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**FIT FOR FRAGILITY?  
AN EXPLORATION OF RISK STAKEHOLDERS AND SYSTEMS INSIDE SIDA**

**Nilima Gulrajani and Linnea Mills**



# Fit for Fragility? An Exploration of Risk Stakeholders and Systems Inside Sida

*Nilima Gulrajani and Linnea Mills*

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# Foreword by the EBA

Investing in peacebuilding is a priority for Swedish aid. During the past decade the Swedish engagement in contexts of conflict and insecurity has increased considerably. To support meaningful and effective forms of cooperation in fragile, conflictual and rapidly changing environments is often connected with risk. Carefully considering and managing risks are important to reduce vulnerability and build security. This is the position of the Swedish government. The Policy Framework on Development Cooperation and Humanitarian Assistance of 2016 refers to the risks in contexts of political uncertainty, weak institutions and corruption. These risks must be accepted and managed through flexibility, speed, context-specificity, local ownership and leadership.

We know, from many EBA reports and other sources, that even though the results-based management agenda with its emphasis on accountability has carried much weight, Sweden is also seen as a donor that strives for local ownership and flexibility in its aid management. In practice, however, it is challenging to simultaneously act responsibly to demands for accountability while being responsive to needs.

With this study EBA wants to contribute to the knowledge of how the potential trade-offs between flexibility and accountability can be better understood and handled. The questions guiding the study aim to elucidate what formal risk management systems are used by Sida and where possible fault lines between the accountability and flexibility dilemma occur in the organisation. Given that, how might risk management be made 'fitter', better adaptive and sensitive to fragile contexts?

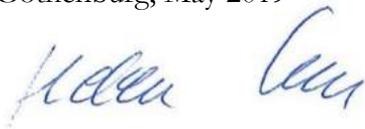
Building trust is key in effective and efficient development cooperation, and the authors Nilima Gulrajani and Linnea Mills find that Sida in general exhibits great trust in staff and partner organisations. Decentralization of Swedish aid management, with much authority given to embassies, means high expectations on programme managers and controllers to deliver efficient aid. But there is not necessarily a shared view of how "flexibility" should be interpreted in a given situation. The authors argue in favour of a

better-informed guide to create a more consistent approach to risk analysis.

Integrity and realism are key components of successful development cooperation. I hope that this report will encourage discussions and dialogue about the reality of working in fragile political settings in a broader audience, especially among those responsible for operational activities in high-risk environments.

This study has been conducted in dialogue with a reference group chaired by Johan Schaar, member of the Expert Group for Aid Studies. The analysis and conclusions expressed are solely those of the authors.

Gothenburg, May 2019

A handwritten signature in blue ink, appearing to read 'Helena Lindholm', written in a cursive style.

Helena Lindholm

# Sammanfattning

## Övergripande mål och fyra frågor

I Sverige råder en medvetenhet om att utvecklingssamarbete innebär att ta risker. I policyramverket från 2016 nämns särskilt riskerna med politisk osäkerhet, konfliktsituationer, svaga system och institutioner samt korruption (Sveriges regering, 2016). Samtidigt har Sverige även beslutat att arbeta i sviktande stater med metoder som betonar flexibilitet, snabbhet, kontextanpassning, lokalt ägarskap och ledarskap (Sveriges regering, 2017). Huvudfrågan i denna studie är om Sidas riskhanteringssystem upprätthåller möjlighet till ansvarsutkrävande för riskfyllda insatser i sviktande stater och samtidigt betonar arbetsformer som är präglade av flexibilitet och anpassningsbarhet. Inom detta övergripande mål kan vi urskilja fyra separata frågor:

- Vilken är attityden till risk i fråga om svenska insatser i sviktande stater?
- Vilka är Sidas formella riskhanteringssystem?
- Innebär riskhanteringen i praktiken svårigheter att både uppfylla krav på ansvarsutkrävande och önskemål om flexibilitet? Var inom Sida uppstår skiljelinjerna i fråga om dilemmat ansvarsutkrävande och flexibilitet?
- Hur kan arbetet med riskhantering bättre anpassas till sviktande kontexter? Kan det förena kraven på att agera både med ansvarstagande och responsivt (dvs både snabbt och adekvat) inom alla riskområden?

## Huvudbudskap

- Under den period som omfattas av denna studie (januari–augusti 2018) verkar det ha funnits ett besluts klimat i Sverige som gynnade risktagande. I detta politiska sammanhang har Sida gradvis utvecklat en ökad organisatorisk tolerans vad gäller risk i programplaneringen för sviktande stater.
- Undersökningen av den svenska utvecklingsfinansieringsportföljen i sviktande stater ger bilden av att utrymme finns att ytterligare utnyttja de möjligheter som skapats genom stödjande

institutionella och organisatoriska miljöer. Den formaliserade processen för riskhantering sköts av personalen i insatshanteringsprocessen (Trac). I takt med att det svenska besluts klimatet har förändrats och Sidas egna riskbenägenhet har ökat har även insatshanteringssystemet medfört ett ökat förtroende för personalen att med professionellt omdöme fastställa, bedöma, förstå, agera utifrån, och kommunicera, risker. Trac I var till stor del ett defensivt svar på Sidas upplevda brister inom ansvarsutkrävande gentemot sina riskintressenter, medan Trac II belyser de mest relevanta riskerna på grundval av en nedifrån-upp-analys som sträcker sig över insatsens livslängd. Personalen förknippar inte längre riskhanteringsarbetet med obenägenhet till risk och riskaversion, utan ser ett allt större utrymme att värdera och prioritera mellan risker. Trac II kan med andra ord ses som ett exempel på ”flexibel” riskhantering.

- Sidas personal tycker att flexibla riskhanteringsmetoder är värdefulla och viktiga när det handlar om Sidas insatser i sviktande stater. Det uttrycks inte mycket öppet motstånd eller intern oro i fråga om den ökande flexibilitetens konsekvenser för Sidas formella skyldigheter vad gäller kontroll av risker.
- Givare som USA och Storbritannien har formaliserade, all-omfattande och starkt integrerade system för riskhantering med komplexa och överlappande nätverk av instrument, ramverk och metoder. Dessa system kan ses som teknokratiska verktyg delvis anpassade till de mer riskundvikande besluts klimat som dessa givare möter i jämförelse med Sverige och Norge. Riskhanteringen i dessa två skandinaviska givarländer är både mindre formellt kringgärdad och skulle kunna sägas uppvisa ett större förtroende för både personal och genomförandepartner.
- Sidas arbetssätt med flexibel riskhantering håller på att förändra de interna organisationsförhållandena mellan controllers, programansvariga och enhetschefer. Enhetscheferna förefaller nu ha större bedömningsutrymme i verksamheten, men det finns även allt större förväntningar på controllers och programansvariga.

- Den ökade flexibiliteten och det ökade bedömningsutrymmet när det gäller hantering av risk gör att Sida kan tillåta en högre risknivå vad gäller program och kontext. Samtidigt är denna flexibilitet inte obegränsad och vi menar att man nått gränsen när det gäller institutionella risker. Sida-tjänstemännen är fortfarande ovilliga att ta de finansiella och säkerhetsmässiga risker som är högre i sviktande stater och som utgör större hot mot institutionell legitimitet. Detta argument illustreras genom en granskning av en insats för sexuell och reproduktiv hälsa i Afghanistan.
- Det nuvarande sättet att arbeta med riskhantering hos Sida skiljer mellan ansvarighet och responsivitet mer än det mildrar det spända förhållandet dem emellan. Det finns idag större möjligheter till flexibilitet inför vad som är godtagbara risker i kontexten och programplaneringen, men parallellt med det löper den absoluta nödvändigheten att ha kontroll över mindre godtagbara institutionella risker. Det finns således viktiga begränsningar för i vilken utsträckning Sida verkligen kan ”hantera risker annorlunda”.

## Rekommendationer

Våra rekommendationer handlar om hur Sida kan skapa mer ansvarighet och flexibilitet i alla dimensioner av risk som man ställs inför i sviktande och konfliktdrabbade miljöer. Sida har viss viktig erfarenhet av flexibilitet från sin inställning till programmatiska och kontextuella risker men detta kan tillvaratas och institutionaliseras bättre i den övriga verksamheten. **Vi föreslår två alternativ för att införa ett mer strukturerat förhållningssätt till ansvarighet där utrymmet för flexibilitet verkar vara relativt omfattande.**

- Vår första rekommendation är att ta fram **en vägledning i form av en standard om informerat risktagande** som explicit bör förklara vad som utgör en tillräcklig ”bevisbörda” och lämpliga nivåer av kvarstående risk även efter att en eventuell förmildrande omständighet spelat in. Detta skulle skapa en mer konsistent strategi för riskanalys och bedömning

för hela organisationen. Denna vägledning skulle baseras på Sidas egen institutionella tillämpning, erfarenhet och lärande.

- Vår andra rekommendation är att ta fram en **omfattande risk-kommunikationsstrategi**. Detta skulle kunna offentligt artikulera Sidas medvetenhet om komplexiteten i sitt uppdrag, rama in organisationens övergripande riskaptit mot bakgrund av den kontextuella verkligheten och sina egna ambitioner, identifiera spänningar och motsägelser där de finns och sätta rätt förväntningar på Sidas agerande och engagemang. En risk-kommunikationsplan skulle kunna skärpa såväl styrning som stöd från Sidas riskintressenter (t.ex. Riksdagen, tillsynsmyndigheter och Utrikesdepartementet när (inte om) risker materialiseras och skapar legitimitetsproblem och misslyckanden.

I en värld av institutionella risker har Sida tenderat att prioritera kravet på ansvarighet över behovet av flexibilitet. Vi menar därför att Sida inte fullt ut maximerar de möjligheter till genomslag av insatser i sviktande stater som går att nå, även med beaktande av de svårigheter som finns utifrån Sidas ansvar för säkerheten för svenska medborgare och en effektiv användning av skattebetalarnas medel. **Vi lämnar därför tre rekommendationer för större flexibilitet under bibehållen stark ansvarighet.**

- Vår första rekommendation förutsätter en mer systematisk analys av risker och möjligheter i programmering och av incitament för att beakta gjorda **avvägningar** (t.ex. balansen mellan en insats förväntade risk och potentiella framtida avkastning). Att kontextualisera och dokumentera beslutsfattande som en rad avvägningar kan innebära en förflyttning från ett inrotat undvikande av finansiell risk och säkerhetsrisker mot ett mer informerat risktagande.
- Vår andra rekommendation innebär att **reflektera över Sidas förhållningssätt till korrupcion** och hur det förhåller sig till den ambitiösa politiska agendan som finns för sviktande och konflikttrubbade stater. Sidas antikorrupsionsregel säger att personalen ”alltid ska förhindra, aldrig acceptera, alltid

informera, alltid agera” (Sida, 2016). Detta kan potentiellt bidra till ett motstridigt budskap mellan korruptionsbekämpning å ena sidan och flexibel riskhantering å andra sidan. Att acceptera en större nyans i Sidas inställning till korruption vad gäller utmaningarna i sviktande stater skulle vara ärligare i relation till allmänheten, samt potentiellt mer effektivt på marken.

- Vår sista rekommendation för att minska riskaversionen mot institutionella risker är att **skapa utrymme för diskussion kring och ifrågasättande av Sidas riskhanteringssystem**. Detta inkluderar att uppmuntra till samtal om, och återkoppling på, hur riskhanteringen i sig sköts i praktiken. Detta kan i sin tur ändra synen på riskhantering, från en administrativ funktion till en integrerad del i verksamheten.



# Summary

## **Overarching objective and four questions**

Sweden recognises the risky nature of development work. Its 2016 Policy Framework refers specifically to the risks of political uncertainty, conflict, weak systems and institutions, and corruption (Government of Sweden, 2016). At the same time, Sweden has also committed to ways of working in fragile states that privilege flexibility, speed, context-specificity, local ownership and leadership (Government of Sweden, 2017). At the core of this study is to investigate whether risk management controls in the Swedish International Development Agency (Sida) are simultaneously maintaining accountability for risky engagements in fragile states while still privileging flexible and adaptive ways of working. Within this overarching objective, we distinguish four separate questions:

- What are Swedish risk attitudes and preferences in the context of its fragile states engagement?
- What risk stakeholders and risk management systems govern Sida?
- Is the practice of risk management in Sida struggling to simultaneously meet accountability demands and flexibility desires? Where do the internal fault lines of the accountability/flexibility dilemma occur?
- How might the exercise of risk management in Sida be made 'fitter' for the contexts of fragility? Can it integrate the need to act both responsibly and responsively in all risk spheres?

## **Key messages**

- Over the time period covered by this study (January-August 2018), there appears to be a conducive authorising environment in Sweden for risk-taking. Within this political context, Sida has gradually fostered greater organisational tolerance of risk in its fragile states programming.

- Examining Sweden's portfolio in fragile states, there is reason to believe space exists to further exploit opportunities for risk-taking given its supportive institutional and organisational environments. The formal process of risk management is identified by staff through the prism of the contribution management cycle (Trac). As the Swedish authorising environment has evolved and Sida's own risk appetite grown, so too has the contribution management system been more willing to trust staff to apply professional judgements to identify, assess, understand, act on and communicate risks. Whereas Trac I was largely a defensive response to the perceived accountability failures of Sida to its risk stakeholders, Trac II funnels attention to the most relevant risks based on a bottom-up analysis extending over the lifetime of a contribution. Staff no longer associate the task of risk management with risk reticence and aversion but with growing space to adjudicate and prioritise risks. In other words, one might view Trac II as an example of 'flexible' risk management.
- Sida staff attribute value and importance to flexible approaches to risk management in the context of Sida's engagement in fragile states. There is little overt resistance or internal concern expressed about the implications of this growing flexibility for Sida's formal obligations towards risk control.
- Donors like the US and UK have formal, holistic and strongly integrated systems of risk management with a complex and overlapping network of instruments, frameworks and approaches. One might view these nested systems and technocratic tools as partial adaptations to the more risk-averse authorising environments these donors face in comparison to Sweden and Norway. Risk management in the two Scandinavian donors is both less formally circumscribed and arguably exhibits greater trust of both staff and implementing partners.

- The practice of flexible risk management in Sida is shifting intra-organisational relationships between controller<sup>1</sup>, programme managers and heads of unit. Under Trac II, heads of unit now appear to have greater operational discretion but there are also growing expectations placed on controllers and programme managers.
- The increased flexibility and discretion in relation to managing risk is enabling Sida to take on higher levels of programmatic and contextual risk. At the same time, this flexibility is not unrestrained and we suggest its limits are reached when it comes to institutional risks. Sida officials remain disinclined to the fiduciary and security risks that are elevated in fragile states that pose greater threats to institutional legitimacy. This argument is illustrated by examining the case of a sexual and reproductive health contribution in Afghanistan.
- This exploratory study suggests the current practice of risk management in Sida does not so much reconcile the tensions between responsibility and responsiveness as much as it separates them. There is now greater possibility for flexibility towards acceptable contextual and programmatic risks but these sit alongside the imperative of controlling less acceptable institutional risks. Important limits thus exist on the degree to which Sida can truly "do risk management differently."

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<sup>1</sup> The word *controller* is the term used by Sida to refer to those staff responsible for accounting and risk management functions. This is, however, typically a term used to designate this role in the corporate world, while *comptroller* is more commonly used to refer to those in a governmental and non-profit agency. Nonetheless, we stick with the usage of the term controller in line with Sida terminology.

## Recommendations

Our recommendations consider how Sida could create more accountability and flexibility in all the dimensions of risk faced in fragile and conflict-affected settings. Sida has gained some important flexibility in its approach to programmatic and contextual risks that could be better embedded and institutionalised. We suggest **two options for introducing a more structured approach to accountability in these spaces where flexibility seems relatively extensive.**

- Our first recommendation is a **guidance note on a standard of informed risk-taking** that should make explicit what constitutes an adequate "burden of proof" and appropriate levels of residual risk even after mitigation. This would create a more consistent approach to risk analysis and assessment across the organisation. This guidance would be the product of Sida's own institutional practice, experience and learning.
- Our second recommendation is to invest in a **comprehensive risk communications strategy**. This could publicly articulate Sida's awareness of the complexity of its mission, frame its overarching risk appetite in light of contextual realities and its own ambitions, identify tensions and inconsistencies where they exist and set expectations for Sida's actions and engagements. A risk communications plan could inculcate the stewardship and support of Sida's risk stakeholders (such as Parliament, regulatory bodies and the Ministry for Foreign Affairs) when (not if) risks materialise and generate problems of legitimacy and failure.

In the realm of institutional risks, Sida has tended to privilege accountability imperatives over its flexibility desires. We suggest this may not be fully maximizing opportunities for impact in its fragile state programming, though we recognise the difficulties involved given Sida's responsibilities for the safety of Swedish nationals and the effective use of taxpayer funds. **Nonetheless, we offer three recommendations for introducing greater flexibility towards strongly perceived accountabilities.**

- Our first recommendation requires greater systematic analysis of risks and opportunities of programming and incentives to consider the **tradeoffs** involved (e.g. the balance between the risks assumed and potential future rewards). Contextualising and documenting decision-making as a series of tradeoffs may ultimately be a way to move away from entrenched risk avoidance in the spheres of fiduciary and security risks to informed risk taking.
- Our second recommendation involves **reflecting on Sida's approach to corruption** and its relation to its ambitious policy agenda in fragile and conflict-affected states. Sida's anti-corruption regulation states staff should "always prevent, never accept, always inform, always act" (Sida, 2016). This generates the potential for mixed messaging in relation to corruption control, on the one hand, and flexible risk management, on the other. Accepting greater nuance in Sida's attitude towards corruption would be more honest about the challenges in fragile states with the public, as well as potentially more effective on the ground.
- Our final recommendation for reducing risk aversion towards institutional risks is to **create space for discussing, questioning and unpacking Sida's risk systems and policies**. This involves supporting conversations and feedback on the practice of risk management itself, which in turn can take risk management out of the silo of administrative functions and embed it into broader work cultures.



# 1 Introduction

## 1.1 Background and purpose

Publicly funded bilateral development agencies are channelling an increasing amount of money and effort to support development in fragile and conflict affected states (FCAS). Within this growing agenda, bilateral donors are navigating two potentially contradictory forces. On the one hand, the complexity and constantly evolving landscape within fragile states has resulted in greater recognition that donors must engage flexibly and adapt to fast-moving dynamics. Statements like the New Deal on Fragile States (2011) and the desire to "Do Development Differently" both encapsulate this global trend to embrace more risk than in the past. On the other hand, donors also seek to reduce exposure to the elevated risks of engagement in fragile states, including programmatic, contextual and institutional risks. Risk control is an important way to demonstrate accountability for public resources and power delegated to the state. These dual demands on donors to work flexibly but remain accountable for riskier engagements in fragile states are best encapsulated in the OECD's recommendation to donors to manage risk flexibly:

Flexibility is essential to successful risk management. No single set of risk mitigation measures can possibly address all eventualities in advance, particularly not in a fast-moving context of fragility. As programme implementation gets underway, donors need the capacity and flexibility to adapt their risk frameworks and their programme design to changing conditions on the ground. This requires both innovative thinking about risk and the right incentives amongst donor staff to manage them as they emerge. (OECD, 2014:1).

This study is motivated by a desire to investigate flexible risk management as both a theoretical construct in public management and development policy literatures, as well as to understand to what extent it can feasibly become an applied policy practice situated in the Swedish development ecosystem. Is managing risk flexibly an

attainable goal by bilateral agencies like the Swedish International Development Agency (Sida) that are increasingly engaged in fragile states? To what extent is the desire for flexible risk management hamstrung by the compliance and risk control imperatives from which the task of risk management has traditionally emerged? Exploring Sida's fitness for engaging in fragile contexts through the prism of risk management and the ways it balances accountability and flexibility objectives provides the broad parameters for this study. After providing a review of relevant academic (Chapter 2) and policy (Chapter 3) literatures, we present our research design and our methods (Chapter 4). In Chapters 5-8, we offer grounded responses to the four questions below:

### **What are Swedish risk attitudes and preferences in the context of its fragile states engagement?**

We begin our empirical analysis in Chapter 5 by presenting a general overview of the evolution of cultural and political attitudes to risk within Sweden's development cooperation based on scoping interviews conducted in Spring 2018, and further corroborated in three focus groups in August 2018. We suggest that the authorising environment in Sweden has pivoted away from a regulatory control mindset to one that seeks to build and foster trust in public servants and service, arguing this represents a more tolerant attitude to risk than the past. We also explore how this shifting environment has translated into a transition in Sida's own risk culture. We suggest the current trend towards greater risk appetite in Sweden diverges from the more conservative risk cultures in the UK. We then analyse Sweden's portfolio in fragile states over the last eight years to gain some empirical understanding of Sweden's risk appetite in terms of its allocation decisions to fragile states. We suggest a tolerant approach to risk is not yet fully reflected in its portfolio allocation, with a growing allocation of earmarked multilateral resources and a shift away from engagements with local civil society actors towards international NGOs.

## **What risk stakeholders and risk management systems govern Sida?**

In chapter 6, we suggest while there are numerous stakeholders implicated in Sweden's development cooperation to fragile states, Sida is the primary agency formally accountable for discharging Sweden's development policy. The formal risk control system governing Sida's direct engagements in FCAS is presented, namely the contribution management system (Trac) that governs financial allocations for operational activities implemented through partners. We explore Sida's management of risk both over time and in comparative perspective, suggesting Sida's approach has moved from a compliance approach to one that devolves considerable flexibility to officials within individual contributions. This flexibility most closely approximates Norway's (viz Norad's) approach to risk management.

## **Is the practice of risk management in Sida struggling to simultaneously meet accountability demands and flexibility desires? Where do the internal fault lines of the accountability/flexibility dilemma occur?**

In chapter 7, we assess the shifting responsibilities and attitudes towards an emerging risk culture in Sida aligned with the idea of flexible risk management. We explore the political fault lines emerging within this new approach to risk, including the greater burdens it places on project officers and controllers. Overall, we find little concern expressed by Sida staff about acting with accountability and flexibility in its current approach to managing risk. And yet, as we illustrate through the example of a sexual and reproductive health contribution in Afghanistan (whose selection we explain in chapter 4), there can be much more flexibility when facing programmatic and contextual risks than in the case of institutional risks (e.g. corruption and safety and security risks) where accountability obligations weigh more heavily. We suggest a division between acceptable and unacceptable risks may be emerging in Sida. We believe this can point to important constraints on the practice of flexible risk management. We conclude that as

Sida strives to "do risk management differently," the imperatives of responsibility and responsiveness may not so much be reconciled but separated as they preside over different risk areas.

**How might the exercise of risk management in Sida be made 'fitter' for the contexts of fragility? Can it integrate the need to act both responsibly and responsively in all risk spheres?**

In chapter 8, we consider how Sida could create more accountability and flexibility in all of the dimensions of risk that it assumes. We suggest greater clarity on standards of informed risk taking and more effort to communicate risks could embed and institutionalise accountability. Conversely, we suggest greater flexibility towards institutional risks could fully maximise the likelihood of impact and results in fragile states programming. We recommend Sida catalyse greater reflection on risk/reward tradeoffs, nuance its approach to corruption control and treat risk as a living subject. Our suggestions for improvement indicate the importance of uniting and balancing accountability and flexibility imperatives in all spheres of risk.

## 2 Managing risk: the accountability imperative

### 2.1 Introduction

Risk management is the organisational process of providing reassurance in the face of uncertainty. And fragile states would certainly qualify as uncertain environments. Fragility means that a state is at risk of failure, and as such fragility is a concept intimately acquainted with risk (Mueller, 2018).<sup>2</sup> Political and social risks relating to conflict, violence and the breakdown of relations between and within communities pose real threats to stability, as do economic risks like growth stagnation and failures of service delivery. Security risks deriving from the lack of stability and rule of law undermine lives and livelihoods. As a partial consequence of these challenging contextual risks, a number of programmatic risks are elevated for bilateral donors. Aid programmes can more easily fail to achieve their objectives and cause unintentional harm within the broader operational environment. This may pose institutional risks to donor organisations and their staff, including operational risks, financial and fiduciary risks, and damage to a donor's reputation. Risk management systems offer the prospect of understanding these wide-ranging risks, controlling them, and reassuring stakeholders if things go awry. It is in this sense that risk management systems in the administration of development cooperation are mechanisms to hold donors to account for their judgements and operational engagements.

In this chapter, we begin by presenting key literatures in the public management of risk that will frame the study. We focus on public management research and highlight two approaches to understanding risk in Section 2.2. We also underline how risk is

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<sup>2</sup> While fragility can characterise specific environments/regions within states, it is a label that has been typically applied to states. The term has been criticised for failing to recognise that pockets of fragility exist in most (if not all) states, while few states are wholly fragile (Green, 2017).

framed by wider demands for organisational control and accountability in Section 2.3. Finally, we define risk management in section 2.4.

## **2.2 Rational vs. culturalist risk theory**

Risk literatures transcend disciplinary boundaries. They are dispersed in fields ranging from finance, management economics, sociology and political science. Across all these disciplines, however, one can identify a distinction between rational and cultural theorists of risks (Andreeva et al. Ansell, & Harrison, 2014: 345). Rational theorists draw on the science of logical positivism to suggest that risk can be quantified and managed to deliver functional organisational benefits. In contrast, cultural theorists understand the world of risk as socially and historically constructed by norms, patterns of behaviour and social interactions. We treat each in turn below.

Rational theorists of risks draw their inspiration from Frank Knight's distinction between risk and uncertainty. While unpredictability is an inherent feature of risk, Knight suggested risk can be measured and quantified. For Knight, a known risk can be converted into an "effective certainty," while true uncertainty cannot be measured because there is not enough information to set accurate odds in the first instance. The science of risk analysis allows for the formulation of predictions by actively applying probability theory to the study of expected events. The professionals and instruments of the risk industry are founded upon the assumed logic and rationality of this science, which enables us to foresee and manage unpredictability. For example, the National Audit Office in the UK highlights the functional benefits of risk management as more informed decision-making, greater likelihood of meeting aims and objectives and avoiding costly mistakes (National Audit Office, 2011: 4). In international development, the rise of value-for-money assessments, business case outlines and risk matrices are all tools that create the impression of a measurable and manageable set of risks (Yanguas, 2018: 67).

In contrast, cultural theorists of risk suggest the concept of risk is an omnipresent reference point in organisational life (Power, 2007; Power, 2004). The ability to manage risk is *suggestive* of an organisation that is responsible, focused on performance and capable of handling uncertainty. Risk is here less of a measurable analytical act, and more a subjective creation combining attitudes, expectations and perceptions that are mediated by organisations. Risk culture can be defined as the organisation's propensity to take risks as perceived by its members (Bozeman & Kingsley, 1998; Capaldo, Costantino Pellegrino, & Rippa, 2018: 995). A perception of a risk tolerant organisational culture is an important backdrop for risk taking (Bozeman & Kingsley, 1998: 110). Organisational cultures are, in turn, negotiated by wider societal demands for control, accountability and responsible attribution (Power, 2004: 38). The wider authorising environment for the public management of risk shape the propensity of risk-taking (Lodge, 2009: 396). Risk-taking can further inform the risk culture of the organisation (Box 1).

Whereas for rational theorists the desirability of risk can be calculated by assigning expected values to outcomes, for cultural theorists' risk appetite is socially embedded and can vary across individuals and organisations, as well as across different levels or units of an organisation. Nonetheless, even rational approaches recognise that the culture of risk management in the public sector is an important determinant of the kinds of operational activities that will be permitted (National Audit Office, 2011: 4). Who sets the appetite for risk, who drives and promotes its use and where the internal divisions lie are key questions to understand the politics of risk management. *This study is mainly situated in this cultural approach to the public management of risk.* Such an approach assumes that social environments are critical determinants of risk and leads to questions centred on institutional, organisational environments and the attitudes and interpretations of staff embedded within these.

## 2.3 Risk control as a form of accountability

If risk appetite emerges from organisational and societal perceptions and attitudes towards risk, the practice of risk management has more often than not tended to serve as a visible manifestation of the value this wider environment places on risk control and reduction as a form of accountability. Cultural theorists highlight risk management as a response to culturally engrained beliefs about accountability for risk control in terms of ensuring direct compliance, managing consequences and determining behavior (Dubnick, 2005, 2007; Dubnick & Frederickson, 2010; Grigorescu, 2008). As these accountability expectations filter into public life, the organisational work of risk becomes that of overseeing risk. Risk management, or risk work, has become an instrument for ensuring society's expectations for public sector answerability and compliance (Palermo, 2014).

Public risk governance relates to the accountability for risk control in the public sector (Andreeva et al., 2014). It is complicated by the multiplicity of different stakeholders and the network of interactions between them. Risk stakeholders are principals, or agents, who possess relationships to others in the risk governance network. Stakeholders affecting or affected by the governance of the risk hold important accountability obligations, their role and salience operating both individually and collectively as a network of stakeholders that collectively 'own' risk.

While rational theories highlight the value that risk work and risk governance may have for performance, cultural theorists suggest this can lead to a dysfunctional emphasis on auditing, internal control, red tape and blame avoidance (Power, 2007; Power, 2004). Particularly where primary risks cannot be directly inspected, a risk management system becomes a signal for the quality of risk control. Risk management turns into a symbolic activity, "project[ing] comforting images of controlling the uncontrollable" (Power, 2004: 50). This impression of controllability may, however, be a source of risk itself, embodying mistaken assumptions about what the public really wants reassurance about; creating inefficiency through defensive record keeping; deterring valuable judgements and high-risk activities to avoid being blamed; and hard-wiring caution and

conservatism within organisations by fostering a culture of 'small print' (Power, 2004: 28, 45-46). That being said, it is not necessary that all risk work satisfy the impulse of risk control. Risk management need not imply risk reticence or risk aversion. As the final chapter will demonstrate, the possibility for 'intelligent risk management' does indeed exist within cultural theories of risk.

The desire to control, avert and minimise risk is, however, a natural response to the increased expectation and desire for scrutiny and answerability from the public sector. This may be why the control of risk is all too often associated with intensified bureaucratic process, internal controls and formal sign-off structures. There is a tendency to be overly responsive to perceived external concerns that can skew the emphasis of risk management systems towards 'managing reputation' (Power, 2004: 36). In many cases, primary operational risks are minimal, but secondary reputational risks are significant. For example, a minor fraud committed by a donor agency official may be relatively financially inconsequential in relation to the entire portfolio but its impact on organisational credibility may be significant and affect its future ability to secure public funds and donations. Riskwork in the public sector borrows tools and systems from the private sector partly to minimise these risks to reputation. New Public Management (NPM) has traditionally borrowed tools, logics and practices from the corporate world to modernise public sector arrangements.<sup>3</sup> The 'new risk management' is similarly linked to the insertion of corporate logics to the public sector (Palermo, 2014).

As an accountability tool, risk control and mitigation is the responsibility of middle managers who must provide reassurance through the oversight process (Palermo, 2014; Power, 2004). Risk officers and other compliance professionals must manage complexity but are often at some distance from the frontline reality of assessments and mitigation strategies. At the same time, they are

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<sup>3</sup> From the early 1990s, NPM introduced to the public sector elaborate performance management systems, outsourced functions to quasi-autonomous agencies, encouraged self-regulation, customer orientations and total quality management (Halligan, 2010: 141).

also often the ultimate "bearers of blame" in cases where things go wrong (Power, 2004). Chief Risk Officers (the senior most person responsible for risk in an organisation) in particular struggle as their role is to provide a generic, organisation-wide overview of risks without detailed knowledge of contextual realities and decisions.

## 2.4 What is risk management?

While this study adopts a cultural approach to risk considerations within donor agencies, it is common for rational approaches to frame the internal definition and methods of risk management inside development agencies. Risk management is "a formalised system for forecasting, weighing and preparing for possible risks in order to minimise their impact" (Stoddard, Haver, & Czwarno, 2016: 8). It aims to determine the best course of action in the unpredictability of fragile states by identifying, assessing, understanding, acting on and communicating risk issues (OECD, 2014: 21).

In the context of development agencies, the task of risk management tools manifests itself in the life cycle of projects and programmes. And it is an increasingly formal and professionalised practice. And yet, day-to-day decisions are also influenced by risk concerns. In this way, risk management takes place across all aspects of donor work, including programming, monitoring and evaluation, financial procedures, managing relationships with partners, engaging in research and knowledge gathering, sourcing technical assistance and communicating results (OECD, 2014: 24). Providers of development assistance are constantly and implicitly engaged in risk management.

Formalised systems of risk management do share some common characteristics. First, they are **purposely designed tools to document** risks and risk-related actions, including via risk statements, risk registers and ratings, defined risk process accountabilities, mitigation tools and risk audit and evaluation processes (Stoddard, Haver, & Czwarno, 2016: 13-14). Documentation can be *analytical* to assess risks and improve awareness; *procedural* to deal with the management and

administration functions for mitigating or handling risk; or **declarative** to report and answer for realised risks.

Secondly, they are **systematically applied** at either the country or project level. Although less common, some donors monitor risks at the portfolio level that enables a broad view of different risk categories. This also allows for a more holistic view of the aggregate balance between high-risk investments with potentially transformative impacts, and low-risk investments delivering immediate gains.

Thirdly, risk management is meant to **inform decision-making** for addressing different categories of risk. This may include avoiding risks, mitigating them, sharing them, transferring them or accepting residual levels of risk.<sup>4</sup> In this sense, the mere existence of a risk, even a large one, does not require public action so long as taking up risk is based on an informed assessment (Hallegatte & Rentschler, 2015: 196). And yet, a recent survey of INGOs noted concerns that risk management itself could create risk aversion because "the minute it's written down, you're now liable" (Stoddard et al., 2016: 14).

Fourthly, a shared dilemma for risk management systems is how to develop an appropriate structure that can deal with both the **specificity and generality of risks** confronted (Andreeva et al., 2014: 343). For example, some organisations deploy a relatively small central risk-management group that collects information from operating managers, while others embed risk experts in operational divisions who report to a centralised risk management team and line executives (Kaplan & Mikes, 2012). Avoiding siloed approaches is a common challenge. The survey of INGOs mentioned above noted there is tendency to silo different risk areas (e.g. security, finance, communications, etc.) even when an integrated framework approach is adopted (Stoddard et al., 2016).

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<sup>4</sup> Residual risk is the risks that are left after appropriate mitigation is taken. See Haver et al. (2012).

# 3 Donor engagement in fragile states: the imperative of flexibility

## 3.1 Introduction

While the previous chapter explored the framing and definition of risk management in relevant literatures, this chapter presents the policy context of working in fragile and conflict affected states (FCAS) and illustrates how these settings increasingly demand flexibility on the part of donors. In section 3.2, we introduce a common language to discuss the nature of the risks facing donors engaging in fragile states. In section 3.3, we suggest that while there is keen awareness of the nature of elevated risks in fragile states, there is broad policy consensus on the value of working flexibly in these environments. And yet, a mixed record on achieving flexibility in practice is partly explained by the factors that drive donor risk aversion (section 3.4). In section 3.5, we present our analytical framework that centres on the dilemma of managing risk accountably and adaptively and suggest that flexible risk management may be a way to navigate these dual imperatives.

## 3.2 The risky business of working in fragile states

The world's poorest are increasingly concentrated in small group of fragile and conflict-affected states (Manuel et al, 2018). While there are multiple definitions of fragility and different lists of countries classified as FCAS,<sup>5</sup> they all face systemic political and economic challenges. As introduced in 2.1, elevated risks in FCAS have resulted in greater demand for understanding these risks and mitigating their realisation. Risk in fragile states is typically

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<sup>5</sup> For a good overview of various typologies, see Shepherd et al. (2016).

understood in two dimensions (OECD, 2014: 20): (1) the **probability** of the risk occurring; and (2) the **severity** of the outcome.<sup>6</sup> The assumed ability to measure and predict uncertainty suggests this is a rational construction of risk in fragile states. The OECD offers a typology that categorises the nature of fragile state risks and forms the basis of a common language on risk (OECD, 2011b; 2014). Also known as the "Copenhagen Circles", this typology designates three separate but interlinked risk buckets (Figure 1).

**Contextual risks** refer to those adverse outcomes that may arise due to a specific environmental setting and tend to lie beyond the influence of any development or humanitarian agency, though donors may seek to support interventions that reduce such risks in the long-term. The breakdown of a political settlement, resumption of conflict, deterioration of community relations, rising inflation, risks of displacement and transnational crime are examples of such risks. Contextual risks can potentially spill over beyond countries' borders, which often provides the rationale for donor intervention (OECD, 2011b). The interplay among these risks and their underlying drivers makes contextual risk analysis highly dependent on good local knowledge.

**Programmatic risks** relate to weaknesses in programme design and implementation, failures within donors or dysfunctional relationships with their partners. This can result in lack of attainment of objectives or the possibility of unintended harm (OECD, 2011b). While many of the reasons why programmes fail derive from contextual risks, there can be operational drivers like mismanagement, flawed assessments from the field, coordination failures, unintended political biases in aid distribution, economic effects of using international rather than local procurement, and the ambitiousness of innovative programming. Programmatic risks can result in donors reducing their operational ambitions and encouraging safer programming choices rather than efforts to build functioning systems, strengthen institutions and support policy

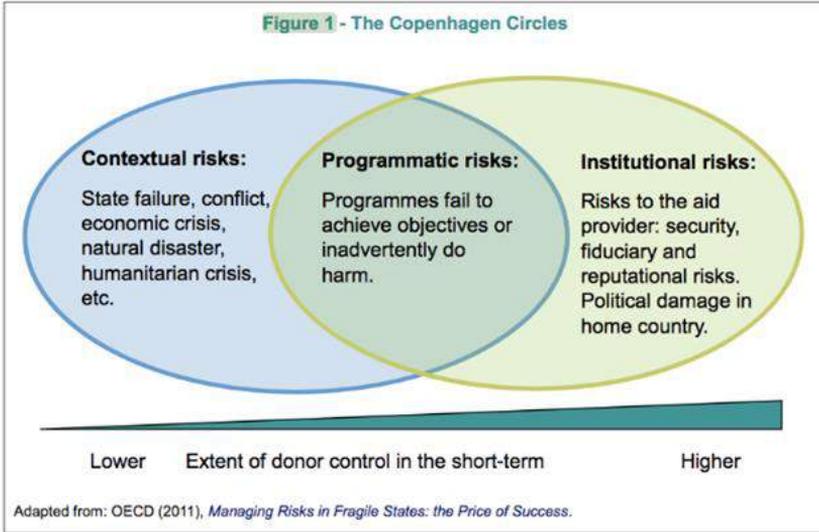
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<sup>6</sup> Additionally, risk factors are factors that may cause the risk event or outcome to occur, or make it more likely, while risk outcomes are the realisation of adverse outcomes themselves (OECD, 2011a).

reform. For example, case studies from the DRC, South Sudan, Myanmar and Haiti, show donors prefer to fund direct service provision and humanitarian assistance that provide minimal contribution to strengthening government systems (OECD, 2014: 33). Where greater programmatic risks are entertained, strategies to risk share and/or transfer to multilateral organisations and multi-donor pooled funds are commonplace.

Finally, **institutional risks** involve the internal consequences that may arise for the donor, implementing organisation and their staff. They include operational security risks to staff; financial loss due to corruption or mismanagement; and legal risks relating to compliance with international and domestic laws and regulations. All of these can cause harm to a donor's credibility. In this way, they are similar to the secondary reputational risks mentioned in Section 2.3. As Figure 1 shows, these three sets of risks are inter-related. For example, elevated security risks in violent contexts can require organisations to operate remotely, which can contribute to higher programmatic risks like the failure to coordinate, or weak awareness of needs that results in sub-optimal performance. This can also contribute to greater exposure to institutional risks like the misuse or diversion of funds.

**Figure 1. Copenhagen circles depicting risks in fragile states**



### **3.3 New ways of working in fragile states**

In the last decade, there has been a growing awareness that the elevated risks in FCAS require new ways of working. Prompted by both the growing number of states classified in this category and the modest results achieved within them, the OECD developed a set of ten engagement principles for actors involved in development cooperation, peacebuilding, state-building and security in FCAS. At least three of these underlined the value of donors taking context as a starting point in fragile states and adapting to local priorities. This same ethos is reflected in the Good Humanitarian Donorship principles that are meant to guide official humanitarian aid and serve as a mechanism for greater donor accountability.

At the Fourth High Level Forum on Aid Effectiveness held in Busan in 2011, providers of development assistance followed up on these principles with a New Deal for Engagement in Fragile States. The New Deal committed donors, civil society organisations and

g7+<sup>7</sup> states to three interconnected sets of goals (Table 1). The first set of objectives comprises specific peace- and state-building goals in fragile and conflict situations. The second set of goals outlines tools and mechanisms to achieve country-owned and country-led transitions out of fragility. These included the creation of a compact, specific indicators and political dialogue. The third group of objectives commits donors and recipient countries to building "mutual trust" and suggests practices and approaches that can achieve this (see also Hingorani, 2015; Nussbaum, Zorbas, & Koros, 2012). A commitment to joint risk assessments in particular is a way to build a shared understanding of contextual risks, as well as confidence and good faith amongst all stakeholders (OECD, 2014). Nonetheless, even if it is possible to develop such a common account of situations on the ground, joint risk assessments tend to have minimal impact on programme design and implementation because broad contextual analysis offers little by way of concrete guidance on how political risks should be managed in practice (Dodsworth & Cheesman, 2018). The process by which assessments translate into the actual 'management' of risk through concrete decisions about programme design remains a mysterious one.

**Table 1. The New Deal for Engagement on Fragile States (2011)**

<b>PSGs Peace- and statebuilding goals</b>	<b>FOCUS Engagement to support country-owned and country- led pathways out of fragility</b>	<b>TRUST Building mutual trust</b>
Legitimate politics	Fragility assessment	Transparency of aid
Security	One vision, one plan	Risks to be jointly assesses and managed
Justice	Compact	Use of country systems
Economic foundations	Use of PSGs to monitor progress	Strengthening capacities
Revenues and services	Support inclusive political dialogue and leadership	Timeliness and predictability of aid

<sup>7</sup> The g7+ is a voluntary association of countries that are or have been affected by conflict. The group was established to give a collective voice to conflict-affected states.

The New Deal marked an important policy consensus on the need to adapt development thinking and practice to the particular conditions of fragile situations (OECD, 2015: 131). This desire for a different form of engagement cannot be separated from wider efforts over the last twenty years to put political analysis and understanding at the heart of aid and development, first in a community of academics "Thinking and Working Politically" and later, in a more practitioner-focused group seeking to "Do Development Differently" (DDD). Signed by over 400 practitioners and sympathisers, the DDD manifesto advocates development interventions that are 'close to the ground, focused on solving problems that local agencies in governments and communities care about' (Box 1). DDD principles have inspired staff in development agencies, including Sida, DfID and USAID, to embrace and experiment with flexible operational models (Booth, Harris, & Wild, 2016; Yanguas, 2018).<sup>8</sup>

Adapting instruments, timelines and ways of working to conditions in fragile states is predicated on greater knowledge and understanding of local country realities. This in turn requires sensitivity to the ways donors and other actors intersect with conflict in the highly politicised environments of fragile states, as well as greater flexibility to accommodate recipient systems and fluid processes. It is this triumvirate desire for context sensitivity, flexibility and adaptability that forms the basis for suggesting there is a new consensus on the value of *contingent ways of working* in fragile states (Gulrajani & Honig, 2016; Honig & Gulrajani, 2017). Contingency theory is the name given to management approaches that place a premium on how contextual factors shape organisations (Burns and Stalker, 1961; Drazin and van de Ven, 1985; Lawrence and Lorsch, 1967; Perrow, 1967; Sauser et al., 2009). By definition, contingency theories cannot offer a single set of principles or grand theory of management; the best organisational approach depends on fit with the environment within which organisations must achieve their

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<sup>8</sup> Those within the DDD community might view political risk analysis like Political Economy Analysis (PEA) as a risk management tool (Dodsworth & Cheesman, 2018). Similar donor-specific tools include DFID's Drivers of Change and the Dutch Strategic Governance and Corruption Analysis (SGACA).

aims. Contingent theories seek to design systems appropriate to conditions and then make things work. This requires three things from organisations and are implicit in efforts to work differently in fragile states: an appreciation of context, an ability to adapt to this local environment and a commitment to remain flexible in the face of changing circumstances. Nonetheless, early evidence suggests a mixed record in advancing contingency principles (International Dialogue on Peace Building and Statebuilding, 2014; Nussbaum et al., 2012).<sup>9</sup> These disappointing results are likely to be driven by donor risk aversion, as we discuss below.

### **Box 1 Doing Development Differently Manifesto**

- 1 They (successful initiatives) focus on solving local problems that are debated, defined and refined by local people in an ongoing process.
- 2 They are legitimised at all levels (political, managerial and social), building ownership and momentum throughout the process to be 'locally owned' in reality (not just on paper).
- 3 They work through local conveners who mobilise all those with a stake in progress (in both formal and informal coalitions and teams) to tackle common problems and introduce relevant change.
- 4 They blend design and implementation through rapid cycles of planning, action, reflection and revision (drawing on local knowledge, feedback and energy) to foster learning from both success and failure.
- 5 They manage risks by making 'small bets': pursuing activities with promise and dropping others.
- 6 They foster real results – real solutions to real problems that have real impact: they build trust, empower people and promote sustainability.

Source: <http://doingdevelopmentdifferently.com>

## **3.4 Donor risk aversion within fragile states**

Notwithstanding calls to push development organisations working in FCAS to embrace informed risk-taking, balance risks against opportunities and generally embrace contingent ways of working

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<sup>9</sup> While a number of donors have new global policies on risk (Australia, Canada, Denmark, EC, Germany, Portugal and the World Bank are explicitly mentioned) and there is greater desire to use pooled funding instruments in FCAS to share risks, there has been less success securing adequate funding to set up joint UN risk management units and very few examples of joint risk assessments (International Dialogue on Peace Building and Statebuilding, 2014: 36-37).

(OECD, 2011b, 2011a, 2014; World Bank, 2014), donor risk appetites' remain highly constrained. Some argue the Western development sector suffers from general unease and aversion to risk (Alden, Large, & Mendez, 2017). This argument is in line with what sociologists put forward as the thesis of a modern "risk society" increasingly occupied with debating, preventing and managing risk (Beck, 1992). Three factors are commonly cited in policy literatures as explanations of risk aversion among donors operating in fragile states: global policy trends, the internal political economy of donor organisations and specific operational practices (OECD, 2014: 38).

From the perspective of the **global policy environment**, one might argue there could be no greater consensus on the importance of embracing the risks faced by a growing number of fragile states than at the current moment. Economic instability, climate change and conflict are intertwined global challenges generating migratory movements, natural disasters and global pandemics that disproportionately challenge fragile states. While recognising the importance of engagement in these contexts, donors can also be reluctant to do so. The growing incidence of violence, attacks and kidnappings against development workers dampens donor risk tolerance, as does the risk of violating international and domestic counter-terror laws (Stoddard, Haver, & Czwaro, 2016: 9).

Looking at the **political economy of bilateral donors**, there are even more obvious grounds for risk aversion. As already mentioned, the tendency to avoid risks is strongly linked to the imperative of accountability within the domestic environment, of which the delivery of measurable results, fiduciary integrity and operational security are significant manifestations. This can produce more conservative risk cultures inside donor agencies that require tight reporting and controls, reducing their scope for quick, flexible, locally-owned and innovative activities which are key to exploiting fleeting opportunities in complex, unpredictable settings (OECD, 2011: 17; World Bank, 2014). Reputational risks deriving from corruption are particularly challenging; for example in the UK a commitment to a zero-approach to corruption is uncomfortably matched with a desire to scale up investment in high-risk countries (Independent Commission for Aid Impact, 2016). And yet, one

does see higher risk tolerance from donors when recipients are deemed strategically important.

Finally, donor risk profiles are also driven by **operational choices** relating to choices about instruments and mechanisms. For example, providing budget support will be riskier than project aid, while engaging in multi-donor coordination mechanisms and results-based financing externalise risks to multilaterals and aid recipients respectively. Outsourcing implementation to third parties is another way to share risk burdens, though some implementing partners take a more sceptical view suggesting this is simply 'risk dumping' (OECD, 2011:17). Quick-disbursing vehicles may also suggest greater tolerance of risk, while strict safeguards and procurement rules are suggestive of risk aversion. Some donors tacitly acknowledge that normal rules and regulations be interpreted with a degree of latitude in fragile settings. Others rely on instruments and vehicles that may be more adapted to risky environments but may also be more restrictive in what they can achieve; for example, humanitarian or 'stabilisation' mechanisms may allow for speedier decision-making and devolved control but are restricted in terms of their scope for long-term institution building. Ultimately, operational choices derive from wider pressures that operate at both the global and domestic levels.

### **3.5 Moving towards flexible risk management**

As mentioned in Section 2.3, risk management has often represented a desire for tight control in environments of high uncertainty in order to fulfil accountability obligations. It responds to society's need for visible displays of the public sector's accountability for the responsibilities delegated to it by citizens. This can lead to an overemphasis on internal controls, auditing and blame avoidance. The quest to satisfy formal accountability demands through the practice of risk management works against the imperatives of working contingently, precluding real sensitivity to local conditions and dynamics; limiting a flexible bottom-up approach to decision-making; and reducing adaptability to

institutional realities. A former head of USAID publicly complained that pressures to reduce risk not only increased red tape, they increase the risks of failure:

Undertaking development work in poor countries with weak institutions involves a high degree of uncertainty and risk, and aid agencies are under constant scrutiny by policy makers and bureaucratic regulatory bodies to design systems and measures to reduce that risk. In practice, this means compromising good development practices such as local ownership, a focus on institution building, decentralised decision making and long-term program planning horizons to assure sustainability in order to reduce risk, improve efficiency [...] and ensure proper recordkeeping and documentation for every transaction (Natsios, 2010: 3).

Natsios argues a strong sense of responsibility for risk control undermines a donor's ability to respond flexibly to operational realities. But is this a naturally obvious outcome? As donor portfolios shift to include fragile states where risks are naturally elevated, will the imperative to control risk automatically outweigh the imperative of working flexibly? To what extent can risk management serve the dual imperatives of accountability and flexibility in a mutually reinforcing, rather than zero-sum, fashion?

To answer such questions, we return to literatures of public management that suggest that the imperatives of flexibility and accountability are fundamental to all arenas of public life (Feldman & Khademian, 2001; Khademian, 2010). Public managers are increasingly required to operate in an adaptive, decentralised and networked manner to address the most challenging problems of society. Flexibility, however, can challenge structures or procedures that have traditionally legitimated the expenditure of funds or exercise of government authority by providing a sense of direction and accountability for public organisations. Flexibility tampers with these established practices and can create a degree of public discomfort with the risks run.<sup>10</sup>

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<sup>10</sup> NPM was partly about ensuring flexibility but still preserving accountability through results-based management. This, however reduced accountability to a

As Feldman and Khademian (2001: p. 360) write, "[I]f flexibility is becoming essential, the public is still not willing to forsake accountability to achieve it". Citizens thus continue to demand accountability for the use of taxpayer money and the state's delegated powers, requiring openness to scrutiny and authoritative accounts of performance. The "modern management dilemma" thus involves finding alternative forms of accountability that allows for flexibility of action (Feldman & Khademian, 2001: 339). Accountability and flexibility must both be grappled with in contemporary life as they cannot be separated in practice. Managers make choices on how they will approach and navigate this duality and meet joint demands for both. While accountability and flexibility will always lie in productive tension with one another, they do not necessarily need to be traded-off.

Our sense is there are unexplored opportunities to explore the accountability/flexibility dilemma in the context of risk management practices in publicly funded bilateral development agencies. At the discursive policy level, development agencies have embraced the importance of a flexible approach to the management of the risks governing fragile states. Contingent ways of working are supposed to be the new normal in these unpredictable environments. And yet, most donors remain risk averse creatures with tight controls for translating development uncertainty into risks that can be articulated, calculated and mitigated (Tyrrel & Cole, 2016). Does Sida fit in the category of "risk-averse donor" or is it striving to "do risk management differently"? What is the balance Sida strikes between the twin aims of responsibility and responsiveness in the uncertain operational contexts of fragile states? These questions provide an anchor point for the rest of our empirical investigation.

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simplicistic 'bottom line' calculation, potentially sacrificing other important managerial accountabilities relating to process.

## 4 Research design and process

### 4.1 Introduction

Interpretive research, it is said, is "demanding, for it requires us to convince others that all analysis is partial, but that our own is compelling" (Fielding, 1988: 7). This study is anchored in such interpretive qualitative research methods. We seek to build authenticity in our account, plausibility in our conclusions and criticality by stimulating reflection and alternative understandings (Brower, Abolafia, & Carr, 2000: 368-9). A mix of qualitative methods are used to gain an empirical handle on the accountability-flexibility dilemma as relates to risk management within the development ecosystem in Sweden, and more specifically within the organisational context of Sida. Such a mixed methods approach is especially useful for capturing different dimensions of the same phenomenon, which can also validate our interpretations of the empirical material.

### 4.2 Methods for data collection

#### 4.2.1 Scoping interviews

Our qualitative mixed-methods approach consisted of a three-stage process. In the first stage, it involved a series of semi-structured interviews, conducted for the most part in-person in March 2018 in Stockholm with both authors present. Given the resource limits and time constraints of the study, we needed a way to restrict our informants to those most relevant to our areas of interest. We reached out to stakeholders from Sida, the MFA and other government actors, guided in discussion with the EBA reference group. We also did a general directory/Google search to identify staff in key organisations and functions of interest, as well as emailing individuals directly when referred by other interviewees. We were thus deliberately directed towards informants with direct

experience or interest in our research questions. Given our interest was in understanding lived experience and understandings to questions relating to risk management in Swedish development cooperation, we believe this was an appropriate sampling strategy to adopt.

In the scoping phase, we had conversations with 13 people over three days of meetings after requesting 24 interviews (See also Annex 1). While a hit rate of over 50% of desired informants is not a poor result in this phase, we were dismayed that many were unwilling to talk with us or simply did not respond to our invitation to participate in this study. We noted a particular aversion to participate amongst those charged with compliance functions like audit and procurement.<sup>11</sup> We believe such reluctance to engage amongst this community of stakeholders that could ostensibly be served by the findings of this study may be of empirical significance, particularly because there was low participation among compliance departments in the second focus group stage as well.

In July 2018, after the inception report had been reviewed and the EBA reference group made some requests to prospective interviewees on our behalf, we conducted a further three interviews over the phone with senior Sida staff. We fully acknowledge that our roles as EBA researchers likely resulted in a degree of selection bias in our sampling, encouraging some to talk to us but also potentially dissuading others from engaging with the study.

#### **4.2.2 Focus groups**

In the second stage of the study, we conducted focus group discussions to help refine our understanding of the risk management systems and processes in place and the politics within which their

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<sup>11</sup> Interestingly, in written responses to the draft report Sida staff suggested that over-burdened staff and shared accountabilities for 'risk management' may have contributed to this reluctance to speak with us. One person also suggested our invitations to her were sent at very short notice. We doubled checked this claim and note we first contacted this person on February 28, 2018 for a meeting on March 19-20, 2018, thus giving almost three weeks' notice of our desire to speak to her.

use is situated. After a discussion with the Reference Group in our initial review meeting, we selected participants from three main stakeholder communities to form the backbone of these focus groups:

- Heads of Development Cooperation based at Swedish embassies in fragile countries;
- Staff with control functions at Sida, including procurement, controllers, legal staff;
- Swedish non-governmental organisations that implement or engage in Swedish-financed activities in fragile contexts.<sup>12</sup>

Our three focus group discussions took place in Stockholm at the end of August 2018 and coincided with Sida's Annual Directors' Meeting that brings together field-based Heads of Development Cooperation. In populating these groups, we sought to ensure that group participants were at similar level of seniority so that thoughts and experiences could be easily shared (Liamputtong, 2011). Each focus group lasted between 70 and 110 minutes.

Altogether, we had six participating Heads of Development Cooperation, two Sida staff with control functions, and four representatives from the Swedish NGO community. 40% of initial invitees took up our offer to join these groups. A number of reasons may lie behind this lower than expected turnout.<sup>13</sup> There is also reason to believe that scheduling the discussions during Sida's Directors' Meeting may have reduced the availability of some staff. For example, we had to cancel the focus group we had planned to conduct with senior policy staff at Sida due to timetable clashes, though this is mitigated by the fact that we had already conducted

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<sup>12</sup> While we had also envisioned an additional focus groups with stakeholders from other government departments, including the Ministry for Foreign Affairs, the Ministry of Finance, the National Audit Office and Folke Bernadotte Academy, as we narrowed the scope of our study on Sida we recognised these would have less value.

<sup>13</sup> For example, we conducted one interview with someone who did not feel comfortable participating in a focus group in English.

interviews with most of these invitees in phase 1. Smaller groups also allowed participants to explore issues in greater detail and depth. A clear benefit of hosting these focus group during the Directors' Meeting was it allowed us to have face-to-face meetings with field-based staff and engage in dialogue with staff from different regions and contexts. Despite a lower than desired turnout, the sum total of our meetings and interviews left us with findings that we believe remain robust, authentic and plausible.

### **4.2.3 Illustrative examples**

After the inception phase of the study, we were recommended to anchor our analysis in a practical example of a Sida contribution or sectoral engagement in a fragile context, as well as some analysis of comparative donor approaches in risk more generally. Thus, in stage three of the research, we sought to introduce greater empirical nuance into the study by providing illustrative examples of the phenomenon we were examining.

For the purpose of putting Swedish risk appetite and risk systems in a global context, we conducted telephone interviews with officials in the risk management units at DfID, Norad and USAID in August 2018. This allowed us to introduce some understanding of the varying ways DAC donors are dealing with similar challenges.

To identify a practical example of Sida engagement in fragile settings, a handful of countries were suggested by the Reference Group where Sida has had long-term and substantial engagement (Afghanistan, Bangladesh, Somalia, Ethiopia). Based on an initial analysis of these countries, we decided to focus on one contribution in Afghanistan. We were limited to a single contribution given time and resource constraints and would have ideally liked to have added others. It is for this reason we believe this study is more exploratory than it might otherwise have been.

Afghanistan is the top recipient of Swedish aid with larger amounts of aid inflows than the other three suggested countries. Sweden also has a five-year strategy in place that frames its engagement in that country and allows for greater understanding of

Swedish attitudes to risks faced. Moreover, we had already held a meeting with the Head of the Afghanistan Unit in Stockholm during the scoping phase who responded positively to our study. We received further validation for this choice in the three interviews we conducted with senior Sida staff in July.

To select a contribution in Afghanistan to examine, we wanted to maximise the degree of input and control Sida exercised over the contribution. A large share of Sweden's aid to Afghanistan is channelled through multilateral organisations and multi-donor funds, such as the World Bank Afghanistan Reconstruction Trust Fund. Focusing on these pooled aid vehicles, however, would not have shown the full range of Sida's risk management choices and the changing nature of its risk appetite.

During our visit to Stockholm in August, we had two meetings with the Head of Development Cooperation at the Swedish Embassy in Kabul, one of which was joined by the Head of the Afghanistan Unit. They suggested that we focus the case study on one long-term contribution (managed both in Trac I and Trac II) on reproductive health and rights. The contribution is called 'Increasing access to reproductive and maternal and child health services' and is being implemented by the international NGO Marie Stopes International (MSIA). We settled on this contribution after an initial meeting with the Sida programme officer in charge of the contribution. We reviewed both Trac entries and other relevant project documentation. We then conducted an interview with the current and the former programme manager overseeing the contribution.

### **4.3 Methods for qualitative data analysis**

Our aim in analysis is to validate our results through both a triangulation of methods cutting across semi-structured interviews and focus group discussions and a triangulation of sources ranging from primary first-person sources and secondary sources covering academic and policy literatures. Our interviewees and focus group participants acted both as informants on the changes/dynamics/systems/processes within Sida, as well as respondents with opinions

and understandings about the practice of risk management and opportunities for its improvement.

### **4.3.1 Primary source #1: Semi-structured interviews**

Our interviews broadly sought to explore four broad thematic areas that touched upon: (1) the scope of the study and the lived experiences of the interviewee dealing with risks within the fragile states agenda; (2) the management of risk to gauge the kinds of processes, instruments and mechanisms associated with risk control; (3) reflections on the risk appetite of the organisational and institutional context and where differences in perception and attitudes to risk might be drawn; (4) recommendations for improving the status quo as related to risk management; and (5) suggestions for others to talk to or texts to consult. All interviews were recorded and transcribed (except for two where we were explicitly requested not to). In the first instance, we thematically coded interviews based on our research questions, which allowed us to internalise, organise and iteratively compare the text using qualitative data software package MAXQDA. These interviews provided the bulk of the empirical material for understanding changes in Sweden's risk culture; the nature and quality of the formal risk management system; and the fault lines of the accountability and flexibility dilemma inside Sida.

### **4.3.2 Primary source #2: Focus groups**

Our three focus group discussions with different stakeholder groups encouraged reflections about their experiences managing risk in fragile states and of the risk management systems Sida has in place. This research method was chosen due to its strength of uncovering aspects of understanding among participants that often remain hidden in more conventional interviewing methods (Liamputtong, 2011). Another justification for choosing the focus group methodology is that it allows the participating individuals and groups to be more involved in the project, which increases the

likelihood that this research will be of use to different stakeholder groups (Liamputtong, 2011). Seeing that this study looks at changes that are happening at Sida in real time, engaging the various stakeholder groups in this way seemed especially timely. In a fashion similar to the scoping interviews, we audio and video recorded each focus group, coded and analysed the transcripts through the MAXQDA software package.

The focus group discussions encouraged a free debate with ideas emerging from and bouncing off the interactions among participants. The small size of the groups provided room for all participants to speak and to explore issues in greater detail. The discussions sought to confirm findings from the scoping interviews regarding the nature of Sida's risk cultures and its emergence and where the balance is in managing risks between control and flexibility. Nonetheless, our principle aim was to have a free flowing conversation on the ways the practice of risk management in Sida could be further refined and improved. These views informed, but did not dictate, our recommendations for improving Sida's management of risk in fragile states in the final chapter.

### **4.3.3 Primary source #3: Afghanistan interviews**

As mentioned above, we conducted a semi-structured interview with the current and the former Sida programme manager for the chosen Sida contribution in Afghanistan. We sought to gain an understanding of (1) the content of the contribution; (2) the context in which it is implemented, and (3) changes in the contribution over time. We were particularly interested in hearing about the programme manager's perspective on what enabled the contribution to grow in both scope, scale and risk appetite given high contextual, programmatic and institutional risks in Afghanistan. Through this case, we also sought to assess the ways Sida navigates its dual commitments to both accountability and flexibility in the context of a single contribution. This helped us identify both the kinds of flexibility that are permissible in practice and the red-lines and challenges that continue to exist. As in the case of the scoping stage, these interviews were recorded and analysed using MAXQDA.

#### **4.3.4 Primary source #4: Interviews with other donors**

The main purpose of these interviews was to gain a sense of (1) the authorising and operating environment for risk taking by other bilateral donors, including changes over time; (2) the appetite other donors have for different types of risks, and (3) the systems they have in place to manage risk. All telephone interviews with staff working in risk units at Dfid, Norad and USAID were transcribed and coded using MAXQDA.

#### **4.3.5 Secondary sources**

Apart from interviews and focus group discussions, this study has involved a close reading of secondary sources. Among academic resources, we have sought materials that dealt with the topic of risk and accountability approached through the lens of public management. Public management theory thus represents the main theoretical anchor for this study. Public management is both 'craft, science and profession' that involves the practice and study of arrangements for the provision of public services and executive government (Hood, 2005; Hood, 1991). We explicitly sought texts within key journals of the discipline relating to the topic of risk and accountability, especially those that dealt with international development. This review was supplemented with applied policy research relating to risk and fragile states, which largely drew on publications from the World Bank, OECD and various think tanks. Finally, we drew on grey literatures published by Swedish government departments to understand key regulations, policy statements and policy processes. This included annual reports, articles in Swedish media and discussions pieces on online forums,<sup>14</sup> all read in their original Swedish.

For the exploration of the Sida contribution in Afghanistan, we obtained Sida documentation, including appraisal documents from Sida's contribution management system, Trac (the first and the updated version), as well as programme documents from the partner

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<sup>14</sup> See [www.bistandsdebatten.se](http://www.bistandsdebatten.se).

organisation. We supplemented the reports we were given directly by Sida with a number of contribution-related documents found on the Swedish aid portal, [Openaid.se](http://Openaid.se). These documents together with the transcribed interviews provided the backbone for our analysis of the contribution. The analysis was further supplemented with reports on development cooperation in Afghanistan by Sida and the Swedish government, as well as academic and grey literature on Afghanistan.

Finally, regarding the donor-comparative element of the study, we supplemented the transcribed interviews with a small number of policy documents that we obtained from our interviewees.

# 5 Swedish risk attitudes and revealed preferences

## 5.1 Introduction

We are arriving at this study at an interesting time for Swedish development cooperation. Having gone through a period where emphasis has been strictly placed on providing control functions to meet public accountability demands, the pendulum is shifting to greater political acceptability of risk. But understanding this shift requires some wider knowledge of the institutional and political environment within which Swedish development cooperation is embedded. This is because development agencies respond to the shadow of their authorising environments, the shadow being the threat of possible future authoriser sanctions (Honig, 2018a). Some development agencies will have longer shadows than others, which can be the basis for risk averse cultures. Section 5.2 presents this authorising environment based on the reflections of our interviewees. In section 5.3, we explore how this authorising environment provides the backdrop for a shift in Sida's risk culture. In section 5.4, we undertake a portfolio analysis of Swedish ODA investments in fragile states over 2010-2016 to understand if Sweden's increased risk appetite is reflected in its allocation decisions.

## 5.2 The authorising environment for risk in Sweden

Political authorising environments can have quite substantial impacts on development outcomes. Authorising environments are the "collection of actors to whom organisations are accountable." (Honig, 2018a: 41-43). There are many reasons for cross-national variation in authorising environment: political culture and institutions, historical trajectories, different identification with aid as a tool of foreign policy, differing levels of political support. In what

follows, we attempt to trace evolutions in the Swedish authorising environment for risks taken in the public sector.

Sweden has a reputation for embracing innovation and experimentation in its development cooperation. A Scandinavian tradition of constitutional dualism empowers its implementing agencies (Niklasson & Pierre, 2010; Yesilkagit & Christensen, 2010). Sweden has evolved a "living Constitution" that accepts agencies can and do play a role in policy formulation, and where informal and frequent contact is expected between policy-setting ministries like the Ministry for Foreign Affairs (MFA) and implementing agencies like Sida and the Folke Bernadotte Academy (FBA). Nonetheless, around 2006, political and regulatory pressures placed this autonomy under strain (Gulrajani, 2017).

In 2006, the election of a centre-right alliance government marked an important change in the authorising environment for public management. The fledgling government introduced new regulation on internal steering and control across the public sector (Government of Sweden, 2007: 603). Within this, there is also reference to another regulation applicable to government agencies which stipulated strengthening control measures to ensure agencies handled public funding responsibly (Government of Sweden, 2007b). This latter regulation required risk analysis be carried out with a view to reducing non-compliance. Risk analysis, control measures and follow-up were all expected to be verified and documented. Overall, these regulations, which still exist, pivoted all public agencies towards a control and compliance mindset.

The bylaw had a huge impact... it was a very important turning point and I think it had more implications for Sida than for everyone else... It was all we talked about for a couple of years. (Interviewee 3)

Beyond these control regulations, there was a simultaneous demand for greater quantitative measurement and assessment of all public activities. As has been extensively documented, results-based management became a major anchor for the public sector during this time (Vähämäki, 2017; Vähämäki, Schmidt, & Molander, 2011).

What has happened is that the government has asked for more and more statistics on output and outcomes, and that is also a way of regulating and steering. When you ask for statistics on a certain variable the agency will give priority to that. (Interviewee 2)

In more recent times, a backlash emerged against tighter internal controls and performance structures introduced in the Swedish public sector. A series of newspaper articles concerning the state of public management within the Swedish health system gave voice to growing frustrations with public sector reforms more broadly (Zaremba, 2013). The media debate crystallised growing criticisms of heavy administrative burdens, lack of trust, and limited professional space for expert judgement.

After winning the 2014 election, the Social Democratic and Green Party coalition government capitalised on public discontent with the state of public service. The Statement of Government Policy by the new government from October 2014 prioritised administrative policy and agency governance. Specifically, it underlined that "*public sector professions need to be strengthened. New management models that create greater freedom for public sector workers will be developed.*" (Government of Sweden, 2014). In February 2016, the government gave *Statskontoret* a mission to map, analyse and propose directions for improving trust in public sector management. In June the same year, the Minister for Public Administration, Ardalan Shekarabi, launched a Delegation on Trust (*Tillitsdelegationen*) as part of a broader reform (Government of Sweden, 2016). The purpose of *Tillitsdelegationen* was to facilitate a platform for dialogue between academia and the public sector and suggest good practical examples to inspire local-and regional governments and agencies to build trust into the fabric of their management systems. It has no formal authority but a mandate to propose administrative and control models for the Swedish public sector based on building and fostering trust. These models are expected to integrate the knowledge and experience of employees and contribute towards a higher quality of public service. *Tillitsdelegationen's* focus is to bring about cultural change within Swedish public organisations, rather than promulgate or reform legislation.

It's very interesting because it's just talk, although you shouldn't underestimate talk. Perhaps you could call it a reminder 'Please remember that when you're nervous you don't need to implement more control. Perhaps you should avoid that and instead try to trust the employed or the professionals'. (Interviewee 2)

This institutional environment in Sweden provides the backdrop for a transition in public sector values that has gradually moved away from a control and compliance ethos towards values that embrace trust and learning. Our interviewees suggested, and we believe, this shift provides a propitious political authorising environment for risk-taking in Sweden, giving its public sector greater space and flexibility to discharge its mandate by validating the importance of professional expertise and judgements.<sup>15</sup>

I think the risk appetite has probably increased somewhat. I think political signals influence this a lot and that is because there are so large reputational risks to development cooperation and we depend on the Swedish public being in favour of development cooperation. (Interviewee 7)

The transition experienced in Sweden is particularly notable considering the institutional environments governing other Western democratic countries. For example, in the UK, the authorising environment arguably remains anchored in a control and compliance mindset. Fiscal austerity is the backdrop for a public sector oriented towards satisfying perceived public desire for value-for-money. These challenges are particularly acute in the development sector, where anchoring the 0.7% ODA/GNI commitment into law has increased scrutiny of the aid budget in the media and across government.

In the UK, there is an extremely tight system of audit and accountability in our aid funding and it's often in the news.

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<sup>15</sup> Interestingly, in written feedback to this report one Sida official suggested 'this does not provide the full picture', because: "Tillitsdelegationen" also talks about the rule of law and the values of state officials that also serve as input to the new public management. It is about avoiding unnecessary controls and too detailed steering." We do not believe this fundamentally contradicts the view of our interviewees, however.

We're always under threat as the UK government makes budget cuts elsewhere and we're one of very few countries that has made the 0.7% commitment. So, there is a public trust and accountability element. (Interviewee 15)

To mitigate cuts to their own budgets, cash-strapped departments seek access to ODA allocations of the Department for International Development (DfID) that puts pressure on the definition of ODA itself (Gulrajani, 2017). In this hostile environment, a 2014 audit found "important weaknesses in DfID's overall risk management system" (Independent Commission for Aid Impact, 2016: 1). The difference with Sweden's authorising environment is perhaps best encapsulated in the differential approaches to the Oxfam safeguarding scandal (Box 2). This comparative vignette suggests important differences in the institutional and political environments in the UK and Sweden, illustrating how this environment can act as an important influence on operational decisions when risks materialise.

### **5.3 Transitions in Sida's risk culture**

Within this authorising environment stands Sida, the primary agency of the Swedish government for delivering its development policy objectives. Sida's risk culture is widely perceived by staff as having undergone a parallel transition to the one in Swedish society, with the organisation's propensity to take risk growing alongside a decline in the formalism and managerialism of NPM. We briefly explore staff perceptions inside Sida about this shift below.

#### **5.3.1 Looking back: Sida's era of compliance and control**

Gunilla Carlsson, former Minister for International Development Cooperation, was largely credited with strengthening Sida's internal control systems and a stronger adherence to results-based management. A new policy statement on Sida and results was the counterpoint to the new public-sector regulations introduced in 2007. Sida's development interventions were now expected to be

clearly and transparently documented in order to "facilitate accountability" (Sida, 2007: 11). Internal working processes were to be subject to the same results-oriented logic as development programmes and projects supported by Sida.

Demands for tighter control and monitoring of the project cycle were met with resistance at Sida. In 2008, Sida received an "objection" for their annual report.<sup>16</sup> Reports in the media that Swedish funds had been stolen resulted in Gunilla Carlsson openly criticising Sida for its poor administration, resulting in a strong desire to control and minimize corruption in what was commonly viewed as a 'zero-tolerance' approach.<sup>17</sup> In 2009, the minister received two letters: one from five of Sida's department heads and a Christmas letter signed by 172 staff members at Sida that declared staff were 'groaning under increasingly grotesque requirements that everything must be documented.[with] requirements becoming so extensive that time is hardly allowed for making wise assessments' (Vähämäki, 2017).

The Minister for Development Cooperation was not the only actor in the government to put pressure on Sida to be more accountable. Despite reforms at Sida, the organisation had reported deficits in its internal budget to the dissatisfaction of the government. Consequently, in 2010, the government replaced Sida's Director General and appointed a new Deputy Director General, formerly of the Ministry of Finance, that reduced staff numbers by 25 per cent (Vähämäki, 2017). Over 2008 to 2012, Sida was intensely scrutinised and criticised by the NAO and was pushed to reform its

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<sup>16</sup> The NAO conducts annual audits of about 250 Swedish agencies. These audits report errors and mistakes to the agencies and to the government. In cases where an error is so great that the annual report cannot be judged as correct, the agency gets a so-called objection (*invändning*). Objections are given relatively rarely and represent the harshest form of critique.

<sup>17</sup> Carlsson was noted in the media to have "acted with rock-hard zero-tolerance against corruption." (Lönegård, 2009) It has been similarly noted that "Carlsson's leadership was based on a few simple principles: short-term results and zero-tolerance against corruption (Egerö, 2012). After a corruption scandal in Zambia involving Sida broke in August 2018, the Head of Development Cooperation at the Swedish Embassy in Lusaka was quoted to have said "We have zero-tolerance against corruption. If money has disappeared they must be paid back." (Gårdemyr, 2018).

management and control systems (Vähämäki, 2017). One of the things the NAO criticised Sida for was not having carried out adequate risk assessments in their contributions (Riksrevisionen, 2009).

Although the Director General always said that we should be brave and take risks and so on, the whole system was against that. (Interviewee 3)<sup>18</sup>

Having been heavily criticised by the minister, the government, the NAO and in the media, Sida actively sought to regain legitimacy. In such a political environment, it could only logically do so by becoming more compliance- and control-oriented. Controllers gained a much more prominent function at Sida around 2010. Displaying control over risks was critical for regaining the confidence of Sida's risk stakeholders, as well as illustrating compliance with the results agenda. Sida employees were acutely aware of the symbolism of risk management in this period.

Some of the risk management procedures, using matrices and grading risk, is a bit of a show off. It looks like we've done a very thorough and sound analysis, but its function is more about looking good and protecting ourselves from criticism. So, in a way, when the auditor comes, or a scandal erupts, it's safer to have it there on paper. But, other than that, it doesn't really do anything for you in practice. It takes a lot of time and it's useless. (Interviewee 3)

### **5.3.2 Renewing Sida's risk culture: increased risk appetite**

During our scoping interviews, we sensed that Sida had moved from a position of low legitimacy to one of strength. Individual staff within Sida have sought to inculcate the values of "Doing Development Differently" that has pushed the organisation to think

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<sup>18</sup> Interestingly, in feedback on the draft report a Sida official reacted to this quote by saying "I believe the criticism was not so much about taking risk but more to be transparent and document the risks you were taking. The problem was more that we did this in different ways and there wasn't a uniform approach."

about how to introduce and mainstream contingent ways of working. Sida's management group is now exploring how to adapt the policies and practices of the entire organisation to fragile contexts, particularly in terms of staff recruitment, security policy and third party monitoring.

We are moving toward a learning-based management and we try to work more with qualitative methods in line with adaptive management and shorter term objectives. I think there's a lot of experimentation going on right now. [...]. Now, with a new Director General, there is more risk appetite for sure. You are coming at a time when there is a big shift. (Interviewee 3)<sup>19</sup>

I think that there is a risk appetite if we talk about the will of doing new things and try to capture opportunities that turn up where you maybe don't have as much information but that these opportunities are crucial for development. And, I think the development of our assessment system has taken place because we have seen that to be responsive you have to have this flexibility. (Interviewee 4)

While Sida may now exhibit greater risk appetite, there is reason to believe there is variation in this appetite across the organisation. For example, in our focus group with Swedish NGOs in receipt of framework funding, due diligence procedures like the Internal System Control Review (ISC)<sup>20</sup> were claimed to not be a widely accepted standard across various Sida sub-units, resulting in some departments coming to different conclusions about partner capacities:

The level of risk appetite and flexibility depends very much on the part of Sida that we're working with. I must say that the way CIVSAM is working with us as partners when it comes to risk

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<sup>19</sup> While this does not undermine the validity of the informant's interpretation, in feedback to the draft report it is worth noting a Sida reviewer suggested this quote was a "misrepresentation of the previous Director General".

<sup>20</sup> Risk assessments are mandated within Sida grant agreement template in a process known as Internal System Control Review (ISC) of partners. All NGO and INGO partners are subject to ISC reviews every few years, and this is Sida's process of vetting and assessing its partners' administrations and internal systems.

management is very good. I like the way they are doing system audits. Once they trust our systems there's a huge flexibility, and we have a lot of dialogue and we can make changes. As long as they can see that we have a good risk management system in place with local partners then there's a big flexibility. We also have new funding from the peace department at Sida which is more stringent than CIVSAM21 on the programmatic details they require. Also, the Humanitarian Unit is very tightly focused on indicators and achieving the results you set out to achieve. (NGO Focus group)

Generally, among Sida staff there is a widespread perception that it now possesses a risk tolerant organisational culture. This shift in orientation is broadly welcomed across the organisation, with hardly any dissent explicitly expressed in our interviews. As such, we would argue Sida's risk culture is now socially and cognitively embedded in the minds of staff.

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<sup>21</sup> The Sida Unit responsible for support to civil society

## Box 2 The Oxfam scandal: what it tells us about comparative attitudes to risk in Sweden and the UK

The Oxfam safeguarding scandal erupted in February 2018 when The Times newspaper published a front-page article with the headline: "Top Oxfam staff paid Haiti survivors for sex". The article alleged that Oxfam covered up claims that senior staff working in Haiti in the wake of the 2010 earthquake used underage prostitutes.

The controversy was widely reported in Swedish media. In mid-February, Sida's Director General, Carin Jämtin, responded to media criticism about not having acted in 2008 (when Sida received warning signals about behavioral issues concerning the Oxfam person in the centre of the scandal) by saying that Sida now had processes in place which would make the agency act if similar information about safeguarding issues reached Sida today (Jämtin, 2018b). The Minister for International Development, Isabella Lövin, when prompted, said that she would write to UN organisations to make sure that the issue of safeguarding received the highest attention. She referred to a few 'rotten apples' within the aid sector but did not criticise Sida systems or staff (TT, 2018a). While senior Sida leaders spoke to the media, they reiterated that this was an issue with one employee out of 10 000 Oxfam staff and that pausing funding would affect 250 000 people. They nonetheless suspended disbursements to investigate whether this was a one-off occurrence. Oxfam was asked to report on all cases of sexual abuse/exploitation from 2010 (100 cases over a decade) and provide information about how these were dealt with. The proportion of cases reported felt sound to Sida, and by mid-March, it had reinstated funding to Oxfam (TT, 2018b).

Sida is now undertaking a comprehensive overview of all the ethical guidelines in their strategic partners. Sida's handling of the scandal displayed that they had a "systematised way of addressing the scandal ...we can show that we are dealing with risks in a serious way" (Interviewee 4). While it prompted a discussion within Sida about safeguarding procedures, it did not spark a rush of additional controls or raise questions about its work with its other partners. Some suggested this was trust in action because "Sida thought that it was perhaps possible to trust Oxfam again because, in general, they have professional personnel and they have routines for internal control so you can trust them (Interviewee 2). Sida could avoid rushing to conclusions, notwithstanding high levels of media attention. Sida's arm's length distance as an implementing agency and the fact that Oxfam is an international NGO, rather than a Swedish one, may have given it space to resist political pressures too.

By contrast, in the UK, the scandal created ripples in government and beyond. Following the piece in The Times, Culture Secretary Matt Hancock ordered Oxfam to hand over all the evidence to the Charity Commission, which regulates the non-profit industry. The Commission, in turn, opened a statutory inquiry into Oxfam, which is the most serious action it can take. Oxfam CEO Mark Goldring and two other senior executives were, at the end of February, summoned to appear in front of Members of Parliament at the International Development Committee (BBC News, 2018). The International Development Secretary, Penny Mordaunt, responded with an assortment of remedial actions. First, funding to Oxfam was

withdrawn by DfID until it could meet the "high standards required". At the time of writing, funding remains suspended. Secondly, the scandal got safeguarding onto the political agenda and in early March, the Charity Commission co-hosted a summit on safeguarding to drive up sector standards. Finally, the Oxfam case prompted a desire for more controls of the charity sector and for reform to DfID's procedures vis-à-vis this sector, including:

- The establishment of a new Safeguarding Unit in DfID to urgently review safeguarding across all parts of the aid sector;
- DfID to put in place new, enhanced and specific safeguarding standards for organisational partners; new funds from DfID would not be approved unless they conformed to these new standards.
- The appointment of Sheila Drew Smith, a recent member of the Committee on Standards in Public Life, to bring her expertise to support DfID's ambition on safeguarding; and
- Writing to every UK charity that receives UK aid insisting that they set out the steps they are taking to ensure their safeguarding policies are fully in place (Government of the United Kingdom, 2018).

Though the Oxfam controversy was closer geographically and institutionally to DfID than to Sida, we believe these distinct responses underline significant differences in each country's authorising and operational environments.

## 5.4 Sweden's revealed risk preferences in its fragile states portfolio

If the institutional and organisational environment in Sweden now embraces a more tolerant attitude to risk, to what extent is this shift reflected in its operational choices in fragile states? By undertaking an empirical analysis of Sweden's aid allocation to fragile states over 2010-2016 (the latest data available at the time of analysis), we ask whether the operational choices represent growing risk appetite in the Swedish development ecosystem. The intention of this analysis is not to compare variation in risk appetite across Swedish investments in FCAS and non-FCAS, nor engage in specific cross-national comparisons. These ODA figures include spending by all Swedish government departments and agencies unless otherwise indicated.<sup>22</sup> We compare Sweden's allocations to fragile states to the DAC average to understand its revealed approach to risk faced in these contexts in comparative perspective. We accept there are limitations to such an analysis, including data lags between policy change and allocation decisions, and acknowledge that portfolio composition can reflect many variables beyond risk appetite.

To undertake this analysis, we require agreement on which countries should be included in the category of 'fragile and conflict-affected state'. Lists of FCAS vary considerably, and different definitions have produced different groups of states. However, there is some consensus on a core list of 36 FCAS, as detailed in Shephard et al. (2016).<sup>23</sup> Our analysis is built around this list of 36 states and assumes that this list does not change over time. Within the FCAS category, there is also a sub-group of 13 SCAPS (severely conflict-affected poor states) that are listed in bold in Table 2 below.

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<sup>22</sup> While the MFA may have greater policy setting powers, the budgetary power of Sida is almost double that of the MFA. Sida represents roughly 50% of ODA spending by Sweden. In 2017, 15 additional government departments and agencies disbursed ODA funds. See <https://openaid.se/aid/2017/#orgs>

<sup>23</sup> Specifically, states that are included in four or more of the nine lists of fragile states. See Annex Four in Shepherd et al. (2016)

**Table 2. List of 36 Fragile and Conflict-affected States**

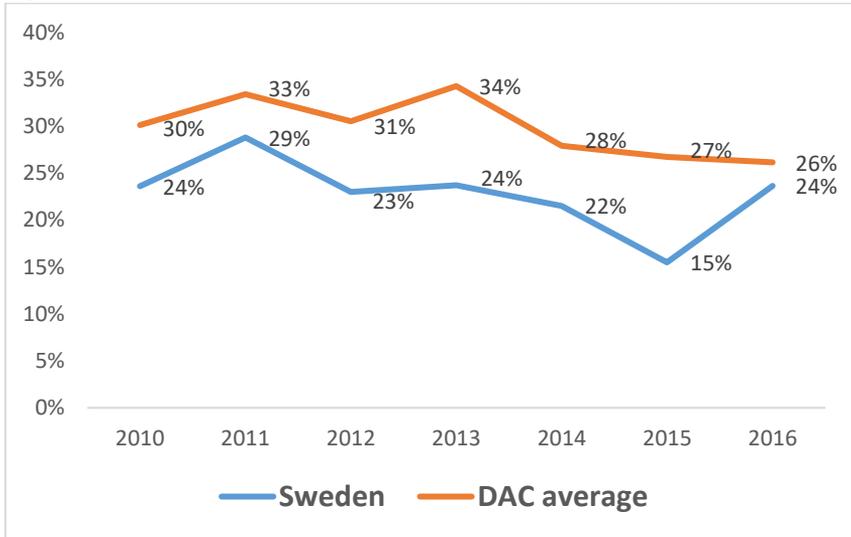
Afghanistan	Iraq	Uganda
CAR	Niger	Cameroon
Chad	Nigeria	Côte d'Ivoire
DRC	Pakistan	<b>Liberia</b>
Mali	Eritrea	Nepal
Myanmar	<b>Guinea</b>	Rwanda
<b>Somalia</b>	Zimbabwe	Syria
<b>South Sudan</b>	Ethiopia	Bangladesh
Sudan	<b>Haiti</b>	Egypt
Yemen	Kenya	Korea. Dem. Rep.
<b>Burundi</b>	Libya	Madagascar
<b>Guinea-Bissau</b>	Mauritania	<b>Sierra Leone</b>

Notes: States in bold are also SCAPS.

Source: Shepherd et al., (2016)

Swedish Official Development Assistance (ODA) to these 36 FCAS countries constituted 24% of all aid flows in 2016 (Figure 2). This was a considerable increase from 2015 but in line with previous years, and close to the 26% allocated by the DAC. In 2016, 10% of Sweden's ODA allocation was provided as humanitarian assistance, in contrast to 8% by the DAC.

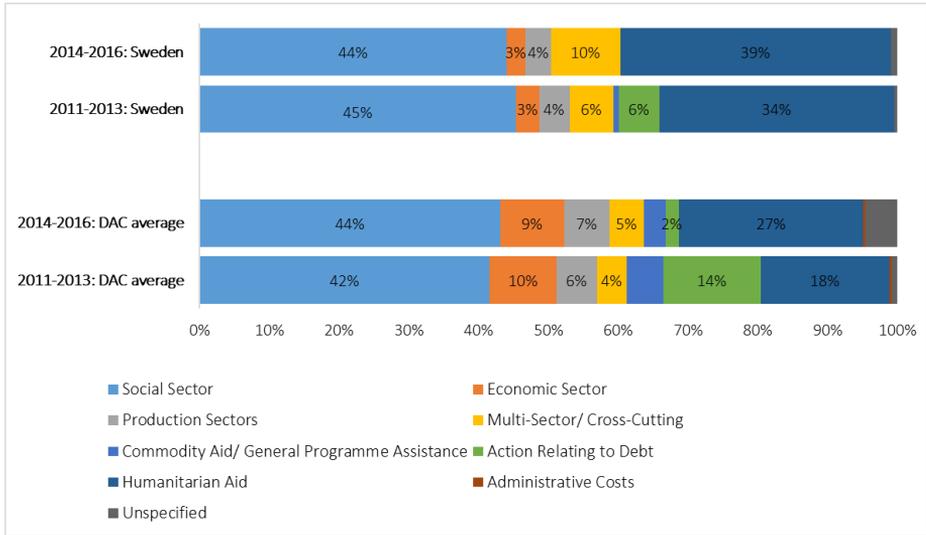
**Figure 2. ODA to FCAS as share of total ODA (2010-2016)**



Source: OECD, CRS (total ODA, gross disbursement, millions of constant US dollars).

Analysis of Sweden's sectoral investments to these states align with the changing attitude to risk in Sweden's authorising environment. Swedish aid to FCAS is dominated by aid to social sectors (education and health) as well as humanitarian aid, while the share of aid in support of economic and productive sectors in FCAS is relatively small (Figure 3). Humanitarian aid is a noticeably larger percentage than the DAC average, while economic spending much smaller. This may illustrate Sweden's higher tolerance of risk as economic/productive sector spending potentially offers greater verifiability of outputs and outcomes (Honig, 2018b). For example, spending in infrastructure can more easily be a 'discrete', externally verifiable investment than social spending that tends to rely on institutional capacity for long-run sustainability. Even if some may suggest the size of the humanitarian allocation to FCAS is driven by a needs assessment rather than attitude to risk, the fact that Sida is willing to direct money to needs in high-risk locations is suggestive of greater acceptance of risks involved.

**Figure 3. Sector level breakdown of ODA from Sweden to FCAS**

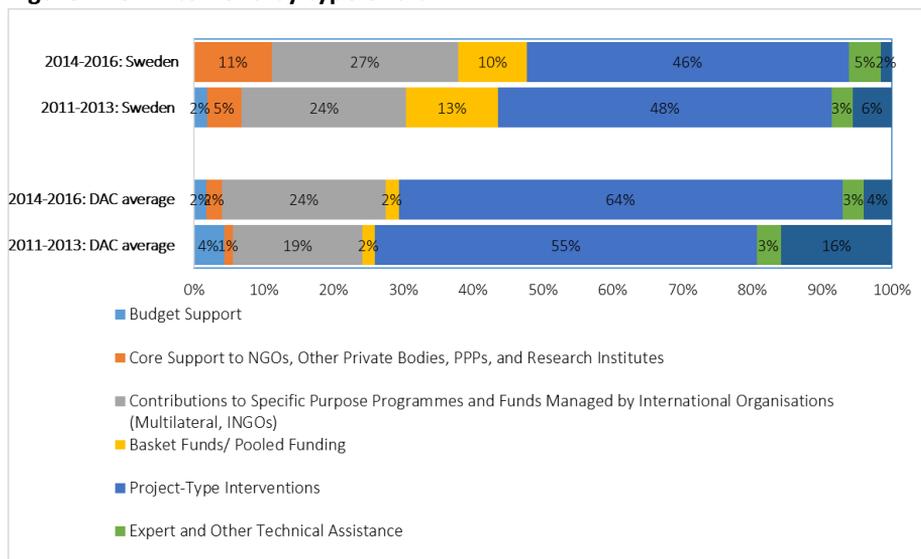


Source: OECD, CRS (gross disbursement, millions of constant US dollars).

Sweden mainly engages with project modalities in FCAS, followed by contributions to special purposes funds and vehicles managed by multilateral institutions and international NGOs (Figure 4). Core support to NGOs and other bodies has seen the largest increase over time, while budget support to fragile states has all but disappeared in the recent past (interestingly Sweden's allocation to budget support to fragile states is lower than the DAC average in the two time periods examined). The preference for project modalities is suggestive of some risk aversion to investing through country systems in FCAS, though on average Sweden provides less through this channel than the DAC. The figures for core support to NGOs may at first glance suggest a desire to relinquish control towards implementing agencies and a more flexible attitude to risks assumed. Nonetheless, data from Sida (Figure 5), indicates trends favour international NGOs at the expense of local civil society channels. This may indicate a desire to transfer the risks of local engagement away from Sida to international NGOs with established capacities or else use such organisations as intermediaries. Between 2013 and 2016, Sida's funding to international CSOs as a share of

all funding went up from 48% to 65% whereas the share of aid to local CSOs fell from 13% to 7% over the same period.

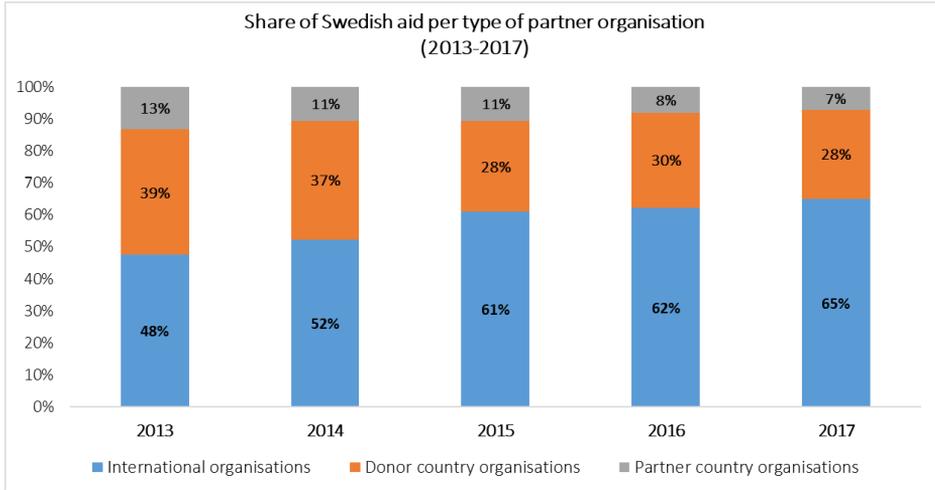
**Figure 4. ODA to FCAS by type of aid**



Source: OECD, CRS (gross disbursement, millions of constant US dollars).

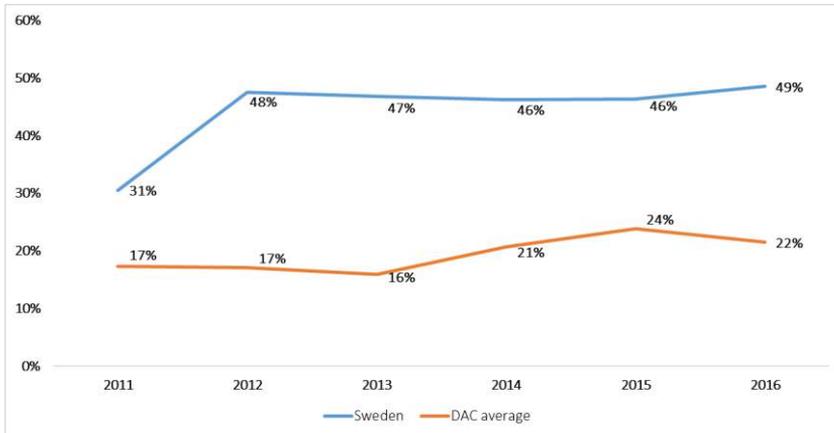
There has also been an increase in earmarked aid channelled through multilateral organisations (Figure 6). In 2011, this type of aid comprised 31% of total Swedish aid to FCAS, and in 2016 this share had risen to 49%, considerably higher than the DAC average (22%). Interestingly, the share of multi-bi aid destined for FCAS is much higher than for non-fragile non-conflict states (24% of total ODA in 2016), suggesting the use of earmarking in fragile settings may be a deliberate risk avoidance strategy. Earmarking can be both a way to share/avoid risk vulnerabilities and outsource risk control, while at the same time maintaining influence over multilateral allocations (Gulrajani, 2016).

**Figure 5. Share of Swedish aid by type of partner organisation (2013-2017)**



Source: Sida's annual reports (various years).

**Figure 6. Share of earmarked multilateral finance to FCAS (2011-2016)**



Source: OECD, CRS (total ODA, gross disbursement, millions of constant US dollars)

Overall, this portfolio analysis suggests increased desire to work through pooled funds, international NGOs and multilateral organisations in fragile settings. This is broadly suggestive of risk aversion, even if sectoral allocations seem to suggest a more relaxed attitude convergent with the transition in Sweden's institutional

environment. Admittedly, this interpretation of the portfolio generated mixed responses from those we spoke with:

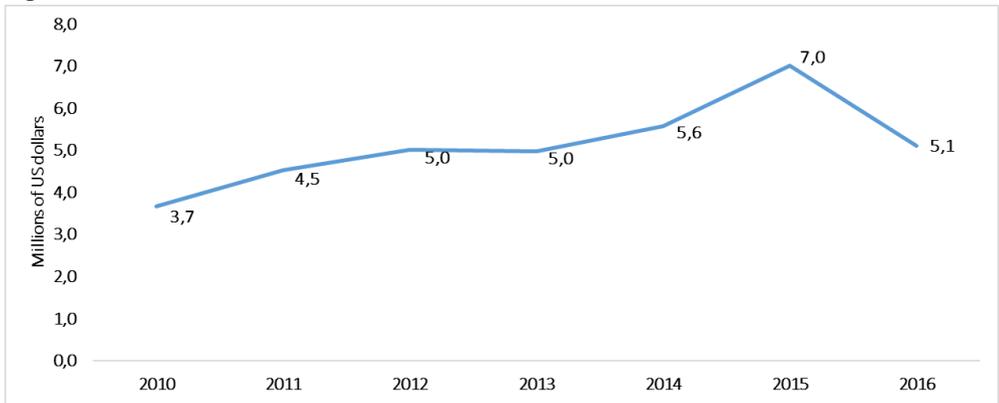
[I]nstead of working with national governments and local civil society we use intermediaries– the UN system, the banks and large international NGOs who, in turn, channel money to local NGOs. So, basically, they take the risk and we can always blame the international NGO for not doing their job. (Interviewee 3)

I also feel mandated that we can have a higher risk appetite. On the other hand, I'm asking myself; if you look at how we are working in some of our countries, the proportion of our support through the UN agencies is often very high. Does this mean that we are indirectly trying to manage some type of risk and not exposing ourselves or is it because it's actually the best vehicle for delivering aid? (Heads of Development Cooperation Focus Group)

Most aid to fragile states go through multilaterals. That can be seen as a risk management strategy, but it sometimes also has to do with administrative efficiency. You outsource your administration. There are also some very good reasons for working through the multilaterals in these contexts. Sometimes it can do with dollar coordination and sometimes it has to do with presence and having the capacity to follow up that we simply would never have been able to do. (Interviewee 13)

Certainly, declining staff-aid ratios in Sida may partly be behind greater reliance on quick-disbursing third party channels like the multilateral system. Figure 7 illustrates there has been a clear increase in the size of budget handled per staff since 2010, peaking at \$7 million per Sida staff in 2015. Overall, we can only conclude that Sweden's portfolio in fragile states has space to further exploit the opportunities created from transitions in its authorising environment.

**Figure 7. Staff-aid ratios over time**



Sources: Data on total ODA from OECD, CRS (gross disbursement, constant US dollars). Data on employment at Sida from Sida's annual reports (various years).

## 6 Risk stakeholders and systems: Sida and beyond

### 6.1 Introduction

In chapter 2, we defined risk management as a formal system for forecasting, weighing and preparing for possible risks to minimise their impact. We also suggested that there is a tendency for risk management systems to represent compliance with formal accountability demands for risk control, with the result that they are often associated with risk reticence and risk aversion. In this section, we present the risk stakeholders and risk systems governing Sida's operations. In section 6.2, we present the risk governance landscape from the perspective of Sida to help understand the multiplicity of accountability relations within which it is embedded. In section 6.3, we present the main risk management system in Sida governing bilateral programming, namely the contribution management system, and look at how it has evolved alongside shifts in Sida's risk culture presented in Chapter 5. Finally, in section 6.4, we provide a brief overview of the formal risk management tools and instruments at DfID, Norad and USAID, looking at the similarities and differences across these cases and Sida.

### 6.2 Sida risk stakeholders

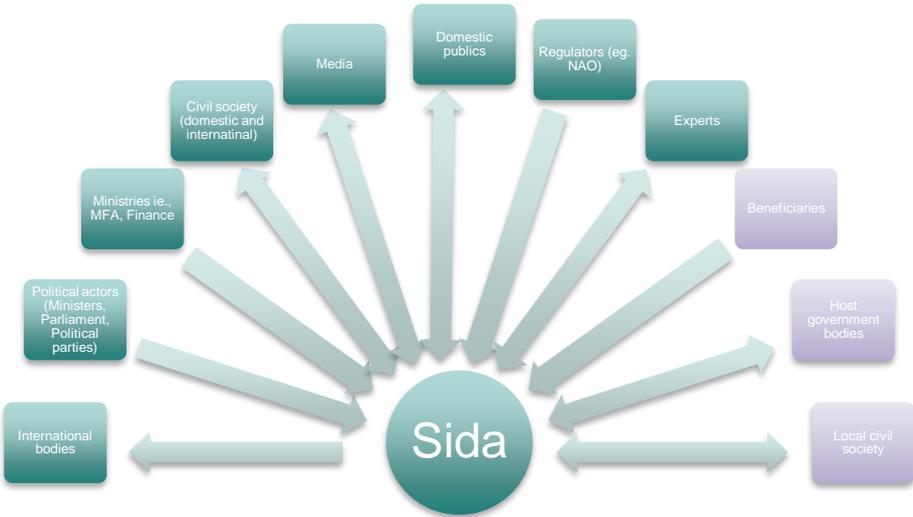
Given its mandate as an implementer of Swedish development policy, Sida is a central node in the public governance of development risk. It is this centrality that drives our decision to concentrate our analysis on its risk stakeholders and risk management systems.<sup>24</sup> Figure 8 outlines the risk governance

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<sup>24</sup> Within the peace and security agenda specifically however, we are aware that Folke Bernadotte Academy (FBA) is another important agent for development cooperation. While Sida disengages its mandate indirectly through third parties, FBA is a direct implementer rather than a transferer of funds. In some sense, Figure 3 could therefore also apply to FBA given its analogous status and shared risk stakeholders.

landscape from the perspective of Sida and helps understand the multiplicity of accountability relations within the Swedish risk landscape. It is also these networks of actors that comprise Sida's authorising environment (See also Section 5.2). Given international development crosses international borders, stakeholders may also lie beyond the aid providing state (e.g. beneficiaries, local civil society, host government).

**Figure 8. Sida risk stakeholders**



Notes: Purple colour denotes actors in aid-receiving nation; green colour denotes actors within the aid-providing nation or in the international environment; arrows designate the nature of the accountability relationship, with the start point of the arrow designating principals and the arrow point the agents; double-sided arrows suggest mutual accountabilities

Source: Adapted from Andreeva et. al (2014)

The arrows in Figure 8 represent accountability as one-directional influence and mutual accountabilities and interdependences as two-directional influences, while colour distinguish stakeholders located overseas from domestic actors. Sida is not exclusively an 'agent' accountable to multiple 'principals' for the risks it is exposed to but plays a multiplicity of roles as both 'principal' and 'agent'. For

example, it is both a risk agent accountable to civil society in Sweden and beyond for its operations, but also a risk principal owed formal accountability from the civil society organisations receiving Sida funding.

While the purpose of Figure 8 is not to trace the individual relationships depicted, it is fair to say the risk governance landscape for Sida is a complex one characterised by multiple accountabilities. The figure should not be taken as depicting uniformity in the strength of accountability structures and relationships that bind actors together. For example, our interviewees suggested that changing public management discourses on trust had shifted the relationship between the MFA and Sida.<sup>25</sup> By contrast, traditional fiscal and fiduciary accountability relations with the Swedish National Audit Office (NAO) or the Ministry of Finance have perhaps not seen a comparable increase in fluidity. The variety and number of accountability relationships that agencies like Sida possess suggest there may be value in prioritising some risk stakeholders over others. This is something we will return to in the last chapter.

One critical accountability principal for Sida is the Ministry for Foreign Affairs (MFA) that sets out the Government of Sweden's development policy, as well as general principles on the Government's attitude to risk in development cooperation and its management. In 2016, a new *Policy Framework for Swedish Development Cooperation and Humanitarian Assistance* was released, where the MFA recognised the risky nature of Sweden's development work and specified the desired approach to risk control and mitigation.

Risk-taking is often essential if development cooperation is to achieve results. Risks must be weighed against the results in terms of poverty reduction and sustainable development that can potentially be achieved. Supporting an initiative may therefore sometimes be justified, even if risks are high. This requires good risk management and developing forms for risk sharing. (Government of Sweden, 2016).

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<sup>25</sup> Specific mention was made of an appropriations letter that was less onerous, less prescriptive and more supportive of greater flexibility.

The MFA is responsible for assessing broad macro-level risks affecting Swedish development cooperation every five-years. Within this cycle, Sida must present an annual report on the strategy to the MFA, including any changes to risks encountered in the overall objectives of the authority. Other than this reporting, the task of managing risk lies principally in Sida's mandate. Beyond the MFA, another important risk stakeholder is the NAO that conducts annual performance and financial auditing of Sida. The NAO has a legal obligation to examine Sida's work, including examining the level of financial risks and the nature of internal control procedures.

## **6.3 Risk management within Sida**

Sida has a formal system for managing risk across all country contexts where it operates: the computer-based contribution management system (Trac). A few suggested that while Trac represents where risks are documented, there are other related risk management activities including within agreement templates with NGOs, the wider strategy-making process with the MFA and day-to-day decision-making.

I fear that sometimes we get stuck talking about the contribution management system. Of course, not everything you do is in the system. When you meet cooperation partners you have dialogue, etc. So, the formal system doesn't cover everything. (Interviewee 9).

Notwithstanding, the vast bulk of staff associate Trac with the formal risk management system in Sida within the life cycle of individual contributions. It is a discussion of Trac that anchored our interviews and focus groups and thus the system we examine more closely here.

### **6.3.1 Contribution management as compliance: The story of Trac I**

The term contribution is an umbrella term which refers to activities that are financed by Sida, with the purpose to contribute to the

objectives in its five-year strategy framework. The contribution cycle in Sida is the framework within which risk is formally assessed and mitigated. This cycle is generic in its applicability to both fragile and non-fragile settings and consists of four stages (Figure 9). While the full contribution cycle has sought to cover the duration of a project (with much iteration during the follow-up phase), the tendency has been to use it mainly during the assessment stages leading up to funding decisions.

**Figure 9. Sida's formal risk management system: the contribution cycle**



Source: Sida (2018b)

In 2012, a revised contribution management process was launched in the aftermath of criticisms and concerns about Sida's performance following a negative NAO Review in 2009.<sup>26</sup> The computer systems supporting this new system (Trac I) sought to incorporate all external demands for reporting, including risk management (Vähämäki, 2017: 175-176). The system was designed by first inserting all the external requirements and recommendations

<sup>26</sup> In written response to the draft report, a Sida official also suggested Sida management also wanted a more uniform process for contribution management and that this too drove changes forward.

to Sida into an Excel sheet from international agreements, external audits, and government regulations. These were then included as internal Sida regulations to be used in the management of contributions. The purpose of Trac I was described in its manual as:

*... support for Sida staff to “get it right” in terms of improving the compliance with our legal requirements, government-decided strategies and policies, international commitments and recommended work methods – and as a consequence, to contribute to better results in the development interventions that we support. (Sida 2012 as cited in Vähämäki 2017: 179).*

The system of monitoring contributions through Trac I can be viewed as a response to the perceived accountability failures of Sida to its risk stakeholders, as delineated in Section 5.3.1. It is for this reason perhaps that Trac I was consistently described by our interviewees as being an unwieldy computer tracking system made up of 50 standardised questions on pre-stipulated risks that often had limited relevance to the project in question.

Up until 2012, the management of an aid contribution was basically the responsibility of a single program manager within a given implementing unit (Vähämäki, 2017: 71, 178). But in 2012, responsibility for different parts of the contribution management process diffused to different functional units. For example, the Monitoring and Evaluation team gave inputs on results-related issues, while the Legal Department was responsible for a new contribution rule, a legal document stipulating what was required within an agreement.

[W]e are coming from a system where we had a lot of internal committees comprised of a broader group than just the manager and the programme officer where we invited maybe the whole of a unit or colleagues from other units with special knowledge in a certain area which were key to the contribution. These committees were used to discuss contributions and to bring in experiences from previous contributions. (Interviewee 4)<sup>27</sup>

As Vähämäki (2017:181) suggests, with Trac I Sida could “demonstrate that a system had been developed, a system which

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<sup>27</sup> This quotation should not be read as implying committees are no longer meeting, only that they may be more narrowly circumscribed.

raised the demands with regards to results and effectiveness." Risk management in Trac I was not an enabler of risk-taking but a visible response to the reputational risks afflicting Sida in relation to its risk stakeholders.<sup>28</sup>

### **6.3.2 Trac II: A more flexible approach to risk management**

Over 2015 and 2016, internal discussions were held at Sida on how to reform the contribution management system, with Sida commissioning an evaluation of Trac I. The evaluation found the system to be heavy on box-ticking that partly responded to its compliance orientation:

*The main function of the contribution management tool was considered by most as a checklist and support to ensure compliance with the contribution management rule. The survey results also show that there are a number of challenges in the appraisal process for programme officers, in particular the approaches for risk analysis and results-based management. (Danielsson, Dahlgren, & Lindstrom, 2016)*

On risk, the main challenge seems to have derived from the cumbersome process of risk assessment in Trac I, particularly the requirement that a lengthy list of predefined risks be examined, with the report recommending a more simplified approach.<sup>29</sup> In March 2018, Sida launched a new version of Trac that gives space to officials to assess risks in a few broad thematic areas like partner capacity to control risks; how robust the contribution is to corruption; the risks that the contribution will not reach intended beneficiaries; or the risk that the contribution will not be owned by stakeholders or be sustainable. In Trac II, the analytical focus

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<sup>28</sup> In a review of the draft report, one Sida official clarified by saying " No where it dictated that we should not take risks, rather [it] emphasized a documented risk analysis with transparent risk taking."

<sup>29</sup> In a response to the draft, a Sida official suggested it only included "7 risk categories. It is not that long, it depends on how you interpret how to perform the risk analysis." Nonetheless, we heard repeatedly from our informants that Trac I included a burdensome questionnaire.

concentrates on the most relevant risks for a particular contribution based on officials' judgements.

The previous Trac was overburdened with risk assessment. Now it is more streamlined and easier to handle. Also, for us managers, it is easy to get a full grasp of what the real risks are and what has been done to manage them. (Interviewee 13)

This perception is in line with the Help Text for Trac II that advises staff "If you identify risks, describe them within the relevant assessment areas. (Sida, 2018a: 13). Identified risks are entered into a risk register that are then examined during the implementation phase. The purpose of registering risks is to tailor assessment based on the specifics of the particular contribution (Sida, 2018a: 32). An overall risk assessment of the contribution and description of risk mitigation measures is asked for at the end of the appraisal phase. The final assessment is guided by Help Text that reflects Sida's higher risk appetite:

*Remember that a contribution with a high risk level might be needed and worth the risks, in order to reach certain objectives in the strategy. Risk management is not only about minimising risk but includes balancing the risks against opportunities and results of providing support, or alternatively the negative results of not providing support. It should be noted that implementing a risk response might give cause to other risks, e.g. mitigating fiduciary risks by imposing additional control mechanisms could lead to failure in achieving the programme's objectives; or extensive management of security risks could limit access to beneficiaries, thus increasing the risk of not achieving objectives or causing harm; or acceptance of program risk could increase the reputational risk for Sida (Sida, 2018a: 60).*

Trac II makes clear that risk management is a continuous process within the contribution cycle, with new knowledge updating the original risk analysis and mitigation measures. The intention is to utilise Trac II more extensively beyond the initial assessment phase, with controllers now involved in iterative monitoring and assessment of risks, results and impact during active implementation. It also aims to prioritise risks that will increase the likelihood of the contribution achieving its objectives. In this way, risk appraisal and assessment is to be informed by the concept of

"risk materiality". In this analysis, the criticality of the risks encountered for the success and quality of the contribution are to inform risk and resource prioritisation (Sida, 2018b: 1).<sup>30</sup> Materiality criteria like the volume of the contribution, whether the co-operation partner is new or has weak capacity, or if it is a complex agreement structure, are expected to inform what an acceptable level of risk is, and guide operational decisions, including the allocation of human and financial resources. They are the criteria against which contributions can be adapted, amended, followed-up on or cancelled (Sida, 2018b: 4, 75, 113). Considerations of risk and materiality are also meant to help communicate decisions to the Swedish public (Sida, 2018a:67).

Since implementing the new Trac in March, we've had about 25 training sessions about risk and materiality, including with the managers saying that 'it's OK to take risks but you need to have common sense and you need to motivate why you de-select the controller function or why you say to the programme officer that you don't have to spend so much time on these assessments'. (Controller Focus Group)

Overall, this shift in the formal process of risk management in Sida can be viewed against the backdrop of a conducive authorising environment and an organisational culture that invites risk-taking. Trac II allows concentration on the most relevant risks based on a bottom up risk analysis of specific contributions over the length of the contribution's life. It provides a systematic framework for documenting risk-taking while providing space for officials to interpret the nature of risk and its materiality in a contribution. It is what we label an example of flexible risk management.

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<sup>30</sup> In written response to the draft, one Sida official clarified: "Risk and materiality is also about resource allocation. It is about prioritising focus and resources where it matters the most."

## 6.4 Risk management compared across bilateral agencies

While the focus of this study is squarely on Sweden and more specifically Sida, exploring the nature of risk management systems across other bilateral donors can give a sense of how far other agencies put flexibility at the heart of their practice in fragile states programming. In this section, we thus briefly review risk management systems being developed by DFID, USAID and NORAD.

### 6.4.1 DfID: integrated and complex risk management

We suggested in Section 5.2 that the UK's current authorising environment for risk is far more restrictive than Sweden's. This environment is one where there is *"a lot of scrutiny and we have to be very careful about what's happening"* (Interviewee 15). Current efforts to draft a new risk management framework and policy in DfID need to be interpreted in this light.<sup>31</sup>

DfID expresses a willingness in its risk policy to take carefully considered and well managed risks, particularly in situations where expected results may justify them and where residual risks after mitigation are reduced to an acceptable level. DfID's aim is to demonstrate flexibility in deciding what is an acceptable level of risk, although it continues to maintain a zero-tolerance approach to fraud, sexual exploitation/harassment and abuse. Against this backdrop, DfID's Heads of Departments set out their strategic and portfolio priorities in which risk appetite must be articulated. For example, DfID country offices will state their risk tolerance, and this

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<sup>31</sup> The fact that we were asked not to share the text of DfID's Risk Management Framework and Risk Management Policy may be indicative of an organisational culture to risk that remains somewhat risk averse, in keeping with the more constrained environment in the UK. It is unclear to us whether either of these will be made available for public dissemination.

will provide the basis for a discussion with senior management on the degrees of difference between their attitudes to risk and DfID more broadly.

Risk appetite statements are part of recent attempts to design an overarching and integrated risk management framework in DfID. Partly in response to a negative internal audit of its risk management principles (Independent Commission for Aid Impact, 2016), this new framework is anchored in five fundamental principles: open and honest communication; documentation that allows for an audit trail and demonstration of how risks are managed; the exercise of professional judgement and training to focus on what acceptable risks are; a common language of risk to avoid misunderstandings and the application of DfID's Smart Rules, the operating framework for DfID programming delineating accountabilities, compulsory processes and due diligence systems.<sup>32</sup> These principles are meant to inform 12 tools of risk management that cut across all stages of DfID's programme cycle, from Operational Plan to Annual Reviews to Project Completion Reports.

Like Sida's Trac system, risks are assessed at multiple stages of DfID's business case process. At the design stage, risks and opportunities are identified and information is captured in a risk register. This includes assessing partners' capacity, systems, policies and processes in a 'due diligent framework'. At the formal agreement stage, there is an opportunity to build any issues around risk, monitoring and reporting into the final agreements. The subsequent delivery plan integrates risk management strategies and tracks risk tolerances or assumptions set out in the business case. The final stage, the annual review, examines progress against the business case and part of this is considering how the identified risks have been addressed. Overall, the system is tailorable to the specifics of the actual engagement.

This formalised system of risk management appears to offer greater integration between the strategic, portfolio and business case levels than Sida's, partly because it is driven by decisions at the apex of DfID. At the same time, notwithstanding the expressed desire

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<sup>32</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/744713/Smart-Rules-External-Oct18.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/744713/Smart-Rules-External-Oct18.pdf)

for simplicity in its approach to managing risk, our initial impression is of a highly complex and overlapping network of instruments, frameworks and approaches. While a single paragraph delineates DfID's risk appetite and seems conducive to flexible risk taking, this seems anomalous given its conservative authorising environment. Moreover, the complexity and cross-cutting nature of the risk tools in operation are suggestive of a compliance-orientation driving its new risk management framework. This potentially sends mixed signals about the real tolerance for risk to those working at the level of individual projects and programmes.

## **6.4.2 USAID: holistic and transparent risk management**

Like DfID, USAID has also embarked on the creation of a holistic approach to managing risk. In 2016, the Office of Budget Management (OMB) required in Circular A-123 that all government departments and agencies develop an Enterprise Risk Management (ERM) system. ERM is defined as “an Agency-wide approach to addressing the full spectrum of the organisation’s external and internal risks by understanding the combined impact of risks as an interrelated portfolio, rather than addressing risks only within silos” (USAID, 2017: 9).

In response to the OMB requirement, USAID promulgated a ‘Governance charter for enterprise risk management and internal control’, setting out new organisational and governance authorities for overseeing compliance with Circular A-123. An Executive Management Council on Risk and Internal Controls chaired by the Deputy US Administrator was created to provide oversight of the ERM process and to review and provide penultimate approval of its risk assurances, risk profiles and risk mitigation measures (USAID, 2017).<sup>33</sup>

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<sup>33</sup> A Risk-Management Council and Senior Assessment Team report directly to the Executive Management Council on Risk and Internal Control. The Risk Management Council, co-chaired by Deputy Assistant Administrators from the Bureau for Management and the Bureau for Policy Planning and Learning, is

In the new governance structures of ERM, USAID bureaus in Washington and missions abroad are expected to analyse and identify key risks and internal control deficiencies, considering the causes, sources, probability of the risk, as well as potential positive or negative outcomes. They will then systematically identify, assess and put in place risk response options. These analyses will input into Risk Profiles that are then aggregated across the Agency once a year to reveal USAID's Risk Profile.<sup>34</sup> This allows compliance with federal requirement that every US agency creates an annual risk profile that outlines the largest risks it confronts and manages. At the level of the bureau/mission, there is monitoring and reviewing of risk performance to determine whether the implemented risk management options achieved stated goals and objectives, and whether or not the bureau's or mission's Risk Profile has changed.

To complement the creation of the ERM System, USAID voluntarily decided to create an overarching risk appetite statement:

USAID has developed such a risk appetite statement because we felt that we couldn't ask a mission to 'tell us what risks you want to take' when we hadn't really articulated as an agency where we think you ought to take risks and where we think you maybe shouldn't take risks'. We felt that it was necessary to do that. (Interviewee 14)

Published online in September 2018, USAID's Risk Appetite Statement relates USAID's risk tolerance in seven categories (Table 3). Like DfID, it is in the sphere of institutional risk (i.e. fiduciary, security and legal) that its risk appetite is rated as low.<sup>35</sup> In contrast,

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responsible for assessing the roll-out of ERM, including overseeing a process to define and iteratively update the Agency's Risk Appetite and risk tolerance and establishing a strong reporting and analysis system to enable effective portfolio views of risk. The Senior Assessment Team is chaired by the Agency's Chief Financial Officer and responsible for taking an Agency-wide view of deficiencies in financial internal control.

<sup>34</sup> This process was carried out for the first time in 2018.

<sup>35</sup> USAID defines a low risk appetite as an area where "the Agency avoids risk or acts to minimise or eliminate the likelihood that the risk will occur, because we have determined the potential downside costs are intolerable. These are areas in which we typically seek to maintain a very strong control environment." (USAID, 2018: 5)

programmatic risk appetite remains high, resulting in some potentially contradictory positions:

If it's a fiduciary issue, we really don't have a lot of appetite for losing money. On the other hand, if we're doing development work in a place like Yemen or Somalia, there's a pretty good chance that it's not going to work out as well as we want it to—that's just the reality. But we have to take that risk. We have an appetite for that. [...] That's where we're at right now and that's one of the reasons we did the risk appetite statement because you do have these internal controls around, e.g., fiduciary risk of not losing a single dime of taxpayer money, and these things are definitely at tension. Having to show you're accountable for results and, on the other hand you also have to have the flexibility to stop doing something and doing something else if it doesn't work, which means that you have to be willing to fail. These things are absolutely in tension and I think when you see the risk appetite statement you will see that. I don't think having this statement necessarily solves the problem. But our intent was at least to verbalise the problem. As least we are saying affirmatively 'yes these things are in tension'. (Interviewee 14)

Overall, USAID is responding to high-level requests emanating from key institutional stakeholders for a holistic understanding of agency-wide risks. This, in turn, has resulted in the creation of relatively elaborate processes and instruments to assess, aggregate and manage risk in compliance with Circular A-123. At the same time, USAID Senior Management has also seized the opportunity provided by this formal obligation to develop an ERM system to increase risk transparency and dialogue through a publicly available risk appetite statement. And while the tensions between these differing risk attitudes are not explicitly documented in this statement, in its length and form of presentation the possibility of inconsistencies is made more obvious. In USAID, we see openness to reflect on organisational risk appetite, including any trade offs that may be required.

**Table 3. USAID Risk Appetite Statement (2018)**

Risk category	Definition of risk	Overall risk appetite
<i>Programmatic</i>	Events or circumstances that could potentially improve or compromise the effectiveness of USAID’s development or humanitarian assistance.	High
<i>Fiduciary</i>	Events or circumstances that could potentially result in fraud, waste, loss, or unauthorised use of U.S. Government funds, property, or other assets. It also refers to conflicts of interest that could adversely affect the accountability of U.S. taxpayer dollars, or the realisation of development or humanitarian outcomes.	Low
<i>Reputational</i>	Events or circumstances that could potentially improve or compromise USAID’s standing or credibility with Congress, the interagency, the American public, host-country governments, multilateral institutions, implementing partners, beneficiaries, or other stakeholders.	Medium
<i>Legal</i>	Events or circumstances that could potentially improve or compromise compliance with law, regulation, Executive Order, or other legal requirement.	Low
<i>Security</i>	Circumstances or events that could potentially improve or compromise the security of USAID staff, partners, information, funding or facilities.	Low
<i>Human capital</i>	Events or circumstances that could potentially improve or compromise the capacity, productivity, wellbeing, hiring, or retention of our employees.	Medium
<i>Information technology</i>	Events or circumstances that could improve or compromise the processing, security, stability, capacity, performance, or resilience of information technology.	Medium

Source: USAID (2018, p. 7)

### **6.4.3 Norad: limited structural form to risk management**

Norad has the least formalised approach to risk management of all the donors we examined. Risk management in the Norwegian aid system is a disaggregated process guided by political signals and steering from Parliament's budget proposition. A Strategic Framework for Norwegian Engagement in Fragile States and Regions (2017) provides the current statement on acceptable levels of risk in this subset of countries:

"[Norway] shall be willing to take risks... [T]here is considerable risk associated with involvement in politically sensitive situations, in terms of lack of results, unintended negative consequences of efforts and support, defaulting of funds or safety risks to personnel. There are major challenges related to control and follow-up in often challenging contexts. What is acceptable risk and how to handle it must be resolved on a continuous basis. This risk must be considered against the risk of not doing anything." (Government of Norway, 2017, p. 24).

Norad relies on the risk assessments and underlying systems of their partner organisations. Much of the burden for managing risk falls onto these partners:

In terms of risk management, as long as it is spelled out and made clear to us [Norad officials] what those risks are, we can take an informed decision about whether to support this project or not; [...] So, in that sense, as long as we are informed, if risks materialise and they report back to us that's the risk that we've taken. But in terms of mismanagement of funds, we have a zero tolerance to corruption policy and we've not had a system where we share that risk with a partner- the partner is responsible. So basically, we ask for our money back if there has been financial mismanagement. (Interviewee 16)

While Norad maintains due diligence of these systems – and grant management manuals serve as guidance<sup>36</sup> to staff for doing so – there are no blueprints for how this should be done.

Sometimes this is a source of frustration for partners because they feel like we're never telling them what we expect from them and then when we're asked to assess their systems we often come back and point out things that we are not happy with. [...] This is maybe the downside, that partners might in our system meet less consistent demands because it's more dependent on individual's interpretations of the guidelines and rules. (Interviewee 16)

The Norwegian model provides flexibility and autonomy for individual project officers and among all the donors examined here approximates Sida's approach the most. Yet, Norad lacks the formal structure to managing risk that Trac II provides. Previous studies have similarly suggested the Norwegian aid programme lacks an adequate structural framework to guide and organise the considerable autonomy and flexibility it possesses (Gulrajani, 2014; Particip. GmbH, 2015) In the sphere of risk management, this puts significant responsibility on the owners of budget lines and individual project officers to decide appropriate risk levels. It also challenges consistent quality assurance and risk-awareness across the whole system. To resolve this potential shortcoming, Norad's Department for Quality Assurance works with all thematic sections to interpret current rules and guidelines, especially regarding what constitutes an appropriate balance between complying with Norwegian regulations and maintaining the flexibility of partners to assess and act on risks found.

Overall, the risk flexibility in Sida most closely approximates that which exists within Norad. These two Scandinavian donors lack integrated systems of risk management like in the US and UK that

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<sup>36</sup> Risk assessment guidance distinguishes between two types of risks: the risks that could affect goal achievement and the risks of a potential negative unintended consequence. It is mandatory to assess potential negative effects of the project on a number of cross-cutting issues, including the environment, human rights, women's rights and gender equality, as well as anti-corruption.

link country and organisational risk analysis and appetite, trusting their staff (and their partners) to make decisions within specific engagements but with limited ability to aggregate risk profiles upwards in order to monitor residual risks. One might also view USAID's and DfID's desire for general risk management frameworks, and the wide range of cross-cutting tools and processes they have promulgated internally, as partial adaptations to the more risk-averse authorising environments these donors face in comparison to Sweden and Norway.

# 7 Flexible risk management in practice

## 7.1 Introduction

Our story so far suggests that Sida's contribution management system (Trac I) largely emerged as a way of displaying its responsibility to its stakeholders at a time where it faced considerable adversity in its authorising environment. As the Swedish authorising environment has evolved (Section 5.2) and Sida's risk appetite grown (Section 5.3), so too has the contribution management system been more willing to trust staff to apply professional judgements to identify, assess, understand, act on and communicate risks. Within Sida, the task of risk management is no longer strongly associated with risk reticence and aversion but with the growing space for staff to adjudicate and prioritise risks. This leads us to conclude that Trac II represents an example of flexible risk management.

In this chapter, we look at the operational and intra-organisational dynamics of putting flexible risk management into practice. We suggest in 7.2 that flexible risk management is shifting intra-organisational relationships between controllers, programme managers and heads of unit, providing the latter with more operational discretion but also increasing expectations on controllers and programme managers. Notwithstanding this internal transition, the increased flexibility and discretion in relation to managing risk is broadly welcomed. We show in Section 7.3 how it is enabling Sida to take on higher levels of programmatic and contextual risk, with hardly any staff expressing concerns with growing risk appetite in these dimensions. At the same time, in 7.4 we also suggest this flexibility is not unrestrained and we suggest its limits are reached when it comes to institutional risks. In Section 7.5, we illustrate these arguments by examining the case of a sexual and reproductive health contribution in Afghanistan. Overall, in Section 7.6 conclude that as Sida strives to "do risk management differently", the imperatives of responsibility and responsiveness

appear to co-exist, albeit governing separate risk areas. The accountability/flexibility dilemma appears to generate a distinction between acceptable and unacceptable risks.

## **7.2 The politics of flexible risk management**

Flexible risk management is a socially and politically embedded process navigated by individuals and their inter-relationships. In this section, we trace some of the shifting intra-organisational relationships and what they mean for changing dynamics between controllers, programme managers and heads of unit.

### **7.2.1 Transitions to the controller role**

While compliance focused departments – including the Chief Controller and Head of the Unit for Legal Services – have formally endorsed Trac II, the role of internal control functions in a more risk tolerant organisation is undergoing a transition. Heads of Units and Directors now have increased leeway to decide whether to use controllers in contribution management. They are now capable of overriding the requirement that all projects over SEK 10 million, or those that exhibit additional risks,<sup>37</sup> draw on controllers from the appraisal stage (Sida, 2018a:10). Moreover, within smaller project, or in projects with few exceptional risks, a controller is not even a requirement so long as a supporting written statement explains why. This had led to some concern that Trac II easily bypasses existing risk control systems, particularly because previously the role of controllers was mandated in all contributions.

I think that now, with our increased risk appetite, maybe some of the controllers that were recruited with very specific mandates might be frustrated about their role, but not all controllers. (Interviewee 7)

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<sup>37</sup> For example, implementation by a new partner or an innovative form of collaboration.

Another important change within Trac II is that when controllers are engaged in contribution management, this involvement is now expected to run the length of the contribution cycle from appraisal to completion. Previously, the controller role only began towards the tail end of the contribution (i.e. late in the appraisal process) as a quality assurance function, when mistakes were difficult to correct. The intention is for more ongoing iterative engagement during appraisal planning, implementation and follow-up phases.

To really underline this shift, we have opened up more for teamwork and how we should use competencies more wisely throughout the entire contribution management process. I think that actually enables more quality in the end because what we've seen sometimes is that controllers come in too late in the process to really have an impact on the contribution... Now you can have the controller as part of your team from the beginning instead of him/her coming in late and trying to fix things and delaying the process. (Interviewee 8)

Controllers are now responsible for continuous risk assessment within a team over the life cycle of a contribution, increasing the burden of responsibility and potentially risking their independence. A move away from a terminal quality assurance function has generated latent disquiet among controllers, who are now potentially exposed to a broader set of risks along a wider stretch of the contribution life cycle.

The controllers within the Sida have probably been the most difficult group to get on-board. Some are already working like this, i.e. they are team members and they have been involved in supporting the program officer in the assessment. Other say, If I'm part of the contribution itself, how will I then be able to fill in this quality form at the end? That would be like assessing myself and I don't feel comfortable doing that. So, there's been a lot of concern from the controllers. (Interviewee 1)<sup>38</sup>

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<sup>38</sup> In written feedback, one Sida official reacted to the latter part of this quote by saying "In practice, this has only been one or two controllers saying this. The absolute majority believe the change has been good." And yet, we do not believe this undermines our suggestion that there is disquiet among controllers, best

To the extent that there is any resistance to the increased flexibility within the contribution management cycle, one would have to suggest this comes from controllers within Sida who lose leverage against Heads of Unit and now have a larger stake in the implementation of contributions. While controllers have always reported to Heads of Unit, not to the Chief Controller,<sup>39</sup> in Trac I their involvement in the latter stages of the contribution was mandatory and their association to the quality assurance function gave them a degree of independence.

I think there is a change now and we are talking about ‘agile leadership’, that we do adaptive programming. We as managers can tell controllers what we think. [There] was a time when they had become emperors at Sida and it’s not like that anymore. [...] We’ve seen this change both in the contribution management system where the questions are not as many and it’s up to me as head of development to say that, ‘actually, the risks that we will focus on are these risks. This, I think, is moving in the right direction. More and more strategies have a mandate to be flexible and we’re actually being asked to be flexible and taking risks because we’re working more and more in conflict affected countries. To me, it’s clear that Sida has moved in line with the strategies we are receiving from the government and that systems are changing in that direction. (Heads of Cooperation Focus Group)

Sida has moved from a risk management system where the controller function has been mandatory and largely focused on quality assurance, to a system where controllers are a strategic resource to be used along the contribution management cycle in complex operational activities. The result is a redefinition of the controller role in practice (not necessarily in regulation), as well as a shift in the delicate balance of power between controllers and senior Sida managers like Heads of Unit.

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illustrated perhaps by the difficulty we experienced in engaging this group in this study.

<sup>39</sup> The Chief Controller's role is to oversee the management response to the national audit office, the internal audit office, maintain an overview of generic risks and oversee and develop the controller function.

## 7.2.2 Programme managers

Like controllers, in Trac II programme managers also assume greater accountability for signing off on risks. While Trac II gives greater leeway to all staff to ascertain risks and mitigate against them, it is particularly programme managers who must make first decisions concerning risk and materiality. A programme manager will then review their analysis and decide how to conduct the assessment. Risk-averse programme managers may excessively burden themselves with lengthy assessments that are not actually required by Trac II but demonstrate compliance and thoroughness for contribution management. The burden of proof, in other words, may weigh heavily on the minds of programme managers, even if it is not formally imposed by the new system.

I think we have that problem...that there is fear that you will make mistakes and that you will not do the right thing. And if your managers feel like that, of course that will trickle out. [...] I am not really afraid that they will make mistakes rather they will not utilise the opportunity and they will do too much because if you use this new system in the old way you will have a heavy burden. (Interviewee 1)

While programme managers might acutely feel the burden of this accountability greatly, Heads of Unit are ultimately responsible for making sure the principles of materiality are adhered to in the analysis and assessments undertaken by programme managers (Sida, 2018b: 1). The flexibility of programme managers is thus "very much in line with the flexibility that the head of unit wants to allow. (Interviewee 12). Flexible risk management is ultimately an embedded process navigated by individuals and their inter-relationships. Flexible approaches derive from the growing space and discretion that now exists for senior Sida managers. But they also potentially place greater perceived burdens of responsibility on controllers and programme managers.

## 7.3 Flexible risk management as an enabler of risk

Notwithstanding the aforementioned concerns in the transitioning roles and functions of controllers and programme managers, there was relatively little explicit dissent in Sida to Trac II. As one person articulated in our focus group "*There is trust at all levels of Sida – from the head, to managers to project officers. People are trusted to do the right thing*" (Heds of Development Cooperation Focus Group). This trust empowers staff to enact and exercise flexibility within the life cycle of a given contribution.

A couple of years ago I had the feeling that it was lip service that we were supposed to be brave and take risks, etc. I think there was a concern about financial mismanagement and whether they would be able to defend decisions publicly. But, I think these days the risk appetite is greater, and it's said by Sida's management with more confidence. I certainly feel empowered to take risks these days. So, there is substantial risk appetite. (Heds of Development Cooperation Focus Group).

As staff have the space to select and prioritise risks within a contribution, and as the internal risk culture of Sida itself is changing, we believe Sida is more tolerant towards elevated programmatic and contextual risks. In section 3, we defined programmatic risks as risks that reduce operational ability to achieve objectives, while contextual risks are those risks that arise from the local environment and that lie beyond a donor's control. We discuss this changing orientation towards each separately below.

### 7.3.1 Enabling programmatic risk-taking

At the heart of the way flexibility embeds itself in relation to risk is the concept of materiality introduced in section 6.3.2. Materiality is a way of prioritising risks, including the mitigation and acceptance of risks that are integral to the success and quality of a contribution. It is a mechanism for weighing the risk/reward trade off and concentrating human and financial resources on the most important

risks that threaten a contribution. Evidence suggests materiality is not often included in a structured way in risk management systems, being taken more or less for granted that it will be intuitively considered by decision-makers (Stoddard et al., 2016: 22). This is not the case in Trac II where risk is contextualised through the prism of materiality. In doing so, Sida is highlighting its willingness to focus on 'high risk-high value' opportunities and to accept current programmatic risks or share/mitigate them in order to achieve possible future impact. This sentiment is felt particularly strongly by those working in the humanitarian field:

It's not that Sida wants to have high risk appetite. On the contrary, I, as a manager and director, don't want to take unnecessary risk, but because our focus is on reaching the most vulnerable populations first (and that's the life-saving mandate we have in the humanitarian field), then by default we end up working in high-risk areas. I'm sure there would be certain areas we would be reluctant to enter into but because we do that through organisations that are very well manifested in the humanitarian sphere and have gone through this due diligence evaluation, we feel relatively confident. (Interviewee 12)

Beyond the humanitarian department, many staff also highlighted this shared concern with the risks of "non-engagement" and "not achieving results" and the importance of accepting the "risks of failure". Through the frame of materiality, Sida appears to be engendering greater flexibility towards programmatic risks justified in terms of fulfilling mandates, objectives and achieving development impact.

### **7.3.2 Enabling contextual risk-taking**

It is now commonly accepted that rigid verification and fixed standards of conduct are not well suited to the unpredictable and uncertain environments of fragile states (Gulrajani & Honig, 2016; Honig, 2018a; Honig, 2018b). A flexible approach to shifting and complex environmental risks is now understood by donor staff as necessary for operating in challenging fragile contexts. To do this, Sida is investigating organisational adaptations that could enable more effective engagement in situations with high contextual risk.

This includes improvements to its human resource policies that provides the right competencies in non-family duty stations; enhancements to Sida's security policy; adaptations to its financial procedures when working with partners in fragile contexts; and exploring alternative options to monitor and evaluate projects where access is challenging.

Trac II itself does not distinguish between and high and low risk environments, instead inviting project officials to choose how to tailor their analysis, assessments and follow up according to the particular context of the contribution. Any flexibility towards contextual risks thus occurs by welcoming staff inputs and assessments within the contribution management cycle:

[T]he process takes different routes depending on where you are located.[...] There's no formal element and it's all really done in such a way that allows staff on the ground to decide. Is that fair? I mean, what we say is that significant risks should be managed but you can't regulate this in detail either. In the end, we need responsible people out there monitoring their operations. That said, we have a contribution management rule, we have the system and instructions on how it should be managed. (Interviewee 9)

Overall, flexible risk management is enabling greater acceptability of programmatic and contextual risks. However, there are also limits to this flexibility, restrictions that we believe derive from Sida's accountability obligations for institutional risks as we delineate below.

## **7.4 Flexible risk management as a constraint on institutional risk**

While flexibility engenders risk-taking in the spheres of programmatic and contextual risk, it struggles to maintain tolerance and openness to institutional risks. In section 3.3, we defined institutional risks as those that have internal consequences for a donor, implementing organisations and their staff. In this risk sphere, we believe Sida's flexibility is being tested by its strong

accountability obligations. Fiduciary and security concerns are the main kerbs on flexible risk management.

### 7.4.1 Kerbing fiduciary risk-taking

Like many donors, Sida has limited tolerance of corruption, with several staff equating its regulations to a 'zero-tolerance' approach. Sida officially states it has raised its ambition in combating corruption "*in terms of risk analysis, auditing and the reporting of results*" and now requires "*an increased focus on controls and risk management.*"<sup>40</sup> Heads of development cooperation/Heads of Units must report incidents of corruption to Sida's Investigation Group<sup>41</sup> that looks into corruption cases, as well as to the MFA. When corruption is found, Directors are also informed as they carry the fiduciary responsibility of a contribution.<sup>42</sup> The decision on the institutional response<sup>43</sup> is ultimately made by the Head of Development Cooperation who is provided with guidance from the Investigations Group and the Directors.

Many staff were quick to highlight the ways in which corruption is "*the elephant in the room*" when it comes to flexible approaches to risk (Controller Focus Group). Officially, Sida's 2016 regulation to "never accept" corruption is difficult to square against the desire for greater risk appetite and the contextual realities in fragile states. Studies of other donors and development actors have also shown this (Independent Commission for Aid Impact, 2016; Stoddard et al., 2016). While some suggested that staff no longer see corruption

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<sup>40</sup> [www.sida.se/English/how-we-work/approaches-and-methods/our-work-against-corruption](http://www.sida.se/English/how-we-work/approaches-and-methods/our-work-against-corruption)

<sup>41</sup> The Investigations Group was set up a year ago to sit alongside the Controller Unit. This new combined unit brings together the Chief Controller function, Audit advisors, the Investigation Unit and the Inspector General who inspects the embassies together with counterpart inspectors in the MFA and look at routines, work environment, security policies, etc.

<sup>42</sup> As one staff member put it, in the Swedish civil service Directors can delegate the use of funds to Heads of Development Cooperation but they cannot delegate responsibility for oversight.

<sup>43</sup> Responses can include interrupting disbursement, asking for repayment, implementing legal repercussions, etc.

as "black or white", it is also clear fiduciary risk is not easily tolerable by key Sida risk stakeholders:

If you look at how [Sida is] scrutinised as an authority by external actors, they view risk more in terms of the internal management and control. For example, how we assess our partners financial systems, how good [these systems] are at keeping a sound financial management, how they address corruption. Those are the kinds of risks that are highlighted very much when we are scrutinised externally and this has a lot of negative impact on the organisation and that's also why we have predominantly focused on these types of risks. (Interviewee 4)

The increasing rigidity of this policy is perhaps most apparent in the case of Swedish NGOs in receipt of framework funding from Sida. These NGOs are forced to accept greater responsibility for fiduciary risk in their delivery chains than in the past.

Sida has changed the way it deals with financial risk sharing within the framework agreement. It's always been a requirement that we report incidents of fraud and corruption but before it was sufficient to have a dialogue about how you deal with it. In the past couple of years, the requirement has changed, and we now have to pay back the money. This is a shift in how CIVSAM is dealing with risk. However, there's not standard policy around this. (NGO Focus group)

Such a strict and unwavering policy is not unusual, with both Norad and DfID sharing similar expectations of repayment by implementing partners if corruption is found in their delivery chains. Ultimately, the shadow of Sida's authorising environment is long in the arena of fiduciary risk.

In meetings with the parliamentary committee on international development there is a sentiment that if we work in places like Somalia, we're brave and doing well but if we also say that the country has enormous problems with corruption, then the politicians get more nervous. It's like it's OK that we risk our lives but not their money. There is just such a lack of understanding of what the word risk means. I have the sense that Sida has a very good understanding about working in risky contexts and we have a good dialogue with them. But, when

problems become public, it takes a political spin. (NGO Focus Group)

This perception within the NGO Focus Group that Sida appears more concerned about fiduciary risks than the safety of implementing staff corresponds to findings in a major study that suggest that NGOs over-emphasise fiduciary risks at the possible expense of security risk (Stoddard et al., 2016: 17). As we discuss below, there may be some truth to this view as Sida exercises no duty of care towards implementing partners but maintains their liability for any transgressions of their corruption regulation.

#### **7.4.2 Kerbing safety and security risk-taking**

While fiduciary risks are an important red-line for Sida and the wider bilateral donor community, it is fair to say that managing safety and security of personnel comes a close second.

Responsibility for personnel risks lies with ambassadors in the field, reflecting the MFA's role in analysing and managing security situations.

Ensuring safety and security for Sida staff is a priority that informs contribution management in all its phases. Sida maintains a strong policy on duty of care of its expatriate staff located in high-risk environments. While this duty of care extends to national staff as well, it is not as encompassing as Sida's obligations to expatriate staff, with more restrictions on movements in the latter. Conversely, Sida has no duty of care obligations for implementing organisations, although it does vet their partners in terms of their capacity to work in high-risk environments and will fund security-related costs. While there is an ongoing conversation about whether Sida's current duty of care policy is fit for purpose, it remains an active policy that is not easily transgressed.

What we have done the last few years is have a much more active dialogue with our partners on security issues, and also, we're always requesting to see their contingency and security plans for their own staff and for the people they are reaching. So, for us, we are becoming much more aware and active around these

issues. We've had some tough internal discussions where I've had to turn down travel to certain areas and that has not been popular. Staff say, 'Why can't we travel there when our partners can?' (Heads of Development Cooperation Focus Group)

## **7.5 Exploring flexible risk management in situ: The case of Afghanistan**

The purpose of this section is to give an illustration of how Sida navigates its engagement in a contribution amidst high contextual, programmatic and institutional risk. This can lend some evidence to the claim that institutional risks remain an ongoing challenge notwithstanding opportunities for greater flexibility towards programmatic and contextual risks.

### **7.5.1 Sweden in Afghanistan**

As mentioned in chapter 4, we chose to explore the practice of risk management in Afghanistan both because it is the top recipient of Swedish aid, it has a five-year strategy in place and several staff working in and on Afghanistan were highly supportive of this study. Swedish aid to Afghanistan has grown steadily from USD 12 million in 2000, peaking at USD 132 million in 2014, and slightly falling to USD 114 million in 2018 (Openaid.se). Sweden is the fifth largest donor in Afghanistan, contributing in 2017 to 2.6% of total aid to that country.<sup>44</sup> In 2012, Sweden made a long-term commitment to Afghanistan, pledging to provide just over USD 940 million in aid over 2015-2024. Swedish aid to Afghanistan is channelled through joint donor funds, multilateral organisations and civil society organisations. In addition, the Swedish Committee for Afghanistan has been active in the country for the past 35 years, working mainly on health, education and rural livelihoods.<sup>45</sup> Social sector spending

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<sup>44</sup> External funding accounts for about 70% of the Afghan national budget. See (Bertelsmann Stiftung, 2018)

<sup>45</sup> See <https://swedishcommittee.org/about>

represents the largest sectoral allocation (42% over 2008-2016 according to data from the OECD Creditor Reporting System).

Sweden's long-term commitment to Afghanistan informs Sida's 2014-2019 Afghanistan Strategy. There is a stated commitment to activities that can "provide the greatest benefit and contribute to lasting results". At the same time, the strategy also seeks to avoid "direct cooperation with the state" and is aware of the fiduciary risks prevalent in Afghanistan that need to be "recognised and managed". There is also acknowledgement of the high contextual risks (See Box 3), particularly the challenging security situation, and the limitation this places on field presence which can complicate contribution planning, implementation and follow-up. "Great emphasis will therefore be placed on risk assessment and risk management" with the Strategy advising that measures "involving varying degrees of risk" be combined to "increase the possibilities of achieving results."

The challenging context in Afghanistan has undoubtedly affected Sweden's ability to fulfil its development objectives in Afghanistan. A Swedish government-commissioned *Inquiry on Sweden's Engagement in Afghanistan 2002-2014* concluded that there had been only partial fulfilment of objectives in Afghanistan. While it indicated development aid had had limited positive effect on income poverty, it pointed to some areas of improvement, notably in the social dimensions of poverty including health, education and gender (Government of Sweden, 2017b).

Two Sida units have administrative responsibility for engagement with Afghanistan – the Afghanistan Unit and the Humanitarian Unit. Both are situated in Sida's Asia, Middle East, and Humanitarian Department. Sida's contributions in Afghanistan are divided across five focus areas (empowerment, education, employment, economic integration and enterprise) in line with Sweden's current country strategy. One or two program officers at Sida in Stockholm are responsible for each focus area, and within each are several contributions. Monitoring and follow-up of all contributions is jointly undertaken by Sida staff in Stockholm and expatriate and local programme officers at the Embassy of Sweden in Kabul.

### **Box 3 Contextual risks in Afghanistan: a brief summery**

Afghanistan provides a high-risk context for bilateral donors. The National Unity Government, in power since 2014, has not been able to cope effectively with the rising tide of insurgent attacks as the majority of international forces withdraw. The growing insurgency of the Taliban, and more recently ISIS, has resulted in the deterioration of security and stabilisation efforts. The Taliban have established a sophisticated system of parallel governance across Afghanistan (Jackson, 2018). In more than half of the country's districts, the population faces a permanent risk to their physical security. Many NGOs and government agencies are also regular victims of attacks by the insurgency forces (Marie Stopes International Afghanistan, 2018). Corruption remains a major threat to the government's legitimacy, political stability, rule of law and state-building (Martini, 2013). In the latest Corruption Perception Index, Afghanistan ranked 172 out of 180 countries (Transparency International, 2018). Afghanistan also has the second highest maternal mortality rate in the world and the third highest infant mortality rate, with less than one doctor per every 1000 people. It scores comparatively low on the Gender Inequality Index, which measures countries in terms of reproductive health, empowerment, and economic activity. Women and girls in Afghanistan continue to face severe and persistent discrimination, violence, street harassment, forced and child marriage, severe restrictions on working and studying outside the home and limited access to justice (Bertelsmann Stiftung, 2018).

## **7.5.2 The MSIA contribution: an overview**

As detailed in our methods section, we chose to explore a Sida contribution in Afghanistan called 'Increasing access to reproductive and maternal and child health services'. This contribution concerns sexual and reproductive health and rights (SRHR) in Afghanistan and has been supported by Sida since 2008. It is implemented by Marie Stopes International Afghanistan (MSIA), which is the Afghanistan country office of the London-based NGO Marie Stopes International. MSIA works at various levels – from advocating policy change at the national level to offering clinical services at the provincial level and running mobile clinics in rural localities.

This MSIA contribution aims to strengthen the availability of sexual and reproductive health information and the accessibility, affordability, acceptability and quality of sexual and reproductive health counselling and services. The overall goal of the project is to

*"decrease mother and child mortality, to the realisation of the SRHR of women and girls by achieving significant reductions in unwanted pregnancies and unsafe abortions among the most vulnerable". (Marie Stopes International Afghanistan, 2018: 4).*

Sida has thus far supported this programme in three phases over 2008-2011, 2012-2015 and 2015-2018 and with a fourth phase (2018-2021) just starting. Over this time, Sida support for the project has grown in scale and scope. In the first phase, Sida's contribution to the project was just short of USD one million, growing to USD 3.3 million in the third phase and to USD 4.5 million in its more recent fourth phase. The 2015-2018 appraisal suggests Sida's support stood at around 71% of total support with other donors supporting the MSIA project including DfID, Finland and Danida (Sida, 2015:7).

In terms of scope, the programme started with a relatively narrow focus on maternal and child health in the north of the country. Over time, it has evolved to also include men and boys in their advocacy and awareness raising activities, as well as providing direct reproductive health services. A number of controversial and sensitive issues have been confronted through the project, including working with female prisoners, offering counselling around gender-based violence, and advocating for the abolishment of virginity testing of girls. The fourth phase of the project intends to expand services to three provinces in the south and east of the country, which are mostly dominated by insurgency groups.

### **7.5.3 Programmatic risks**

In the MSIA contribution, it is arguably the combination of an audacious and ambitious attempt to programme innovatively in the field of sexual and reproductive health in a conservative Muslim context that provided the largest risk to the programme.

Sida's ability to overcome these programmatic risks derived mainly from the trust it cultivated in MSIA. MSIA Programme Director, an Afghan national, has headed the MSIA team throughout Sida's support of the contribution. According to Sida

staff, the perception that this was an Afghani-run project, and the role that the MSIA Director placed in particular, have been a critical factor influencing Sida's support for the contribution. The Director's unusual ability to work with religious leaders on SRHR, and in particular his ability to promote support for this agenda with reference to Islam and its Holy Scripture, was marked as both extraordinary and successful:

They were Afghans working on the project and they always anchored the project in the society, identifying the right persons to talk to and the right people who could also be agents for change. They talked to mullahs, for example and then they found out that mullahs' wives were also good agents for change to spread the word, so to say. They worked on different layers at all times, not just providing services but also thinking in the long term how they could affect the policies or how they could involve the Ministry of Health or schools. [...] They knew the context a lot and they knew the culture, so they could really adapt to that and put the right label on the project. Otherwise it would never have been possible. (Interviewee 18)

This success incentivised Sida to expand its ambitions for the contribution. Reliance on the MSIA Programme Director's charismatic leadership was, however, considered a programmatic risk that could jeopardise the contribution's long-run sustainability. Staffing issues in the contribution have generally been a challenge, mainly because finding local competence in reproductive health is rare and when found, is easily lost.<sup>46</sup> Sida adapted to such programmatic risks by adopting some innovative mitigation measures.<sup>47</sup>

In addition, over the lifetime of the MSIA contribution, there have been increasing restrictions on the movement of Sida staff in Afghanistan. By necessity, Sida has had to assume greater programmatic risk and trust MSIA for delivery.

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<sup>46</sup> Two years ago, because of the deteriorating security situation and because MSIA was such a sensitive organisation to work for, MSIA lost about half of their staff.

<sup>47</sup> For example, we were informed Sida funded the Programme Director to complete a postgraduate degree abroad.

The irony of the situation is that as the security situation deteriorates we become more willing to take on risks and the more we have to trust our partners, and we do trust them. We are not handing over the reins to our partners but we're trusting them to do a good job. We have to trust [our partners] since we cannot monitor because we cannot visit the operational sites. (Interviewee 17)

We have to [trust] and that's the big change over time that. A couple of years ago we could actually travel around and visit projects and even though we could not get to see corruption, we could still have a much closer look.... we could see that there was actually operation going on. Now we have no mobility. (Interviewee 18)

Programmatic risks have spurred greater levels of trust in MSIA as a partner.<sup>48</sup> This trust, in turn, has been the backdrop for Sida's increased financial investment and its ambitions for the contribution's geographic extension into Taliban-run insurgency areas.

#### **7.5.4 Contextual risks**

Notwithstanding the high-risk environment of Afghanistan, Sweden maintains a strong commitment to the country as evidenced by the size of its aid budget. Ultimately, Sida works in Afghanistan within a prevailing authorising environment that supports taking on contextual risk. But perhaps more significant for its growing desire to embrace contextual risk, it has also chosen in the MSIA contribution a sector that is particularly difficult. While the MSIA programme is aligned to Sida's focus on the human rights of women and children in its Afghanistan Strategy and its feminist

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<sup>48</sup> Interestingly, in written feedback to a draft of this report, Sida officials requested the above quotes be removed as giving incorrect information. They stated, "The Embassy in Kabul conducted 12 field visits in 2018, and several of these visits have included MSI." In other words, they seem to dispute the claim that programmatic risks have increased in such a way that requires greater trust of implementing partners. Nonetheless, given two Sida staff with direct experience of the contribution did not share this interpretation we felt it was reasonable to retain these quotations.

development policy<sup>49</sup>, SRHR is a sensitive and highly delicate issue to work on in Afghanistan, one that is both highly contested and difficult to programme. The simple objective of the contribution is thus an example of the desire to embrace contextual risk for the sake of delivering in a sector where there is great need. The appraisal of the fourth phase of the contribution addresses the importance of embracing contextual risks given the target population and the potential deleterious consequences for SRHR if it were to be abandoned:

“This can be viewed as a provocative project... However, should the services be shut down there would be major consequences, mainly for the women and children, but also for the entire families” (Sida, 2018c:9).

Remarkably, this contribution has grown in strength notwithstanding these contextual risks. Recently, the Afghan government has publicly supported the use of contraception and made ambitious commitments to reduce unmet reproductive health needs and increase the modern contraception prevalence rate. Domestic political commitments such as these have sent a strong signal that there is value in SRHR programming (Sida, 2018c). There is a sense in which Sida's flexible approach to contextual risk has paid off, so much so that the MSIA programme has become a highly publicised success story.<sup>50</sup>

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<sup>49</sup> Sweden has a long tradition of supporting gender equality and feminist ideology and is relatively alone in its position as a donor within sexual and reproductive health and rights (Sida, 2017). Sexual and reproductive health is also a key feature in Sweden's new five-year 'strategy for sustainable social development' which was launched in July 2018 (Government of Sweden, 2018).

<sup>50</sup> For example, Carin Jäntin, Sida's Director-General, was a key speaker at the seminar 'Faith, hope and condoms - when secular Sweden meets a religious world' at the 2018 annual Politician's Week in Almedalen, which is considered to be the most important forum in Swedish politics. In this forum, she talked positively about her recent visit to the MSIA programme in Afghanistan and how the programme has been able to successfully work with religious leaders (Aquiloni, 2018, 5 July).

### 7.5.5 Fiduciary risks

Throughout the four phases of the MSIA contribution, Sida's tolerance for fiduciary risks has remained low and an ongoing concern. At the conclusion of the third phase of the contribution, Sida officially *“accept[ed] that there is a high corruption risk in Afghanistan but assesses that MSIA is aware of these risks and has a system in place that can handle this, one which its employees are aware of.”* (Sida 2016b).

An elaborate audit process governs the contribution to militate against these fiduciary risks. In addition to an annual audit, we were informed a contract with an audit firm conducts unannounced spot checks every other year.<sup>51</sup> An Internal System Control audit is also conducted every three to four years.<sup>52</sup> To a degree, this oversight challenges the trust cultivated between Sida and its partner that has also been a critical success factor, although Sida staff suggested this resentment slowly dissipated:

This [audit] firm found a lot of problems and MSIA got defensive until we [Sida] explained that we are not there to ‘frame them’. It’s the other way around: ‘We believe in you’ and want to help you find the gaps in your systems so that you can be as effective as possible.’ (Interviewee 17)

Fiduciary risks are one reason why the Kabul embassy lacks the full financial delegation of authorities possessed by other missions. The Swedish Head of Development Co-operation in Kabul does not possess the mandate to decide on financial allocations within the country programme like many of her equivalents elsewhere do.<sup>53</sup> All formal decisions are taken by the Head of Unit at Sida in Stockholm, although in practice the Head of Development

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<sup>51</sup> While a Sida official reviewing the draft report suggested this was factually incorrect, it was clearly stated by our interviewee and so we have left it in though we accept this may be disputed.

<sup>52</sup> See also section 5.2 The latest ISC review of the MSIA took place in November 2018 and its outcome will have a bearing on Sida’s agreement with MSIA should any serious failure to progress with the recommendations be found (Sida, 2018c).

<sup>53</sup> Full financial delegation allows the Swedish Head of Development Co-operation in the field to decide on commitments of up to USD 7.5 million within Sida’s country budget allocations.

Cooperation is closely engaged and involved in the process as well. This lack of formal financial delegation does disempower the embassy in Kabul. This is compounded by a challenging security situation that results in the controller function remaining in Stockholm and servicing a small team of eight located in Kabul.<sup>54</sup>

If I'm really honest, I feel that I have to fight a bit. [...] When you talk to the controllers at home, their role is to stop me from taking all this risk, but they don't know the [Afghani] context so sometimes it can be quite a fight from my side to say, 'Never mind, we can handle that.' [...] When we had a controller in the field in Kabul, it was much easier because they know the context and you don't have to explain everything.<sup>55</sup> I'm much more vulnerable because Kabul is one of the places where you are not delegated more than small funds. So, we are dependent on the controllers at home and they do not know the context. [...] To really achieve results in Afghanistan you have to be very local and you really need to know your context, also on district and provincial level... In the case of Afghanistan (with the split functions between Sida HQ and the field), I don't think we share the understanding of risk. We perhaps do at a formal level but not at a more practical level. (Heads of Development Cooperation Focus Group)

The relatively limited number of locally-based Swedish staff, and particularly the lack of a controller in Kabul, remains a real challenge for the exercise of flexibility vis a vis the fiduciary risks faced in the contribution. While there may be valid security and cost reasons for keeping controllers in Stockholm, not having them in the field thwarts deeper awareness and relations that could engender greater risk tolerance, notwithstanding considerable fiduciary risks. Sida staff with direct experience of the contribution are certainly not naive about the possibility of corruption within this contribution and could hardly be accused of 'going native'. At the same time, they retain a pragmatic orientation that is partly inculcated by the reality

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<sup>54</sup> This includes five Sida staff and two Afghan Sida officers.

<sup>55</sup> In written feedback on the draft report, it was suggested there had never been a controller posted in Kabul. We reviewed our interview transcripts however, and clearly heard this on the recording so have left the quotation though understand this may be disputed.

of living and operating in the country. When we asked what would happen hypothetically if MSIA's access to the women it served resulted from bribes, we were told:

Yeah, absolutely it would be [a problem] because then we would have to act, and we have zero tolerance to corruption, and our partners have to have the same level of tolerance. But, then we know that it's Afghanistan... (Interviewee 18)<sup>56</sup>

### **7.5.6 Safety and security risks to staff**

Over the lifetime of the MSIA contribution, there have been increasing restrictions on the movement of Sida staff in Afghanistan. As we suggested earlier, this has necessitated Sida assuming greater programmatic risk (by trusting partners) in order to maintain its duty of care obligations to its own staff. Even though officially there are differential duty of care obligations towards expatriate and national staff as outlined in Section 7.4.2, personal obligations to local staff weigh heavily.

We can't really ask them to go out in the different provinces to do monitoring because we are their employers and then and it wouldn't be morally right. We don't want to go/we can't go, so we can't send them because of the risks. (Interviewee 17)

This inflexibility towards security concerns is framed in moral terms, and it is certainly hard to argue otherwise. But it is also clear that the current duty of care policy may be reducing the real value of employing local staff, namely their linguistic and cultural connections that would allow them to be better monitors, interlocutors and advocates for the MSIA contribution.

We should be using our local staff more for assessing these kinds of [programmatic] risks but that could also pose a risk to them that we don't want to be responsible for. It is really unclear

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<sup>56</sup> In written feedback, Sida staff challenged this interviewee's interpretation of Sida possessing a 'zero-tolerance' to corruption. And yet, we believe the rule on "never accepting" corruption (Sida 2016a) is akin to such an approach, and more importantly is interpreted as much by most of Sida staff we spoke to. See also section 7.4.1.

for everyone where the boundaries are. We cannot even answer their questions about what would happen if they got kidnapped. They do visit project sites but almost on a voluntary basis, like 'I'm growing a beard to go to this province to monitor this project'. We do not really take responsibility. [...] We need more guidance on how we can make better use of local intelligence to gain the contextual information we need to be effective donors." (Interviewee 18)<sup>57</sup>

## **7.6 Balancing flexibility and accountability: the reality in a contribution**

Overall, the flexibility extended towards the management of risk in this contribution is not unfettered but delimited to specific areas of risk. Flexibility is enabling programmatic and contextual risk-taking but hampering institutional risks in the spheres of corruption and security. We believe this bifurcation into acceptable and unacceptable areas of risk derives from Sida's strong sense of accountability for the institutional risks run. This is particularly noticeable in the risk-rich environment of Afghanistan.

As outlined in Section 2.3, the desire to control, avert and minimise risk is a normal response to the increased expectation, desire for scrutiny and answerability from the public sector for the use of taxpayer resources provided for the activities undertaken. Evidence has shown that risk practices tend to disproportionately be concerned with institutional risks, largely due to domestic-level political pressures (OECD, 2014: 39). Fiduciary risks arising from corruption and embezzlement in particular are major stumbling blocks (Hart, Hadley, & Welham, 2015). Security risks also rank highly, incurring staff time, high costs and when these risks

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<sup>57</sup> In written feedback on the draft report, a Sida official suggested this quotation was factually incorrect and be removed. They wrote: "There are absolutely responses to what would happen if local staff got kidnapped. Neither are they doing field visits on a voluntary basis." However, given our methodological approach is to investigate reality as experienced and understood by staff, we believe this quotation is still empirically interesting for what it reveals about perceptions of risk, as well as perceived obligations to local staff.

materialise, generating bad press (Stoddard et al., 2016). Institutional risks can seriously damage Sida's image and reputation among its risk stakeholders.

So, I think we're in a situation where we have to balance. On the one hand, we're still a Swedish authority with strict regulations on how to implement our assignment but, on the other hand, we have much more openness now and we want to ensure that we end up in a good way. [...] The challenge will be to find a way of working that will allow for these opportunities to be used whilst still draw on the experiences we have had and the various methods that ensure that risks are handled. [...] I would say that, with the present development [Trac II] we can at least say that we wouldn't break our rules if we took larger risks. But, of course, we are still subject to regulations of Swedish authorities and responsible for taking good care of taxpayer's money. So, there will also always be this balancing act and that's fine. (Interviewee 4)

In this contribution, we see Sida balancing, but not reconciling, the dual imperatives of flexibility and accountability in its effort to do risk management differently. It is isolating these imperatives to separate risk spheres, such that the principle of flexibility trumps accountability in the area of programmatic and contextual risk but not in the case of institutional risks where the imperative of risk control outweighs the imperative of working flexibly.

As highlighted in our focus groups and scoping interviews, the effective result looks like an emerging boundary between acceptable and unacceptable risk-taking, allowing risk management to serve the dual imperatives of accountability and flexibility in distinct arenas rather than bringing them in close relation to each other in all spheres of risk. As the next chapter will highlight, this points to areas for strengthening Sida's approach to risk management, namely introducing more accountability where there is great space for flexibility, and more flexibility where accountability demands weigh heavily. Accountability and flexibility should be grappled with jointly in all areas of risk-taking rather than separated in practice.

## 8 New conceptualisations of risk management in fragile contexts

### 8.1 Introduction

Our recommendations in this chapter consider how Sida could create more accountability *and* flexibility in all of the dimensions of risk that it assumes.

By ensuring flexible risk management is also accountable risk management, Sida can buffer itself against changes in its authorising environment, or simply insure itself against the next corruption scandal. In section 8.2, we suggest a number of options where one could introduce a more structured approach to accountability in spaces where flexibility seems relatively extensive. In section 8.3, we suggest that there may also be value considering the creation of space for greater flexibility towards institutional risks to fully maximise the possibility of success in fragile state programming. This will require cultivating the support of Swedish risk stakeholders given Sida's strong accountability for the safety of Swedish nationals and the effective use of taxpayer funds.

### 8.2 Recommendations for strengthening accountability

It is our contention that Sida's risk culture has generated greater flexibility towards programmatic and contextual risks. But how is accountability for this greater risk-taking assured? We believe explaining and accounting for risky behaviour must sit alongside a more flexible approach to managing risks. We discuss some possible improvements below for strengthening accountability for risk-taking.

## 8.2.1 Guiding informed decision-making

Both applied policy and academic literatures highlight the importance of informed risk-taking at both the project and portfolio level (Dodsworth & Cheesman, 2018; OECD, 2011b, 2014; World Bank, 2014). This is because a standard of informed risk-taking provides the basis for generating consent in the face of uncertainty (Power, 2004: 54-55, 61). Many staff spoke of the value of informed risk taking in Trac II, providing a framework for documenting staff reasons and rationales for accepting risks within specific contributions, as well as strategies for mitigation.

If risks materialise, then I think that the work behind it must be of such good quality that you could actually argue afterwards that we took these risks, but we actually made a very good analysis. We understood that this could be the outcome, but we took the risk anyway because we thought that the possible gains were large. So, the burden of proof really matters. (Interviewee 4)

Sida may well want to consider articulating an organisation-wide socially-acceptable standard of proof given differences in individual perceptions and record-keeping (Hallegatte & Rentschler, 2015: 203). A guidance note on informed risk-taking could make explicit what constitutes an adequate "burden of proof" and what constitutes an appropriate level of residual risk even after mitigation. Detailed analysis of Trac II assessments could inform such a guidance note, alongside inputs from staff on what such a standard should look like. Such a note would thus be the product of Sida's own institutional practice, experience and learning. It could advise on whether the same expectations and standards should apply across all countries, for example across fragile and non-fragile countries, and what might constitute an exception.

Such a guidance note could create a more consistent approach to risk analysis and assessment across the organisation. This could avoid the situation where the risk assessments of an NGO are validated and vouched for by one Sida unit but discounted by another part of the organisation.

For many of our project risk assessments you can see that they've just been 'tick-the-box' exercises. You can tell that there's a large variation in the understanding of risk management and what a good risk assessment entail among the people at Sida who handle our applications. Some don't really have the knowledge to assess whether we do a good job or not in terms of managing risks. I have this conversation with my [NGO] staff all the time, that we have to improve our risk management. And they say: 'But, we got the money! Sida didn't notice.' This gives us false sense of flexibility because, in the end, if something goes wrong, it's going to be on us. (NGO Focus Group)

Guidance on an acceptable standard of informed-risk taking could also reassure partners, as well as help alleviate some of the burdens of accountability felt by programme managers and controllers. Informed by ongoing risk and materiality analysis, it could offer some organisation-wide advice on what acceptable and unacceptable levels of risk are within contributions, and which risks to prioritise or deprioritise. It would answer the key question of 'How good is good enough?' in documenting and understanding the nature of risks faced.

What happens if there is a corruption scandal in one of the low-risk low-controller-resourced contributions? This new model needs support, [so] that you are actually supported to take decisions on levels of risk, especially what you will not focus on. It's always easy to know which ones to focus more on but with relatively safe contributions where we've had a long and unproblematic working relationship with a partner; if something goes wrong there and we have decided not to put quality assurance resources on those contribution, that will make us vulnerable. (Controller Focus Group)

Given how much flexibility Trac II currently allows in interpreting and dealing with risks, codifying and making explicit what is expected is a way of highlighting organisational support when and if risks do materialise.

[A] little more guidance would be helpful to, at least, know that your back is covered. So, if things do go wrong, then it is not

perceived as a violation of your fiduciary or legal responsibilities and it's taken for what it is. (Interviewee 8)

## **8.2.2 A public statement on risk attitudes and appetite**

If a guidance note on informed risk taking is internally oriented towards Sida staff, risk communications is an analogous process focused on external stakeholders. As Sida is internally embracing a risk culture, its formal mandate for moving in this direction lies in two paragraphs in their latest Policy Framework (Government of Sweden, 2016). Beyond this, it is not clear how a flexible approach to risk is being communicated externally to Sida's accountability stakeholders (including the wider public) so they remain aware of the risks Sida assumes and the materiality conditions it considers, especially in its fragile states programming.

Domestic political environments have tended to avoid public narratives of risk that admit the possibility of failure. To do so is to be perceived as blame-avoiding. And yet, a risk communications strategy that acknowledged and justified the potential for failure would enable Sida to lay a foundation that is useful if reputational risks are ever realised in a project. Such a strategy could position risk-taking as a shared opportunity among risk stakeholders for encountering problems with extraordinary, life-changing consequences. There are examples of this in history: for example, the risks involved in NASA's efforts to land a man on the moon were publicly communicated in terms of the exceptional and ambitious nature of the objective (Power, 2004: 61-62). In other words, Sida can discursively move risk away from something to be deliberately avoided into a state of ambiguity to be embraced, especially if Sida is ambitious and motivated to tackle wicked global problems.

Communicating an alternative risk narrative publicly to a targeted group of stakeholders would introduce more accountability for the flexible approach to risk-taking already occurring in Sida. This could inculcate the stewardship and support of these stakeholders that will be critical when (not if) such risks materialise and generate problems

and failures. Cultivating and prepping Sida's external authorising environment can ensure Sida continues to champion flexibility towards the risks it faces. A more comprehensive risk communications strategy would publicly articulate Sida's awareness of the complexity of its mission, framing risk-taking in the context of the realities and ambitions in fragile states (including its own materiality analysis), identifying tensions and inconsistencies where they exist and setting expectations for Sida's actions and engagements. Finally, it could include a statement on its overarching risk appetite – one that is aspirational rather than an elaborate aggregation of all the risks faced in its contributions and portfolios – which could also be useful to guide internal and external approaches to risk.

Our understanding of risk is not very defined, and I think that it would be interesting if Sida could discuss what risk appetite we should have in different contexts and in terms of different risks. That would be a useful discussion for us to have with Sida. For now, it's very much up to the individual staff member at Sida to set the tone in terms of risk appetite. (NGO Focus Group)

### **8.3 Recommendations for enhancing flexibility**

The solutions in section 8.2 focused mainly on ways to improve risk standards and communication to internal and external stakeholders. While we suggested these could strengthen accountability for flexible risk-taking, it is fair to say that improving standards of informed risk-taking and cultivating and communicating an alternative risk narrative can also encourage greater tolerance of reputational risks. In this section, we offer some additional ways to shift Sida's tolerance for risk by introducing greater flexibility towards strongly perceived accountabilities.

### 8.3.1 Reflecting on tradeoffs

Intelligent approaches to risk management involve embracing the experimental possibilities within risk and understanding risk work as a valuable means to support engagement with unknowable futures (Power, 2004: 57-58). We alluded above to the need for articulating ambitions and complexity publicly, for explicitly referring to Sida's risk work as an opportunity for learning, innovation and experimentation, and for encountering problems rather than avoiding them (Power, 2004: 50). But doing so requires greater understanding where tradeoffs might lie (Dodsworth & Cheesman, 2018).

The idea that risk-taking should weigh risks against opportunities is not new to development literatures. Policy literatures recommend risk management minimise the danger of future crises and seize every opportunity for development: the greatest risk in development is "taking no risk at all" (World Bank, 2014: viii).

With regard to accountability, the pressure to demonstrate results has to be weighed against the flexibility and the "willingness to fail" that these [fragile] environments seem to demand. [...] [T]he solution lies partly in greater honesty and transparency about exposure to risk between donors and those they fund; and greater realism in conversations between managers and financial controllers about the parameters within which these aid interventions can realistically be conducted and accounted for (OECD, 2011:17).

Notwithstanding such advice, donors do not seem capable of moving beyond the accountability culture of risk management when dealing with fiduciary and security risks. There is an in-built tension between keeping these institutional risks low and prioritising needs and impact in many fragile states. These tradeoffs need careful consideration and articulation. While there is discretion in Trac II for staff to record tradeoffs across risks (See section 6.3.2.), more incentives to do so and a transparent framework could help for a closer and more systematic analysis. This could draw attention to important questions like is it appropriate for Sida controllers to remain in Stockholm given high security risks and costs of relocating them to the field, or would the cause of good local development be

better served by locating them in the Afghanistan? We acknowledge there are no easy answers here and it is clearly not enough to simply state that Sida should accept corruption or high personnel risks because:

[i]f Sida openly says from the beginning that we can accept a level of corruption and then a journalist who wants to make a story would present it as Sida accepting corruption, Sida would get fried. (NGO Focus Group)

Governments and their aid partners find it hard to tolerate, or to be seen as tolerating, corruption. Contextualising and methodically documenting decision-making as a series of tradeoffs may ultimately be a way to move away from entrenched risk avoidance to informed risk taking.

### **8.3.2 Nuancing "never accept" approaches to corruption**

All bilateral donors grapple with fiduciary risks like corruption and seek to minimise these where possible. Yet, the inconsistencies of an approach that asks staff to "never accept" corruption (Sida, 2016a) and yet embraces a high risk appetite towards fragile states can be significant. The tendency is for donors' proclaimed risk appetite in fragile states to exceed their organisation's risk tolerance for the fiduciary risks prevalent in these contexts, leaving donor staff unclear on how to engage. The question of how much risk is tolerable, and what happens if risks translate into corruption, means that identifying a tolerable degree of fiduciary risk can be a real dilemma for donor agencies (Hart and Taxell, 2016).

Donors often use 'zero tolerance for corruption policies' to signal a tough stance against corruption, but staff often experience a lack of clarity on how to apply these policies in practice...The strict application of these policies—that is, the full investigation, prosecution and sanction of all instances of corruption, no matter how minor—is usually not feasible...Zero tolerance policies should translate not to zero appetite for risk, but rather to adequate risk management (Independent Commission for Aid Impact, 2016: 34).

The signal that ICAI is sending to DfID is that an official 'zero-tolerance' approach may be untenable and that some flexibility is required. Within the conservative authorising environment of UK development policy, this is a significant statement to be making. It would thus seem to us entirely possible for Sida to reflect on its own "never accept" approach and how this squares with its ambitious policy agenda in fragile and conflict-affected states. Such considerations could avoid the problem of mixed messaging on the management of corruption risks (Hart 2016) and remove some of the 'wilful blindness' to corruption that some interviewees suggested anecdotally occurs inside Sida. There are certainly arguments suggesting donors need to accept that fragile contexts may require differential approaches to fiduciary risk, including adoption of a "good enough" anti-corruption strategy (Marquette, 2011) and a triage process of deciding which violations will be pursued (de Simone and Taxell, 2014).

We [in Sida] have left zero tolerance to corruption, but we haven't communicated that. I feel that we are sufficiently robust in our thinking and we could communicate why we are taking some calculated risks and how that relates to the results we want to achieve. What we should do is communicate more about the results we want to see and from there introduce the language of risk taking. I would be very proud to communicate risk taking in this sense. (Controller Focus Group)

Revising Sida's approach to corruption to incorporate greater nuance in the meaning of corruption itself would be more honest with the public, as well as potentially more effective. For example, it could facilitate shared risk-taking between Sida and its NGO implementing partners, many of whom find Sida's approach a real impediment to working in challenging contexts.

The government tells us that it wants us to work in these difficult contexts and then they still have the same requirements for auditing. Then we say, 'unless you're willing to share this additional risk with us, we won't be able to pay you back'. We need to have some sharing of the risk if we are to operate in these countries and we need to have a discussion about this. [...] We're trying to have that dialogue with Sida but there's nothing institutionalised and depends on the discretion of the contact

person at Sida. [...]. Clarity on policy on risk sharing would be helpful. (NGO Focus Group)

Shared responsibility for fiduciary risk management down the delivery chain might include closer working relationships with lead partners and joint obligations for the practical risks being assumed. For example, a formal assurance of exceptional "acceptable loss" up to a maximum threshold is one way to introduce a level of flexibility and joint ownership of fiduciary risks (Stoddard et al., 2016:19). Another idea to introduce greater tolerance towards fiduciary risks might embed risk-taking into its performance management system.<sup>58</sup> Finally, a distinction could be drawn between misuse of funds (e.g. deliberate fraud/embezzlement for private gain) and payments that allow Sida to carry out legitimate activities to service its development mission and deliver public goods.<sup>59</sup> Creative reflections on the possibilities for nuancing "never accept" approaches to corruption like these can embed flexible risk management in the sphere of fiduciary risk.

### **8.3.3 Risk as a living subject matter**

To reduce risk aversion towards institutional risks, there needs to be ample room to question and criticise risk systems and policies and acknowledge that conscientious judgements are valuable, even if

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<sup>58</sup> Here, remuneration and promotion could be linked directly to staff anticipating fiduciary risks and adopting a range of targeted behaviours and actions depending on scenarios that might occur. A risk-approach to performance management has been shown to improve staff awareness of risks, make goals clearer and set the direction of remedial actions when things go wrong or fail (Capaldo et al., 2018).

<sup>59</sup> Access to communities can require various corrupt activities: paying bribes at checkpoints; unofficial taxes to local authorities; altering targeting criteria so that powerful people receive aid; and employing armed guards from local militia (Stoddard et al., 2016: 19, 21). Through an alternative lens, however, one could view these activities as necessary acts/payments to facilitate access to target communities and fulfil Sida's mandate. Facilitation payments are arguably materially different to more deliberate forms of fraud. A sophisticated anti-corruption narrative could explain and justify this difference, explaining why the attainment of development might rest on such fiduciary facilitation.

they may occasionally be wrong. This involves supporting conversations and feedback on the practice of risk management itself. Such a conversation may be relevant, for example, given the differential risks and obligations towards Sida expatriate and local staff operating in fragile contexts. Creating these feedback loops on the performance of risk management invites reviews of the appropriate balance between accountability and flexibility. As one of our interviewees highlighted: "*Risk management will become strong when you work with it and discuss it, when you analyse and follow up.*" (Interviewee 3). Talking about risk and turning it into "*a kind of living subject matter*" (Interviewee 9) is a starting point for taking risk management out of the silo of mechanical administrative process and inculcating it into broader work cultures such that it becomes "*common sense*" (Interviewee 2) (Kaplan & Mikes, 2012).

## **8.4 A concluding word**

The value and necessity of flexible risk management in the context of Sida's engagement in fragile states is strongly confirmed in this study. There is relatively little overt resistance or internal concern expressed about the implications of greater flexibility for Sida's formal obligations towards risk control.

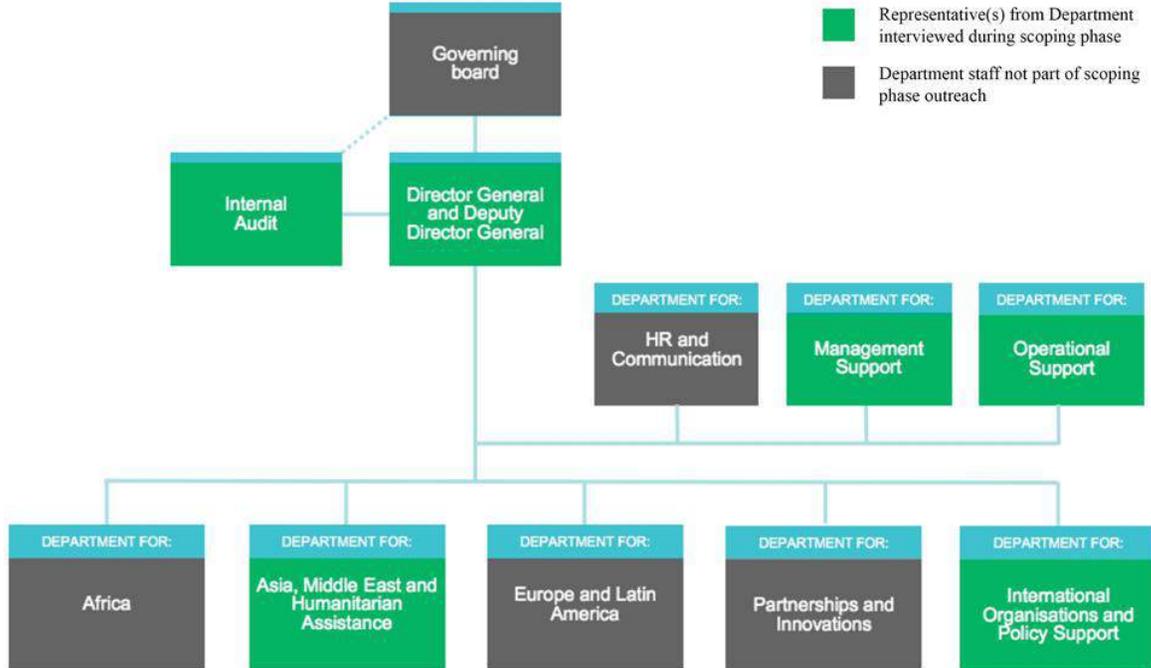
Nonetheless, our findings suggest that tensions and latent challenges lie just below the surface. Sida officials remain disinclined to the fiduciary and security risks that are elevated in fragile states that pose greater threats to institutional legitimacy. An examination of a SRHR contribution in Afghanistan suggests that there is greater willingness to manage programmatic and contextual risks flexibly than the institutional risks that threaten Sida's reputation. While there may be additional space in Trac II to manage risk flexibly, Sida maintains a strong sense of accountability for the financial integrity of its investments and for the safety of those under their care. And yet, these obligations potentially work at cross purposes to adaptiveness and the search for development results given in many fragile states elevated security and fiduciary risks are all too real.

The current practice of risk management in Sida does not so much reconcile the tensions between responsibility and

responsiveness as much as it separates them, with stronger desires to control unacceptable institutional risks maintained alongside greater possibility for flexibility towards acceptable contextual and programmatic risks. It seems to us that a broader discussion is required across all Sida units on the ways its risk management practice balances these dual obligations to accountability and flexibility in all spheres of risk. It is our hope that this report can be the trigger for such a conversation.



# Annex 1. Sida Organigram



Source: Organigram adopted from <https://www.sida.se/English/About-us/Organization/> and accessed May 2018

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