the research. Firstly, there were multiple references to the fact that Intermediary Donors considered their ability to share risk with downstream partners limited by the contractual conditions imposed by their own Back Donors. These Intermediary Donors in their examples explained that the penalties imposed for non-compliance, particularly financial penalties, were simply a risk that was too big for them to absorb.

> If donors say they don't have the capacity to engage with national NGOs, but are not prepared to either invest in their capacity to do that, or invest in our capacity to meet their compliance requirements, how can they be serious about their localisation commitments?
>
> KII with NNGO

These conditions are thus 'passed on' to downstream partners, who are often less well equipped to ensure successful compliance with them. The key takeaway on this point is there is a need both to acknowledge and address the fact that operational risks associated with non-compliance with contractual conditions more often than not originate in back donor contribution contracts.

The second trend in shortfalls on risk sharing around Operational risks was around the ability of downstream partners to comply with general contractual conditions, particularly with reference to smaller national organisations. This was cited as a structural barrier by multiple organisations working in the Direct Implementation function. Respondents reported that the dominance of larger international organisations and a normative global north control regime have put local responders and predominantly global south organisations at an inherent disadvantage, endangering the achievement of localisation commitments. In conclusion, while some of the examples raised as success stories for risk sharing Operational risk around addressing capacity constraints among partners demonstrate progress has been made on this issue, this example of less-successful risk sharing indicates at the very least that there is more to be done. It also does raise the question of whether broader structural issues may constrain advancement to a more comprehensive solution in future.

> The donor's contractual risk transfer is so tight and comprehensive, that the options open to [NGO name] are really only to accept all that risk or not, and then to decide to transfer it to or share it with a partner. Even to share it involves a huge increase in the risks that we are taking on. The only way to change this is to adjust contract terms with back donors as part of an agreement to share risk more equitably between not just us and our partners but also the donor.
>
> KII with INGO

4.2.2 Fiduciary, Legal, Ethical and Reputational Risk: The main challenge for risk sharing

Looking at examples involving Legal/Compliance, all but one example concerned the difficulties of risk sharing on the risk of non-compliance with different CT/Sanctions measures. The key theme throughout these examples was the sheer complexity and inter-connected nature of the different measures being put in place, the ambiguity of their individual drafting, and the consistency (or lack thereof) of their enforcement by the donor government in question. The ambiguity in drafting and consistency of enforcement, in particular on potential financial penalties for partners, were issues held up in multiple examples as being the cause of risk sharing failure, as the downstream partners involved found themselves considering significant reputational fall-out in the event of the risk materialising and, as a result, felt the need to take a conservative risk appetite position on the basis of the worst possible outcome, or in light of possible actual consequences resulting from the measures that were not initially anticipated. The conclusion reached is that if the ambiguity had been more proscribed in the first place and the consequences of the interactions between the measures in the real world better understood, the outcome for risk sharing may also have been more positive.

Text Box 5 – Challenges of risk sharing on CT/Sanctions risk

A respondent raised a case where an exemption had been fairly clearly drafted into legislation for a CT measure and outreach had been undertaken by different government departments in order to ensure that both humanitarian partners and commercial service providers were aware that the exemption covered their particular activities. While the entities involved understood their position regarding this legislative measure, some key commercial actors providing services to the humanitarian sector who had broader exposure to business in the commercial sector remained so concerned about the aggregate risk posed by other sanctions and money laundering measures already in place that, given the respective size of their humanitarian 'business' to their other commercial activities, they preferred to 'de-risk' from the often large financial penalties, rather than pursue the comparatively small profit margin available for humanitarian activities. This case study serves to highlight that humanitarian action does not exist in a vacuum; it can be impacted by external factors such as global CT/Sanctions regimes, even where humanitarian exemptions exist, and is reliant on partners outside the humanitarian community (e.g. other government departments) to help deliver both solutions and its assistance more broadly – even where those actors don't share the same understanding or attach importance to humanitarian objectives.

In relation to Fiduciary risks, examples of failed efforts to share risk successfully, all involving corruption and diversion, contrasted interestingly with the examples that had been raised as modest success stories of risk sharing. For example, in positive examples respondents had consistently reported that proactive communication on Fiduciary risks had helped them to manage risk – and this point was particularly stressed by back donors in other examples as a precondition for risk sharing. However conversely, in two of the four examples of unsuccessful risk sharing around Fiduciary risks it was indicated that, despite downstream organisations taking this approach of proactively communicating around risk, it did not lead to a positive outcome, due to the strictness of the donor countries laws covering Fiduciary matters, and the organisations involved ultimately had to cover the cost of losses.

Interestingly however there are reports of both donors involved having chosen to 'interpret' incidents in other cases more sympathetically within the limits of their legal frameworks, while a third donor indicated their own departmental position was to show leniency to partners on repayment of losses if there were reasonable grounds to do so, even while various other of their government entities might still choose to investigate and penalise partners for the same incident. Together this pattern correlates closely with the picture seen in risk sharing shortfalls around Legal/Compliance risk, namely that ambiguous policy coupled with a reliance on discretionary action as a method to address the impacts of risks that my materialise results in a significant level of unpredictability in consequences for partners, which is likely to lead prudent partners to take more conservative risk acceptance positions than they might otherwise take. The conclusion is that clearer and less contradicted policy is needed, and this cannot be achieved solely by dialogue among the humanitarian sector's own actors. Broader outreach and engagement with non-humanitarian actors such as Treasuries and political groups in donor countries is needed.

Text Box 6 – Unsuccessful risk sharing addressing Fiduciary risks

An Intermediary Donor reported how their organisation consistently struggles to share risk in a formalised way with its Back Donors around fiduciary risks, in particular the financial impacts (losses) generated as a result of Fiduciary risks such as fraud or corruption which have materialised as incidents. The Intermediary Donor finds this problematic, because it wants to live up to the spirit of partnership that both Back Donors and they as an Intermediary Donor and their Direct Implementation partners aspire to. The Intermediary Donor tries to live its principles in this area by having a working practice to write off losses that partners identify, where they have notified the Intermediary Donor proactively, conducted a thorough investigation and confirmed that reasonable steps were taken both to prevent the incident and limit its eventual impact. However, this is not an arrangement that is explicitly authorised contractually, as the original contribution agreement clauses are ambiguous, so it is part of a set of 'standard practices' that the Intermediary Donor makes its Back Donors aware of but that are not explicitly part of contribution contractual terms, and due to the sensitive nature of these risks to Back Donors, the nervousness related to some in particular as already explained, seem unlikely to be so in the near future. This does put a limit on what can be strategically and consistently achieved without addressing this contradiction. This is epitomised by the current conversation around write-off of these losses with Back Donors, which got off to a shaky start in large part due to the ambiguity in the contractual clauses around this issue.

Which leaves risk sharing around Ethical and Reputational risks, which in some ways appear to be at the crux of the issue. There were virtually no explicit examples of Ethical risk sharing or Reputational risk sharing, yet reputational consequences were raised as a concern in discussion of almost every case study where risk sharing had fallen short. One reason for this probably goes back to the risk management architecture and the tendency to see contributions to risk sharing through a financial lens and to focus more on the preventative side of risk management, rather than on the potential impacts of residual risks that may materialise that require non-financial contributions. In general, however, organisations do not yet appear to be well equipped to articulate what risk sharing on Reputational risk would look like. That being said, the below case study is instructive on the issue of reputational risk sharing, and what a solution might look like.

Text Box 7 – Case Study on unsuccessful risk sharing on Reputational risks

A respondent for a Direct Implementation organisation shared an example where there had been acknowledged governance failings in their organisation that had resulted in significant reputational damage and loss of funding, with a number of Intermediary Donors withdrawing their financial support from the organisation. The Direct Implementation organisation subsequently re-vamped its governance structure and after several years has recovered to become a significant actor within the humanitarian response within their country of operation, receiving funding from a number of other Intermediary Donors and Back Donors and receiving consistent positive feedback in project reports and audits. Despite this, the original Intermediary Donors have not been able to articulate a position on how this Direct Implementation organisation can be rehabilitated and attain funding from them to further support the response. The conclusion reached by the Respondent is that the Intermediary Donors involved are taking an informal rather than formal approach to assessing their capacity and level of risk as an organisation that is neither realistic or productive for the response.

Interestingly in a separate interview, a respondent for one of the Intermediary Donors cited acknowledged that their capacity to assess and reassess the capacity and risk of partners was sometimes limited and that there were instances where this, and the length of time it commonly take for them to conduct investigations, had had significant impact on the reputations of direct implementation partners. The respondent also noted the continued lack of coordination between other Intermediary Donors they worked closely with, explaining that this could result in an informal knock-on effect for organisations affected. The respondent highlighted that greater emphasis on speeding up investigations, and better coordination between Intermediary Donors, for example on joint vetting, performance monitoring, red flags, streamlining of procedures for efficiency, etc. would also help to improve the opportunities for providing more predictability on reputational risks (with predictability being at the centre of good risk sharing examples in other risk areas.)

4.3 Positive practices impacting delivery

Assessing the impact of risk sharing is complex. Humanitarian actors consistently describe putting themselves under pressure to deliver and achieve their objectives. Conversely, there is a sense among organisations working in the Direct Implementation function that taking a decision not to move forward with a planned intervention represents not just a failure on a programmatic level, but potentially an Operational risk in terms of future funding – competition over resources trumping collaboration on objectives. In a resourcing framework driven by Back Donors who currently often use a focus on Value for Money to offset Reputational risk associated with wastage and inefficiency in the aid sector, there is a reliance on award processes that emphasise competition and bidding for awards. This has benefits, but it can also lead organisations to consider risk acceptance decisions in the context of the impact they may have on future funding, taking on more risk than they can tolerate. Pertinently, this means where risk sharing is not successful, it normally does not mean assistance is not delivered. More usually, the impact on risk sharing in these negative situations is that the timeliness, quality or targeting of the assistance provided to affected populations is compromised in some way. This presents a challenge for organisations working in Back Donor and Intermediary Donor functions, who often seek to put a financial value on ‘impact’, which in this case is unrealistic. So, the question for

organisations working in both Donor functions is really to ask, how can they articulate a position that answer questions such as, how late is acceptable for delivery? What compromises in quality are acceptable? And how much switching of the target group within the broader affected population to accommodate risk decisions is okay?

It is reasonably clear that failure to share risk can result in a breakdown of the delivery chain which may result in humanitarian objectives not being met in part or in full. If organisations do share risks, the affected populations may feel an increased benefit: either by receiving assistance which could not previously have been provided, or by receiving improved assistance (e.g. quality, timeliness, relevance etc). As discussed, in contexts where risks are not adequately shared, implementing agencies may still continue to provide assistance, but the quality/timelessness/appropriateness of the intervention may be reduced as a result of the extra mitigation measures which were required to allow the implementing organisation to accept the higher level of residual risk.

Taking this view that risk sharing enables and maintains assistance to affected populations, what are the examples of successful risk sharing which contribute to the most significant impact? Well, as already identified, risk sharing on Operational and Security risks has been most successful, with risk sharing in other risk areas (Fiduciary, Legal/Compliance, Ethical, Reputational, etc.) less successful. This research analysed the approach of each case study to identify the type of approach that had been used in each case, categorising them as follows:

1. Formalised Approach (i.e. with a clear policy framework and guidance)
2. Informal Repeated Approach (i.e. with some/no policy and guidance and an element of discretionary decision making by senior managers responsible to make the risk sharing happen, with similar approaches taken in similar recurring circumstances)
3. One-off risk sharing event (i.e. with some/no policy and guidance and an element of discretionary decision making by senior managers responsible to make the risk sharing happen, but unlikely to be repeated)

Figure 7 – Use of different approaches to risk sharing for different risks

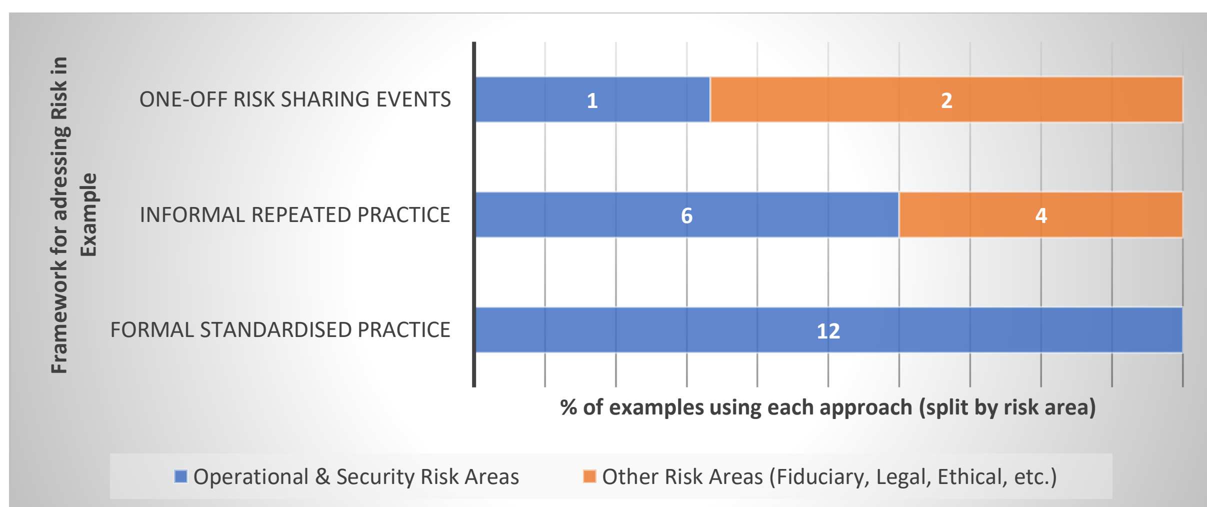


Figure 7 demonstrates quite clearly that, in the examples around Operational and Security risks where risk sharing has been most successful there is a correlation with a higher reliance on a more formalised/standardised approach to risk sharing, with a greater emphasis on policy and formal guidance and less reliance on discretionary decision making.

By contrast, in the risk areas where risk sharing is most challenging, there is a greater reliance on informal repeated practices and a greater emphasis on discretionary decision taking to compensate for a lower degree of clear policy and formal guidance for decision makers.

It is important to recognise that formal policy frameworks and clear formal guidance on how to work within them are not the only aspects of positive practice associated with these successful risk sharing examples. There are also good reasons why achieving this clarity is simpler for some risk areas than others, as already discussed earlier in this paper. However, it demonstrates a clear pattern of good practice that should, where possible, be emulated for all risk areas. Furthermore, where policy frameworks and formal guidance are articulated globally, it provides the opportunity to scale the impact globally. A number of interviews referenced changes they have made to their global policy frameworks which offered clear opportunities to do this, albeit with caveats that getting information out to country teams to ensure they were aware of the tools and their utility were also important to its success.

4.4 Enablers and barriers to risk sharing

In analysing the case studies, several key enabling themes emerged. These enablers were of sufficient importance that their absence could amount to an active barrier to risk sharing, and usually reduced the success of any risk sharing measure.

4.4.1 Key enablers for risk sharing

Transparent and meaningful dialogue on risk, without fear of penalty or prejudice

Respondents across all functions stated that, for risk sharing to be a success, a pre-requisite is for different parties to be able to speak freely and frankly about the risks they identify in the action that they jointly pursue. In order to make this dialogue meaningful, it is also important that the parties share an understanding of the technical and contextual nature of the risks being discussed, with a number of success stories in this research pointing to Back Donors and Intermediary Donors who had staff on the ground engaging in these discussions, or who were engaging remotely but had relevant prior context experience or technical expertise that allowed them to do so in a meaningful way, as described in this section's case study example.

> In one particular country our organisation faced really difficulty meeting a Back Donor's requirements around Counter-Terrorism and sanctions measures, non-compliance represents a significant risk for us. Fortunately, our in-country focal point for the donor in question is an exceptional national officer, their contextual knowledge means they understood the practical challenges for compliance we described and the impact of not being able to implement activities and they work hard to escalate possible solutions for decisions by senior management.
>
> KII with INGO

Positive partnerships approaches

In a number of case studies, respondents reflected on the concept of organisational culture towards partnership and the impact this could have on risk sharing. What appears evident is that some organisations have strong 'partnership culture' in their DNA, which seems to foster collaborative engagement and a 'can do' attitude towards partnership, that includes active cooperation on risk sharing initiatives, as described in this section's case study example. The conclusion is that positive partnership culture is therefore an enabler for risk sharing, particularly when combined with other enablers described in the following sections. This leaves the question of why some organisations have these positive partnership cultures in the first place, which goes somewhat beyond the scope of this research, but one observation is perhaps relevant; the majority of success stories where this enabling factor was evident involved organisations who only worked in the Intermediary Donor function, or who's organisational culture and processes were dominated by this function. Cases where partnership was lacking tended to involve organisations with dual functions and organisational culture that appears more influenced by their additional role in Direct Implementation, suggesting a confliction in identity may be at least part to blame.

> We have several INGO donors who are open to discussing risk, who have accepted to fund items such as medical insurance, contingency lines for medical and security evacuation, vehicles and comms equipment as a matter of course. These INGOs also all agreed universally to provide overhead to us as they receive themselves, which helps us to provide a financial buffer to deal with unforeseen security events. These organisations focus on being just a donor and partnering in a productive way, whereas other INGO donors who implement their own programmes as well sometimes seem a lot stricter and less flexible in their approach.
>
> KII with NNGO

Policy & guidelines: Scaling success

As noted earlier in this report and in associated case studies, though clear policy and formal guidelines are not a pre-requisite for successful risk sharing, where they exist, they do appear to significantly improve its chances of success. It is also self-evident that with policy and guidelines, the opportunities to transfer best practice and scale risk sharing in different areas will be significantly improved, as demonstrated in this section's case study example. In addition, introduction of such policy and guidelines can serve to hold organisations and managers to account to ensure that risk sharing is followed through on if management are not proactive enough. This is pertinent because it serves as a reminder that while organisations should be focusing on improving their organisational culture towards partnership and risk sharing, even in the absence of this culture, organisations can help drive change through the imposition of policy and guidance for their staff. Ideally both culture and policy are improved concurrently, but the absence of one is not an excuse to delay action on the other.

> Safeguarding and prevention of PSEA are a priority for our organisation, but we recognised that where we work with partners, the length of time realistically required to conduct the full due diligence and vetting and fully implement the associated improvement plans presents a significant possibility that the timeliness of our response could be negatively impacted. As a result, we invested in developing global procedures that allow managers to derogate to essential safeguarding measures only for a limited time period when conducting emergency response, in the same way that we already had the ability to use derogated procedures in other areas during an emergency. This provides the policy framework globally to manage these risks but share more of the associated risk of late delivery with our partners.
>
> KII with INGO

Maximising the possible: Constructive ambiguity and discretionary authority

When discussing how to risk share on sensitive issues in the areas of Fiduciary, Legal, Ethical and other risks, a point that was raised consistently by different respondents was the enabling factor of what could be described as 'constructive ambiguity'[21] allied with discretionary authority[22] that could support risk sharing on these sensitive risk areas. In contrast to the risk areas where risk sharing can be achieved in a relatively clear-cut manner through an established and open policy framework with clear guidance for staff, in these areas there appears to be a tendency to leave a level of ambiguity in policy directives and an absence of formal guidance. The inferred preference is for a more informal approach towards risk sharing, where with sufficient dialogue between trusted actors in the field and judicious use of discretionary authority by managers in organisations in the Intermediary Donor and/or Back Donor functions, risk sharing outcomes can be achieved at least on a tactical level. The case study example in this section demonstrates what this may look like in practice. Combined with judicious use of discretionary authority, this does make constructive ambiguity an enabler for risk sharing to a certain extent. However, its converse ability to potentially stand as a strategic barrier to more sustained risk sharing is also discussed later in the section on *barriers to risk sharing.*

> One respondent shared that they had approached a Back Donor with a sensitive risk issue. The Back Donor had indicated that they should document their suggested approach in relation to the risk issue and send it to the Back Donor staff, so that it could be referred to if the risk materialised. The respondent indicated that while they hoped for a clearer agreement, they felt that this gave them some 'top cover' in the case that the risk materialised, which allowed the intervention to proceed.
>
> KII with INGO

Management understanding and support to risk sharing

As with so many priorities, management understanding and buy-in proves to be a consistent and significant enabler of successful risk sharing highlighted in multiple case studies. Organisations working in the Direct Implementation function gave examples of how the change of a Country Lead at an organisation or other senior management in-country could have a huge impact, not just on individual risk decisions, but on the culture of the organisation towards risk sharing in general. An organisation working in the Intermediary Donor function meanwhile raised an example described in a case study later in this report how, when they escalated risk decisions to an HQ-to-HQ level, they often found senior management prepared to take risks to stand by principles or exploit opportunities that went beyond what their field level colleagues were prepared to consider.[23] The question of why the engagement of senior management has such an impact raised some nuance in answers.

[21] 'Constructive Ambiguity' is a term used to refer to a common concept that different respondents described in their own words. The common characteristic of the concept was a deliberate absence of detail in arrangements (e.g. contract clauses, guidelines, individual communications, etc.) that allowed the different parties involved to choose to interpret situations in a way that might enable a satisfactory conclusion for them.

[22] 'Discretionary Authority' in this context is used to describe situations where managers are able to use their discretion to make decisions as they see fit, for example by virtue of contract clauses or their individual terms of reference within their organisation.

[23] Described in the sub-section *Absence and inaccuracy in policies and formal guidance and the strategic limit of constructive ambiguity*

While strong positive leadership helps with promoting can-do culture in general, where it seems to have the most impact on risk sharing specifically is where risk sharing decisions veer into areas where policy is more ambiguous and guidance largely absent. In these circumstances more junior, less experienced staff without acquired knowledge and political capital within their organisations are less likely to take decisions in the absence of clear policy or formal guidance. This is what makes the role of senior management such a significant enabler, particularly around sensitive risk areas – they have knowledge of past informal practice, networks to draw on and political capital within their organisations that offers some insulation should a decision lead to an adverse reaction.

> The personality of leaders assigned to donor organisations is so important. Good leaders who are committed to helping people, who know their organisations' architecture and its restrictions, they try to find a way to help us within those systems. We call them champions. If they are replaced by another bureaucrat who is risk averse, that person says 'no we can't break our rules, breach our regulations' – and we get stuck.
>
> KII with NNGO

Clarity in risk sharing arrangements: Predictability supports decision making

The ISO definition of risk sharing includes a note that 'the extent to which risk is distributed can depend on the reliability and clarity of the sharing arrangements.'[24] While sounding obvious and in conflict with some of the other enablers above (e.g. constructive ambiguity), this was highlighted as being a significant enabler in several of the success stories on risk sharing. For example, where Intermediary Donors had clear policies for how and what sort of preventative measures could be included as budget lines and what levels of overhead could be applied within grant agreements, the results were reported as being better for all grantees, albeit with sometimes differentiated levels for national as opposed to international organisations.[25] There were similar examples of this clarity also being positive for reactive risk sharing; respondents described how being clear on the level of residual risks different parties were being asked to accept and the consequences for their organisations if that risk materialised provided different parties with both the incentives to make best efforts to avoid failure, but also demonstrated clear 'off ramps' for the parties when risk sharing didn't work out.

> A group of Direct Implementation organisations had experienced a number of challenges around fiduciary risk for some time. A key Back Donor was persuaded by an Intermediary to engage with the Direct Implementation organisations one more time. The risk sharing arrangement envisaged a multi-year approach to achieving both parties shared localisation objective as a means to reaching a long-term sustainable financial basis for supporting affected populations. The financial and funding risks were clearly allocated – if the partners did not manage the funds appropriately or failed to achieve the sustainability outcome, the donor stood to lose its investment. On the other hand, it was clear to the partners that if they failed to manage the funds appropriately and achieve the desired sustainability outcome, it would see them without future funding and existentially threatened. As a result, both parties entered into the contract seeing it as an opportunity, while clearly understanding the risks they were accepting for their organisations in doing so.
>
> KII with Intermediary Donor

[24] https://www.iso.org/obp/ui#iso:std:iso:31073:dis:ed-1:v1:en

[25] This inequality in approach needs to be addressed, but making arrangements formal rather than informal and transparent rather than opaque would make it harder for stakeholders to avoid justifying on what basis inequality exists in arrangements for different types of partners, making this enabling factor valid regardless.

Leveraging size: Equity in partnership and risk sharing

All of the above sounds quite positive, but a by-product of the complexity of risk sharing is that it takes significant resources to achieve. Organisations downstream from Back Donors need technical staff in a range of areas from programme to legal to security to risk who can identify and articulate risks and risk sharing responses to donors, in line with the policy, formal guidance and informal practice of the donor in question. Larger organisations tend to have these capacities, and also by virtue of their size and often normative nature, are often very familiar with their donors' regulations and operating cultures in terms of risk management, and vice versa. This appears to lead to the development of high-trust relationships reliant on a mix of formal and informal assessment, on which Back Donors in particular place particularly high value. The correlation that is then seen is that these larger organisations working in Direct Implementation and/or Intermediary Donor functions are more successful in leveraging their size to extract more significant concessions towards risk sharing from their donors than, by comparison, smaller organisations. Relative size of organisations can therefore be seen to contribute to more equity in partnerships, which enables better risk sharing – particularly if those organisations achieving better risk sharing practices can pass these benefits on to their downstream partners.

> An INGO invested in developing and advocating to their donors for a Fair Share Cost Model. The model sees the INGO identify the operating cost base for different country operations and assigning a fair share of these operational costs to each donor project in each country accordingly, after which reporting is done only at top line level on these cost categories. The model provides additional flexibility to the INGO to adjust operational spending according to the evolving risks in each context. The INGO acknowledges that the development of the model was a significant investment in terms of funds, but the key challenge was getting donor sign off, with the majority of successes with donors in this regard being at HQ-to-HQ level, with far less success with donors who disburse funds at country-level. The organisation's size, global presence and reputation were therefore crucial to success in this risk sharing measure.
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> KII with INGO

Resources for risk sharing: Own funds and risk premiums

Running through the examples shared in the points above on *policy guidelines: scaling for success* and *leveraging size equity in partnerships for risk sharing* is a reality that organisations access to resources – particularly financial resources – can be a significant enabler for risk sharing. The organisation that developed derogated procedures to expedite implementation in emergencies had to invest significant man-hours to do so in order to improve their ability to share risk with partners, while the organisation that advocated successfully for their Fair Share Cost model similarly make a significant investment of resources to achieve that risk sharing outcome. In both cases, these organisations were able to utilise Own Funds[26] to help achieve this.

[26] Own Funds refers to funds received by an organisation that are not earmarked by a donor for a specific project-related purpose. These are commonly accrued via endowments, donations from members of the public and from the percentage overhead commonly permitted under individual grant agreements entered into with Back Donors and Intermediary Donors. Own Funds are commonly used by organisations that have access to them for covering some running costs (e.g. global headquarters running costs), funding specific investments (e.g. new IT systems policy development, etc.) and maintaining financial reserves to address foreseen risks. Ability to accrue Own Funds therefore largely correlates to organisational turnover.

> A respondent from an organisation working as an Intermediary Donor shared that their organisation benefits from an historic endowment which largely covers the running costs of its Headquarters, freeing up more Own Funds for other purposes. The respondent pointed to a risk sharing example where one of their downstream partners had failed to provide receipts to verify a portion of a donor-funded project. After investigation, their organisation determined that there was no fraud/corruption involved and it was a good-faith error, so while the Back Donor required the funds to be repaid, their organisation elected to cover this cost, rather than pass it on to the partner who was less able to absorb it. This was only possible due to the Own Funds available to their organisation.
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> KII with Intermediary Donor

These examples and the Case Study in this section illustrate how organisations who have access to Own Funds are able to offer and achieve better risk sharing outcomes via investment in desired measures. It is also self-evident that the same access to Own Funds enables risk taking, by virtue of these organisations being able to accrue reserves to address foreseen risks. Against this, smaller commonly national organisations who do not benefit from similar access to these types of Own Funds have less ability to cover the running costs of resource-intensive compliance systems, make the various investments required to achieve risk sharing outcomes and are more exposed to financial shocks by virtue of having smaller financial reserves. Therefore, while it is clearly the case that access to unearmarked funding is important for risk sharing, the danger of the opposite also has to be considered, particularly for frontline responders at the heart of the localisation agenda.

4.4.2 Key barriers to risk sharing

Lack of transparency and fear of penalties associated with dialogue on risk sharing: Don't use the 'C' word

Transparent dialogue without fear of penalty or prejudice might be seen as an enabler and even a prerequisite for risk sharing, but it does not mean it is always the case. Interestingly, respondents across all three functions (Back Donor, Intermediary Donor and Direct Implementation) identified their concern that sometimes entering into such a transparent dialogue in good faith could result in them suffering undue consequences in some way. For example, in the case studies referenced earlier in this report on unsuccessful attempts at risk sharing, where organisations in the Direct Implementation function had suffered financial penalties, even though they had reported early and taken all reasonable agreed steps to mitigate the risk, due to strict Back Donor rules preventing sharing of financial losses stemming from a materialised fraud risk.

Another example cited in the *Uneven understanding and buy in of management for risk* sharing section on barriers to risk sharing cited an Intermediary Donor's concern about requirements for disproportionate follow up to Back Donors on relatively minor matters and concern that the resources necessary to do so were having less of an impact on managing the risk than other more practical measures the organisation in question could have invested the time on. There is a sense therefore that while transparent dialogue may be seen as a pre-requisite for all risk sharing and is practiced quite broadly in cases for some risk areas (e.g., Operational, Security and Safety risks), the sensitivity around other risk areas, specifically Fiduciary, Legal/Compliance and Ethical risks and the Reputational risks that stem from them, may actually create a perverse disincentive to share to the same level of transparency, or as proactively.

The requirements of different Back Donors for immediate notification and formal investigation of all suspected misconduct regardless of scale and severity could create the risk that organisations may seek to avoid acknowledging such suspected incidents until they could either quickly discount them formally, or otherwise notify Back Donors and launch an investigation formally. In the interim, the inference is that organisations may perform verbal gymnastics to avoid using the term 'Corruption' or other similarly-triggering words. One respondent explained that they were proud of having built up the detection capacity of their internal control function, but where the investigatory capacity they relied on to follow up on cases averaged over a year to conclude cases, there was a sense that articulating a zero tolerance approach which required them to address all reports in the same way, regardless of their scale or scope, reduced the impact of this control measure by preventing a stricter focus on the more serious breaches.

The conclusion is that it is necessary to acknowledge and address the legal and reputational impacts that create Back Donors 'zero tolerance, zero appetite' positions around these risk areas. Without this, progress on risk sharing around issues of Fiduciary, Legal/Compliance and Ethical risk will continue to be challenging.

Harmful partnership approaches: "Can't do, won't do" attitudes

In the section covering key enablers to risk sharing, positive partnership approaches were cited as an enabler for risk sharing, where 'can do' attitudes see Back Donors and Intermediary Donors going the extra mile to make risk sharing work for their partners. Conversely however it was notable that several case studies relating to less-successful risk sharing had involved Intermediary Donors who also conducted significant volumes of work in the Direct Implementation function, with respondents inferences being that the dual function of these organisations had left them with a somewhat conflicted approach to partnership at odds with the 'can do' approach that is desirable. That said, as the case study example in this section demonstrates, even where organisations have generally positive partnership approaches, these can be better in some places than others and even where a positive culture is not widespread, there are often bright spots that can serve as positive internal examples to build on. As a respondent from another organisation working in the Intermediary Donor function in a different Case Study pointed out in relation to this challenge 'management teams change, they bring their professional experience and way of working they feel comfortable with, and before you know it, risk sharing in partnership is out and direct implementation is in'[27]. Similarly, respondents working in the Direct Implementation function shared how an Intermediary Donor had a consistently risk averse attitude in its middle management that seemed at odds with their more public exhortations on risk, but was nonetheless fairly insurmountable, even where some positive policies existed, with a consistent fall back on the reasoning that this was 'due to global policies', despite the many examples of where global policies can be derogated/waived/amended where the need and the will exist. The conclusion reached from these experiences is that poor organisational attitudes – or lack thereof – towards the risk sharing agenda can be a significant barrier to risk sharing, which requires a strong and continuing commitment to sensitisation from those organisations management teams to address.

> A respondent shared how they had engaged successfully with a particular dual-function Intermediary Donor in one EU country context to negotiate amendments to the donor's standard contribution agreement in order to ensure their ability to comply with EU GDPR regulations. However, when supporting another agency to take the same approach with the same Intermediary Donor in another EU country, the country team of the Intermediary Donor in that second country did not seem prepared to make the same investment of time to make the amendments and as a result, delivery of assistance was affected.
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> KII with Direct Implementer

Absence and inaccuracy in policies and formal guidance and the strategic limit of constructive ambiguity

As confirmed earlier, clear and accurate policy frameworks and formal guidance enable decision making. So, for the risk areas where these frameworks and formal guidance are lacking, this presents a barrier to consistent risk sharing that is only mitigated at a tactical level by exploiting constructive ambiguity, where the management support and willingness from the actors involved to do so exists. At best this presents an unevenness of outcome in different contexts, despite similar underlying risks. For example, where use of money transfer agents may be considered by a Back Donor team an appropriate strategy to address commercial banking risks in one humanitarian response, but the same Back Donor may prove unable to push through the same strategy in a different response facing similar issues. As a respondent discussing such a case acknowledged, 'where the potential result of escalating the question internally to a strategic level might be that the answer you get isn't the one you want [i.e., stopping the response already approved, as well as denying the one requested], you have to think carefully about the risk - benefit ratio of asking it.'

> Our partners made us aware that some Back Donor staff at field level were discouraging implementing organisations from engaging directly with Non State Actors in a certain country context due to CT/Sanctions concerns. The Back Donor staff involved confirmed that they discouraged it but that it was still permitted. This was despite the donor's host country legislation not forbidding this explicitly for humanitarian purposes and such engagement being permitted under International Humanitarian Law. The result of this was that partners were put in a position where they had to factor in increased risks of legal/reputational/operational (i.e. funding) impacts from continuing to engage with these groups in pursuit of their programming, or increased risks of security impacts from refusing to engage with these groups who controlled the territory on which they were programming (risks which materialised on more than one occasion for some partners who took this route). We took up the issue at HQ-to-HQ level, where the Back Donor confirmed that no such guidance had been given (to discourage engagement) and that they recognised partners needed to engage with NSAs there. But neither had any guidance been given explicitly explaining to field reps what was allowed. This lack of clarity was perhaps the reason that the Back Donor's staff at field level felt it necessary to interpret this conservative course of action on CT/Sanctions compliance.
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> KII with Intermediary Donor

This is a particularly pertinent barrier to risk sharing, as it indicates that for some risks, the impact of relying on constructive ambiguity and not clear policy and guidance to address them is that they become strategic and systemic drags on responses worldwide. Decisions that could be addressed strategically, on the basis of principles and become organisational policy are instead re-run response-by-response as individual cases, disregarding earlier precedent. There is a significant cost in terms of management bandwidth and timeliness of response in this approach. However, the more worrying aspect of the approach is that in the absence of clear guidance, managers may feel it prudent to take a more conservative approach to such risk management decisions than might otherwise be necessary. If over time, managers in other contexts use these earlier precedents to informally guide their own decision making in similar situations, this overly conservative approach to risk can become the standard practice by default. Combine this absence of policy with a lack of clarity in other policy areas – for example wording within organisational risk appetite statements conflating zero tolerance on particular risks with zero appetite for those risks – and this can create a significantly problematic starting point for any discussion on risk sharing.

Uneven understanding and buy in of management for risk sharing

There is no getting around the fact that while contextual and technical understanding of risk and engaged management can be a significant enabler for risk sharing, similarly a lack of understanding and engagement can pose a significant barrier. As has already been mentioned earlier in this report, an unfamiliarity with what risk sharing even means and why it is important is not uncommon in senior management teams and as this example shows, unfamiliarity among field staff also poses a challenge that must be addressed.

> A respondent shared how technical discussions with staff from a Back Donor often went back over risk issues previously discussed, suggesting they were not being accorded the priority in practice that the Back Donor publicly assigned to the risk area in question. Similarly, the Back Donor's technical staff did not have a technical background relevant to the risk types in question and seemed unaware of the contextual challenges, meaning time was wasted discussing irrelevant measures, rather than practical risk sharing interventions that could have had real-world impact for affected communities.
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> KII with Intermediary Donor

Unpredictability in risk sharing arrangements: Reactive vs preventative risk sharing

As already confirmed, clear contractual terms, protocols and formal guidance tend to be hallmarks of successful risk sharing, because they enable predictability in assessing how risk consequences will play out. The risks may not be shared equally, but they will have been shared in a transparent and agreed way, which speaks to equity in the partnership on risk and gives partners a predictable basis on how to evaluate risk acceptance decisions. However, there is a consistent pattern across all risk sharing examples that demonstrates that risk sharing is most often achieved in relation to sharing of the costs, financial and otherwise, of preventing risks materialising as incidents. There are far fewer examples of successful risk sharing in relation to reacting to risks that have materialised as incidents and sharing the consequences of those incidents (e.g., financial, reputational etc. and most commonly a combination of them). Where 'reactive' risk sharing is achieved in a more formalised way it tends to be in areas of risk such as Security (An example being the UN *Saving Lives Together* policy articulating how support will be given to partners during incidents). In the few examples relating to successful reactive risk sharing on issues in sensitive risk areas around Fiduciary, Legal/Compliance and Ethical risk, successes have been modest and as a result of discretionary authority after the incident (e.g. certain donors forgiving losses on a discretionary basis), rather than via agreement on how to share the risk confirmed in advance, which is extremely rare. This is understandable from a donor perspective – it is hard to make the case for taking on large theoretical liabilities, but it is a significant barrier to achieving the predictability that their downstream partners need to base their risk acceptance decisions on and that unpredictability in the clarity of arrangements is itself a major barrier to effective risk sharing for materialised incidents.

> One respondent explained how the policy basis for cost sharing for preventative measures around compliance costs was quite clear for most donors, the situation was much less clear for how risk would be shared should an incident still occur. A case was referenced where a donor had been happy when the organisation had self-reported a case of possible non-compliance as required, but immediately asked the organisation to repay the associated cost as ineligible. In another case around possible non-compliance with a CT/Sanction measure, a donor who had a history of not pursuing repayment for other types of non-compliance losses where agreed mitigation measures had been followed, similarly requested immediate repayment of the associated cost when the suspected case was reported. The lack of a clear policy basis for dealing with these materialising risks adds to this unpredictability for partners.
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> KII with Direct Implementer

Reliance on trust-based partnerships for risk sharing: A catch-22 for risk sharing and localisation

The concept of 'trust' comes up a lot in discussions about risk sharing. Organisations working in all three functions (Back Donor, Intermediary Donor and Direct Implementation) have mentioned in different examples how trust-based relationships have enabled risk sharing. However, there was a notable exception to this pattern, in that smaller and particularly national organisations among respondents reported being unable to attain these sorts of trust-based relationships and the risk sharing benefits that accrue with them. The reasons for this are complex, but it is most instructive to start with why trust is considered important. Firstly, even as compliance demands increase in complexity, there is limited capacity among Back Donors to assess operational capacity of partners in a dynamic way at both global and country levels. This has led to a situation where Back Donors commonly rely on a smaller number of 'trusted' long-term partners, identified through a mixture of processes intended to reduce their exposure to risk.

> One Back Donor admitted to finding it difficult to successfully risk share in working with newer and smaller organisations. On several occasions in recent years there have been desires or reasons why the donor in question took the risk to engage with these sorts of partners. Commitments were always made to share the risk of partnership failure through capacity building plans, but the reality was that the donor was not well resourced, experienced or geared strategically to take on these tasks, and as a result these efforts at risk sharing had not been successful. In general the feeling within the donor organisation is that newer smaller partners are 'not their cup of tea' and in the absence of a more formalised and ongoing capacity assessment capacity 'that could serve as a movie roll of the partnership's strength, rather than a picture at the start and picture at the time of an incident', the donor relies on a smaller group of 'trusted' partners, who by virtue of the length and regularity of their engagement are deeply familiar with each other's systems, policies and cultures, which makes engagement on risk sharing outside of a control regime much easier.
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> KII with Back Donor

These could include for example heavy pre-qualification procedures for framework supplier membership and intensive competitive bidding for contracts that speak to more formal capacity assessment, but also less formal assessment processes, such as considering the accumulated professional collaboration of an organisation with the donor, or as pointed out by one donor respondent, what options the management structure of an organisation offers at the donor to address risks that may materialise in a country operation, explaining that for organisations with global management structures, a discussion at HQ level with their senior management could often quickly push a country operation to a satisfactory course of action on a materialising risk, in comparison to smaller organisations where such points of leverage may not exist. Among these formal and informal processes is one common theme: for better or worse, size matters. Organisations need resources to engage in the formal processes and these are often out of reach of smaller and commonly national organisations, while the informal risk management processes effectively require organisations to be operating at a global scale, again a problem for smaller and national organisations. The result is that smaller and national-based organisations more commonly receive funding via Intermediary Donors rather than directly from Back Donors. However, these Intermediary Donors are often under considerable pressure from Back Donors to disburse funds to a broad range of downstream partners but acknowledge that they also struggle with capacity to dynamically assess partners capacities, including to manage risk, in the same way as Back Donors. The result of lack of capacity at this level can often be less risk sharing, as Intermediary Donors default to a one-size-fits-all approach to risk sharing.

The conclusion is that the current risk management approach creates a reliance on trust-based relationships characterised by informal risk management processes rather than formal procedures. Without adjustment to this approach, or significant investment in donor's capacity to assess partners, and partners ability to comply with such an approach, there will remain a barrier to achieving consistent risk sharing outcomes for all partners, as the current approach favours larger organisations and disadvantages smaller and national organisations. This also poses an obstacle to fulfilling mutual localisation commitments.

5. Conclusions

Despite the challenges and obstacles, there is much that has already been achieved on risk sharing. Organisations working across all three functions should identify and openly share these successes. Highlighting successes can help organisations management and staff teams to better understand concerns of their partners and sensitise them to the value of risk sharing to achieving their goals. This can help move organisations cultures towards collaboration on risk sharing from informal exception to the standard norm. Transparency in sharing successes can also help ensure that best practice is recognised not just within organisations or groups of similar organisations (e.g. UN, Red Cross, NGO, etc.), but across the three critical functions described throughout this report, helping raise the bar for risk sharing across the sector. There will inevitably be some risk sharing measures that different types of organisations working in the same function cannot emulate, but there are many that have not yet become best practice and should be, and individual organisations publicly demonstrating 'the possible' could help drive this change. This represents an ongoing and achievable task for all organisations engaging in risk sharing in all functions. Organisations have to challenge themselves as to whether and where they can do more.

Scaling existing best practice requires clear policy frameworks, protocols and guidance. This starts with shared terminology and processes to identify and assess risk collectively and collaboratively as partners. It should go on to articulate clearly how risks, both foreseen and unforeseen, unmaterialised and materialised, will be addressed by the partners. Where there is clear progress on this, for example in elements of Security and Operational risk by some organisations, this needs to be shared as above, and incorporated by other organisations working in the same functions. There is no excuse for organisations not to have in place policy and guidelines to help their staff take timely, efficient and impactful decisions if there is no other significant risk that makes constructive ambiguity necessary.

In relation to both of the above conclusions, there is also a clear message that organisations can do more with what they have, and what is already known, to maximise risk sharing impact. Organisations need to keep a sharp focus on organisational culture towards positive partnership as a mode of working, as a key enabler of risk sharing. Regardless of whether policy guidance and guidelines are in place, we also know that, albeit labour-intensive, engagement of senior management in such circumstances can still unlock positive risk sharing outcomes. Where organisations see the opportunities to use positive precedent (for example a practice in use in another similar context, temporary practice that can be made permanent, etc.) they need to pursue them vigorously. Where organisations have the tools in place, they need to make the extra efforts to make sure their own staff and also their partners understand and have access to them.

Despite these positive findings, there are deeper structural barriers to risk sharing that also impact other policy agendas, including localisation, which cannot be ignored. Fundamentally, this goes back to the interlinked issues of Fiduciary, Legal/Compliance, Ethical and their interplay in particular with Reputational risk consequences. If the extent to which risk can be shared relies on the clarity of the arrangement to do so, the distinct lack of clarity and unpredictability in risk sharing for downstream partners around incidents for these risks is particularly significant. Where an organisation has been demonstrated to be grossly negligent in preventing such a risk incident from occurring, there is no question that they should pay the price for doing so. Accountability demands it. But in the same way, where two partners agree to undertake action in pursuit of a shared objective, if reasonable measures have been taken to prevent and minimise the impact of foreseen risks, then it would run that accountability for the consequences should also be shared.

This is clearly a complex area; multiple donor countries have laws that in their current form simply prevent organisations not pursuing repayment. Others similarly have multiple finance laws that form what one respondent described as a 'tight fiscal corset'. Yet others have government auditors, investigators and oversight bodies with remits that make internal decisions on non-pursual of some

losses by government humanitarian departments largely irrelevant for other organisations assessing risk acceptance decisions, when they know despite an agreement from one, they can still be pursued by the other. In addition, as already mentioned, the idea of financial liability for losses that could theoretically match the amount invested in aid is simply not realistic for donors. Despite this there are some relatively simple measures that can be taken to improve the clarity of risk sharing in this area. Firstly, the reputational risk (including funding risks) for partners can be managed and shared more effectively in cases where best endeavours have been made. Where cases have been reported correctly, care must be taken to make sure existing programmes are not unduly suspended or terminated while post-investigation, care must be taken to ensure reputation is not unduly impacted. This may cost political capital for Intermediary Donors and Back Donors, as it may require them at times to stand by partners even when the 'optics' don't make it preferable. However, this needs to be considered as another type of resource 'input' to risk sharing. This is not dissimilar to the inputs that would be required for broader and more comprehensive solutions to risk sharing challenges that require engagement of government donors with other parts of their civil services and political bodies. Charting a way out of legislative complexity impacting on humanitarian risk sharing would cost more than just money.

Secondly, where Intermediary Donors have informal arrangements in place to deal with losses, they should seek to codify the process for this as anticipated practice, if not formal practice, to the greatest extent possible, as this will still go some way to improving predictability in the arrangement for partners. Lastly, if recognising that financial losses are still inevitable in some of these cases, donors may wish to look to the private sector, where a range of insurance providers serving emerging markets already offer cover to clients to address some of these risks under the exact same jurisdictions. If donors were to consider such insurance against such risks a legitimate cost, there is no reason partners could not secure insurance to cover loss from a significant materialising incident and charge it as a direct project cost, where both actors agreed such a risk existed that warranted this response strategy. If it can be done for some Safety risks, Security risks, Operational risks and some Fiduciary risks such as theft already, this is not a big conceptual jump, and would represent a low reputational risk for donors, as well as a way for Donors to 'even out' losses they are currently writing off on an informal basis that might not present within a single funding cycle.

The final conclusion to be reached relates to the Compliance Control regime for humanitarian funding and is potentially the most far-reaching. Cutting across all the examples of positive and challenging risk sharing is a sense that the control environment to prevent and minimise impact of incidents has become increasingly heavy and complex, particularly regarding controls for Fiduciary risks around Corruption, Fraud and Diversion and Legal/Compliance around CT/Sanctions non-compliance and to some extent Ethical risks around PSEA. However, despite all of these controls to reduce the likelihood and impact of such risks, tolerance for risk in these risk areas is still seen by organisations working in the Back Donor and Intermediary Donor functions as significant and close to their risk appetite limits. In the absence of investment in a more multi-faceted risk management approach, the inevitable result of the heavy emphasis on a control regime is a continued and self-reinforcing reliance a on a limited number of larger and international organisations, working predominantly in Intermediary Donor functions that from an organisational culture perspective they may not be best suited to work in, particularly where they have a dual function and struggle to 'code switch' between Direct Implementation and Intermediary Donor functions. If there is not yet appetite among Back Donors and Intermediary Donors to change their capacities and funding models to address this, and not yet confidence among all dual function organisations to let partnership take the lead, then there is a responsibility for all organisations working in these functions to work to mitigate this risk in all ways possible, and particularly for Back Donors with Intermediary Donors they fund to 'nudge' these partners to do so where they are not doing so voluntarily to the extent they should.

6. Recommendations

The following recommendations in some places merely echo self-evident findings from earlier sections in the paper, but in some places seek to 'unpack' solutions to more complex barriers. It should be noted that previous meeting discussions and papers on the subject of risk sharing have at times made recommendations on how more effective risk sharing might be achieved.[28] This research has at times provided an evidence base that has led to similar conclusions. Where this is the case, the recommendations made in this report deliberately use similar language to enable greater focus and amplification of key messages in discussions around risk sharing more broadly[29]. It is also necessary to stress that by the nature of this report anonymising case studies and respondents, recommendations are necessarily broad, though can be articulated in more actionable detail to individual actors working in these functions individually if needed. The following recommendations, by function are therefore made:

6.1 Recommendations to all organisations

Commit to collectively clarifying the meaning and implications of risk sharing and accepting residual risk

Different actors have different definitions or understandings of the various terms related to risk in humanitarian action. Language matters and nuancing is necessary. Sharing risks implies co-ownership, a process through which all parties take an active part in dividing responsibility between them, be it in equal parts or not.

To move from risk transfer to risk sharing, it is necessary to be clear on who takes what responsibility. Likewise, there is a need to develop a consensus on the meaning of zero tolerance, and residual risk in the context of risk sharing.

See all the risk in the delivery chain, not just the risk to a single organisation participating in it

Organisations need to see and understand risks identified by all functions within the delivery chain, as any risk that impacts one part of the chain poses a potential obstacle to the objective for all organisations working on it, so all risks to all organisations are valid. Organisations working in Back Donor, Intermediary Donor and Direct Implementation functions need to evaluate the ways in which their organisation manages risk affects partners and others in the delivery chain. A more collaborative approach by key partners to developing strategic risk analyses for whole country contexts would support this by setting baselines for risk sharing on key contextual risks.

Agree on an acceptable level of risk and engage the senior level decision makers

Given that risk is inherent in humanitarian environments, and for risk to be shared, there is a need to look at what might constitute an acceptable level of risk, keeping in mind that different actors may have different views on this linked to their institutional affiliations. The issue of an acceptable level of risk requires political engagement from senior levels. More systematic use of key platforms (e.g., GB Risk Sharing Platform, UN inter-agency engagement on risk, Interaction's *Risk* Initiatives for NGOs, etc.) could help to raise and streamline this engagement.

Senior Management should highlight successful risk sharing as a means to improve buy in, risk sharing culture and raise sector standards

Highlighting successful risk sharing where it has proved possible already can help increase buy-in among management and staff necessary to move towards the 'can-do' organisational cultures

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[28] These papers included most pertinently *Risk Sharing to Improve Access to Hard-to-Reach Areas,* NRC, 2022, *Risk Sharing: A Discussion Paper*, HERE-Geneva & ICRC, 2020 and *NGOs & Risk: Managing Uncertainty in Local-International Partnerships - Good Practice and Recommendations,* Interaction & Humanitarian Outcomes, 2019

[29] On the basis that the evidence of the research led to these recommendations, use of any previous wording of recommendations is not cited individually in this report

towards risk sharing that maximise potential for risk sharing within existing frameworks. Highlighting these successes as publicly as possible can also help seed existing best practice across the sector and generate friendly competition to raise risk sharing standards in different functions within the delivery chain, while also demonstrating where there is still progress that needs to be made.

Reflect on the deficit of risk sharing specifically on foreseen risk consequences and seek new principle-based frameworks for action that provide better equity in risk sharing arrangements for these risks
Risk sharing across the board is dominated by measures to share the more financially calculable and often less controversial element of cost sharing for preventative measures, as opposed to measures to share the impacts of foreseen risks that may materialise. All parties need to recognise that these risk consequences represent a significant aspect of risk sharing as a whole that is not being addressed within the current frameworks. All parties must therefore consider what new framework is appropriate to address this type of risk, in particular incorporating principled approaches around potential financial losses, future funding losses and reputational impacts that represent the most significant concerns to partners in different functions with a view to sharing risk and impact in a more predictable way.

Acknowledge that challenges in risk sharing affect particular risk areas disproportionately and accept that addressing these risks requires a new approach
Fiduciary, Legal/Compliance, Ethical and Reputational risks see less support in policy and formal guidance on how risk can be shared with partners and a greater reliance on constructive ambiguity and discretionary decision making. This is resulting in more risk transfer than risk sharing in these areas, particularly as it relates to risk consequences. Organisations need to commit to exploring a new approach to these risks that can foster new opportunities for risk sharing. In particular this means meeting the challenge of finding predictable ways to share the impacts of financial losses and reputational impacts for foreseen risks that materialise, where agreed risk response strategies were executed as agreed. These ways may include an expanded role for commercial insurance as accepted in other risk areas.

6.2 Recommendations to organisations working in Back Donor & Intermediary Donor functions

Invest in staff that understand and promote partnership culture and risk sharing
Experience demonstrates that where organisations employ staff who have deep contextual knowledge relevant to their countries of focus, relevant field understanding of technical programming and experience of working in Direct Implementation, these staff are better able to understand and assess risks identified by their partners and are able to engage effectively in the partnership approach that both directly supports risk sharing initiatives on a case by case basis, but also helps build the organisational culture that views risk sharing as a positive driver to help achieve organisational objectives. Investing in placing staff with these profiles in relevant roles will help achieve better risk sharing outcomes.

Consider the impact of compliance measures on the delivery chain as a whole
Donors should introduce internal feedback loops to continuously answer the questions of what impact their existing and proposed new compliance measures are having both directly and indirectly on their partners and other humanitarian actors at multiple points in the delivery chain, to assess what impact this is having on their overall objective of assisting affected communities, and to make course corrections as required to support their partners with effective risk sharing measures.

Cover risk management and compliance costs necessary for project delivery
Donors should cover the additional costs of risk management and compliance requirements in high-risk settings by including additional, field-based indirect cost lines in project budgets. This would mean that projects in high-risk areas, or where the sub grantees are required to undertake extensive partner

vetting/monitoring, would have additional overhead lines in their budgets. These would be applied as a percentage of project costs rather than as direct costs to ensure flexibility to meet changing needs, and flow to the field as opposed to HQ. Further, the budget lines for sub-granted partners in high-risk areas should have an indirect cost percentage applied that is passed on in full to the partner, to provide the partner with similar flexible support for risk-management and compliance needs.

Include force majeure clauses in awards to proactively allocate and share risks between donor and partner under circumstances where program delivery is affected by unforeseen and pre-identified foreseen risks
Risk sharing is most effective when it has a clear contractual basis that defines and allocates responsibility for risk. This should include both unforeseen risk which is most closely associated with Force Majeure contract clauses, but also foreseen risk that is clearly identified in relation to the contract being entered into. This should include excusing the partner from award obligations for both unforeseen environmental conditions and/or foreseen risk scenarios, assuming the partner had clear risk mitigation measures in place.

Recognise the structural bias towards larger organisations inherent in the current compliance model and grant giving arrangements within the humanitarian sector, and seek to address this through better equity of partnerships
Heavy compliance conditions and competitive high-level funding processes create an incentive to 'go big' and a barrier-to-entry for smaller and national organisations, unless they pursue the project-led growth that is often at odds with the principles of local ownership and accountability to communities. Donors should address this structural bias through developing more collaborative partnerships, including through increasing engagement with downstream partners in their strategy and programme design and through using multi-year funding with an increased emphasis on capacity building and local-level partnership management that negates reliance on more informal trust-based partnership for risk sharing.

6.3 Recommendations to organisations working in Back Donor function

Shifting mindsets and policies on zero tolerance for key risks
Back Donors need to accept that zero tolerance is not a feasible expectation when providing humanitarian assistance. Punitive approaches are not conducive to open dialogue. Joint advocacy and messaging for political decision-makers would support these changes

Reflect on the limits of constructive ambiguity and discretionary decision making and seek more clarity in risk sharing policy and guidelines
Even without a more fundamental change to existing risk management approaches, Back Donors could better codify their thinking and informal practice in some of the more challenging areas of risk sharing, which would serve to improve the consistency and predictability on which other functions in the delivery chain base their risk acceptance decisions. This could include for example better collation internally of risk sharing decisions taken in different risk areas previously and principle-based guidance on how decisions may be taken using discretionary authority, to help guide managers at field level in their decision making

Engage relevant actors outside the humanitarian sector to overcome risk sharing obstacles for key risks such as those around CT and Sanctions measures
The humanitarian community and donor States should engage in sustained and open policy dialogue on how to better reconcile the requirement for compliance with different aspects of donor country legislation and the shared commitment to deliver humanitarian action. This should take place across all relevant sectors within government (security, justice, financial and humanitarian), as well as between States and the humanitarian community at both headquarters and field level.

Develop partnership strategies that clearly articulate how risk sharing benefits will be accorded consistently to both first and second line partners

Back Donors should develop partnership policies that articulate where appropriate how risk sharing benefits negotiated with Intermediary Donors will be passed through to other sub-award partners working in Direct Implementation functions. Where possible, this should be made standard contractual language to help drive institutional change in organisations who are not moving fast enough in this area already, for example in arrangements for sharing of overhead and indirect cost lines with partners, use of force majeure clauses to allocate risk, etc.

6.4 Recommendations to organisations working in Intermediary Donor function

Promote a culture of positive partnership that enables risk sharing

Almost all organisations working in the Intermediary Donor function, be they UN, Red Cross Movement or NGO, also work in the Direct Implementation function, and organisation's cultures towards partnership are intimately affected by this dual function. Organisations need to actively question whether their direct implementation function is inhibiting the effectiveness of their partnership approach, ideally through dialogue with these partners and create roadmaps for change to both policy frameworks and organisational culture to enable risk sharing if found to be required.

Set the tone for what risk sharing should look like and advocate for it for downstream partners

Intermediary Donors are in the unique position of both requesting risk sharing agreements from their Back Donors upstream, and receiving requests from their Direct Implementation partners downstream, including those smaller and national organisations shown to be in the weakest position to negotiate these measures for themselves individually. Failure to pass on any risk sharing outcomes negotiated with Back Donors negatively impacts on Intermediary Donors ability to advocate effectively on behalf of their partners for other measures in future. Therefore, where organisations find themselves in the Intermediary Donor relationship with downstream partners, they should set a positive example of what risk sharing should and could look like, securing and passing on risk sharing commitments made by Back Donors to ensure that to the greatest extent possible risk does not just accumulate with partners closest to the point of delivery and continuing to advocate to Back Donors for further risk sharing measures for their partners in future

6.5 Recommendations to organisations working in Direct Implementation function

Approach risk sharing discussions on donor grants from a strong and informed position

Organisations working in the Direct Implementation function, regardless of what type of organisation they are, should ensure in their discussions with donors that they have well-articulated and contextualised risk analyses for the programmes they expect to implement, with clear plans for how they intend to control the identified risks with what mitigating measures and leaving what residual risk to consider for risk sharing and/or risk acceptance with donors. This approach will require resources and organisational commitment but will ultimately be a benefit to the performance of the organisation, shows due diligence to the donor and can reduce the scope of what is being asked.