# Groupe initiatives

# POSITION PAPER

Drawn from work published in *TRAVERSES n°46*

# For Project Risk Prevention that Is Lucid and Shared with Our Financial Partners

## MAKE RISKS VISIBLE...

The notion of risks linked to development project implementation is an important, vast and poorly-known portion of international solidarity organizations' activities. The most obvious risks come from intervention contexts, and the safety risk for our teams and partners is becoming increasingly present in some areas. Others are indissociable from our partnership practices, but a portion are inseparable from contracting conditions with their sets of complex procedures that are increasingly being required by donors.

For professional development associations, notably those in Groupe Initiatives, managing "project risks" is a real issue. Indeed, the project approach is highly decisive in our activity.

Yet, the way we anticipate, manage and mitigate these risks can lead one to believe they do not exist. However, there are many such risks. Some are immediately visible and can be handled with ad hoc processes. Others, more structuring, affect our effectiveness and finish by affecting the very essence of our organizations, ultimately handicapping our capacity to take initiative. In addition to this, there are incompatibilities between the timelines of projects, donors and local stakeholders. The project approach limits the ability to inscribe our actions in the long term of territorial stakes.

We therefore wanted to identify these risks to make them visible and clear. We decided to look at the seven components of the "project cycle". This led us to identify more than 120 risks, classified into five families: financial, quality, human resources, legal, and reputation.

• Part of these risks concerns aspects that are internal to our organizations (teams, procedures, equipment) in response to which we provide ourselves with tools and adapt, regularly renewing our identification, prevention and management modalities.

• The other part concerns external risks (context/safety, donors' procedures, partners and target groups) that are not our responsibility and do not fall under our sphere of action alone. Only our capacities to dialog with the various parties involved make it possible to elaborate collective anticipation and control strategies and equitably define modalities to cover risks.

## ... AND SHARE THEM WITH OUR FINANCIAL PARTNERS TO BETTER MASTER THEM!

Our 10 organizations played the sensitive game of revealing their vulnerabilities to make "project risks" visible in their different forms and contribute to thinking within the sector. Ultimately, while risks are effectively inherent to all action, they are still little taken into account by donors, and are all too often reduced to critical hypotheses in the last column of the logical framework!

It seemed urgent to us to envisage a true dialogue with all of our international and local, technical and above all financial partners in order to envisage, together, the degrees of probability and danger for these risks (critical degree) and to compare them with fairer management modalities (degree of control).

**Risk Evaluation Star**


1. In GI in 2015, 359 projects and expertise were conducted in 62 countries through 776 agreements—on objectives and results—signed with technical and financial partners, both public and private.

2. See on this subject the article titled "Méthodologie de capitalisation" in *Traverses* No. 46. The seven components of a project are: teams, internal procedures, equipment, country context (including safety), donors' procedures, partners, and target groups.

3. See the special dossier titled "Le terrain à l'épreuve des risques" in *Traverses* No. 46.

## 7 KEY OBSERVATIONS ON THE EVOLUTION OF RISK OCCURENCE IN PROJECTS

Development and relief NGOs are known for their resilience capacities: our ability to adapt how we operate, our operating modalities, and our partnership-based approaches in function of these risks are sought after. Today, however, this resilience has been considerably weakened by the cumulation of at least **7 recurrent risks linked to the financial and contractual modalities** that we propose to discuss.

| | Donors' Procedures | Partners | Country (including safety) |
|---|---|---|---|
| **Financial** | 1, 2, 3, 4, 5 | 3, 4, 5 | 5, 6, 7 |
| **Quality** | 1, 2, 3, 4, 5 | 3, 4, 5 | 6, 7 |
| **HR and Safety** | 2 | 5 | 6, 7 |
| **Legal** | 1, 2, 3 | 3, 4, 5 | 7 |
| **Reputation** | 2, 3 | 3, 4 | 7 |

*Classification of 7 Main Risks by External Project Component and Families of Risks*

### 1. Steadily More Complex and Selective Procedures that Work Against Sector Diversity

The scope of donors' procedures is increasingly complex in both substance and form: impossible financing of feasibility studies and the establishment of baseline situations, design schedules, proposals in two steps sometimes fused into one (concept note + complete proposal), pace of reporting, fast pace of monitoring visits, cascading proportion and modalities of fund management, spending eligibility rules, cofinancing modalities, audit rationales (including possible retroactivity of up to 10 years), etc. All these rules and procedures end up making the coherence, relevance and ultimately the success of projects hypothetical.

In response to this, we increase our vigilance and adopt- expensive (not covered) -systems of technical and legal monitoring to ensure compliance with the rules and obligations that, what is more, are themselves perpetually changing. **A strong risk of bureaucratization weighs on our teams, to the detriment of the quality of the operations undertaken.**

### 2. Increasingly Non-Transparent and Binding Contractual Frameworks that Leave us Blind and Sluggish

Financing agreements are the main mediums linking us to donors. They are increasingly voluminous and complex: disproportionate length of documents and appendices, technical nature of wording borrowed from the legal field, and lists of outcome indicators, effects and impacts unsuited to project timelines, territorial stakes and target populations. This complexity opens the door to differing or even opposing interpretations. Ultimately, this regularly results in after-the-fact declarations of ineligibility for spending engaged in good faith following proper procedures.

To better decipher and manage these contracts, we avail ourselves as best we can (because of the excessive cost) of legal expertise to build arsenals of new management tools that we are constantly forced to adapt to the specificities of each financial partner. **The resulting need to both shore up our support staff (in numbers and skills) and cover negotiation, mediation, even appeal times implies management costs that contracts do not cover.**

### 3. Financing Instruments for Mandatory Consortiums...

We are seeing a significant shift in financing instruments, particularly those of the European Union, and their access conditions: multi-country projects, multi-stakeholder partnerships, requiring considerable minimal financial capacities and sometimes coupled with unacceptable results-based payment rationales... This results in calls for projects in amounts that can attain several tens of millions of euros, notably to (i) lower the donor's transaction and management costs, and (ii) magnify impacts.[4] This automatically excludes smaller OSI, even though their effectiveness and impacts have been acknowledged.[5]

These calls for projects put us in harmful situations for three reasons:

• **The necessarily extensive time spent elaborating this type of project by the lead NGO**—and to a lesser extent by our consortium partners—**is not remunerated**. This is all the more harmful when donors demand the direct submission of the full project document without the prior "concept note" stage.

• **The financial and technical chains of responsibility that fall on the NGO in charge of overall project spending**—who is obliged to apply most of the rules on its co-applicant partners—**are dissuasive**. And this works against plurality and diversity in proposals and in favor of quasi-monopolistic situations that oppose the very principles of calls for projects.

• **Finally, the size of these opportunity-based consortiums systematically causes organizational difficulties** that can rapidly threaten any attempts at pooling, knowledge-building, upscaling and even collective advocacy.

### 4. ...that Contradict the Principles of Partnerships Based on Trust and Complementarity

The banner of partnerships between European NGOs and local stakeholders (CSOs, local governments or public authorities) now seems to be flying on equal footing with the crosscutting aspects of good governance, gender and the climate: one more condition to fulfill to ensure potential project quality. Yet, these financial instruments ignore the necessary time needed to achieve balanced partnerships. Nor do they take into account either **the necessary management and monitoring-assessment costs they generate** (including intercultural aspects), **or the necessary increase in administrative costs to be shared among the structures involved.**

While we do proclaim partnerships to be a central value in our cooperation initiatives,[6] they must not be manipulated in favor of opportunistic partnerships serving donors; for example, becoming mere "guarantors and financial controllers" vis-à-vis partners deemed insufficiently "solvent and serious" carries the dual risk of interference by our NGOs with local partners and partnerships void of all meaning and trust.

4. See on this subject the Group Initiatives brief titled "L'action des ONG face au défi du changement d'échelle" (*Traverses* No. 43) Groupe Initiatives Brief Paper "NGOs' Actions in Response to the Challenge of Scaling Up".

5. See the letter sent by CONCORD, at the request of CSUD, to the DEVCO DG regarding the "Women and Sustainable Energy" project.

6. See Groupe Initiative's dossier on Partnerships consisting of *Traverses* No. 42 "The Key Role of Partnership in tackling Development Issues" and the GI position paper "Daring to question our Convictions": Position No. 5 "Modes of funding that match rhetoric".

## 5. Increasingly Unrealistic Cofinancing Approaches, Especially in a World with Dwindling ODA!

Cofinancing has become one of the watchwords in our work. We wonder just what justifies recourse to this condition today given the extent to which it creates difficulties, some of which are financially and legally irremediable. Depending on the ceiling rate, conditions sometimes placed on the nature of the cofinancing to provide (private, local governments, etc.) and the completion of the financing plan on project submission, the following months become a frantic race for cofinancing. This concern is shared by our partners, held to the same percentages, often on a pro rata basis for the budgets they manage directly. This is done to the detriment of the energy and time invested in project implementation and action quality.

**Here too, the risks are, first, borne by lead NGOs that shoulder the legal and financial responsibility and, second, risk closing projects in the red...** Yet, the fragile economic models of many NGOs can barely support such deficits; in some cases they may even threaten the organizations themselves.

## 6. Two Paradoxical Demands: The Ambition/ Financial Volume of Calls and Project Effectiveness/ Quality

These abovementioned risks have financial and qualitative consequences: to control and cover these risks, it is necessary to invest before (expertise, tools), during (training, monitoring-evaluation) and after (covering losses). **Yet, this spending is not covered by project budgets either because the spending is ineligible or because the allowed HR-to-Activity ratios are too low**. This excess weight given to project efficiency to the detriment of operational quality is a hindrance to project implementation and something that multiplies risk factors.

## 7. Rapidly Mutating Territories Require Flexibility and Adaptability in Procedures and Contractual Frameworks

The territories where we operate are undergoing rapid and sizeable changes: evolution of administrative and legal frameworks (local regulations, labor law, taxation, etc.), development strategies (public policies, job market, inflation, statistical facilities), political and environmental instability, and—increasingly—insecurity for our teams, partners and equipment. To deal with all this, our development NGOs have progressively developed anticipation and coverage strategies that, while not 100% reliable, allow us to continue to reach the most disadvantaged and vulnerable populations.

However, in this shifting world, good reflexes and agility are more what will allow for effectiveness in pursuing the targeted objectives. **Today, these requirements are still too often incompatible with the procedures and contractual frameworks mandated by donors.**

# RECOMMENDATIONS FROM GROUPE INITIATIVES

In light of these seven risks linked directly to these financial and contractual modalities, Groupe Initiatives recommends:

### Regarding Financial Means

• **Calls for proposals whose minimal required budgets remain consistent with the economic realities of the majority of development NGOs** (cash flow capacities, capacity to absorb financial risks, etc.).

• **Coverage of risk management in direct project costs:** feasibility studies, specific management tools, support team bolstering, HR training, specific security-related costs, etc.

• **An increase in the "HR-to-Activity" ratio in project budgets:** all costs linked to risk coverage must be reviewed in light of their probability and danger, and in function of the nature of the project. This will lead to an increase in support, monitoring, evaluation and control costs that is incompatible with a strictly investment-based approach.

• **Recognition of administrative and financial costs in the amount of 15% of direct costs** (i.e. doubling from 7% to 15% for European projects), in accord with the evolution of our economic and organizational models to better take into account the risks inherent in project implementation. This doubling would not call into question **the efficiency of our operational and managerial modalities in comparison with many international aid actors.**

### Regarding Partnerships

• **More flexibility in the partnership rules set forth by donors to guarantee better consideration of our respective associative visions** (values, history, areas of expertise) and thus enhance our right to initiative and fulfill quality stakes.

• **Contractual frameworks that assert the principles of partnership[7] and are based on sharing** responsibilities and therefore sharing risks. For example, it is acknowledged that partnerships are only meaningful and only provide real added value when they are built over time.

• **Direct project costs that include the transaction and management costs generated by partnerships** (meetings, training) and include periods of conflict or even rupture in project governance.

### Regarding Adaptation to Country Contexts

• **Flexibility in terms of covering costs related to the safety of people and goods** (including the expenses related to temporary suspension of activities—maintaining HR, even definitively in cases of force majeure—and termination costs) and **coverage of the costs** linked to the necessary shoring up of project monitoring.

• **Simplified management of the use of contingencies.**

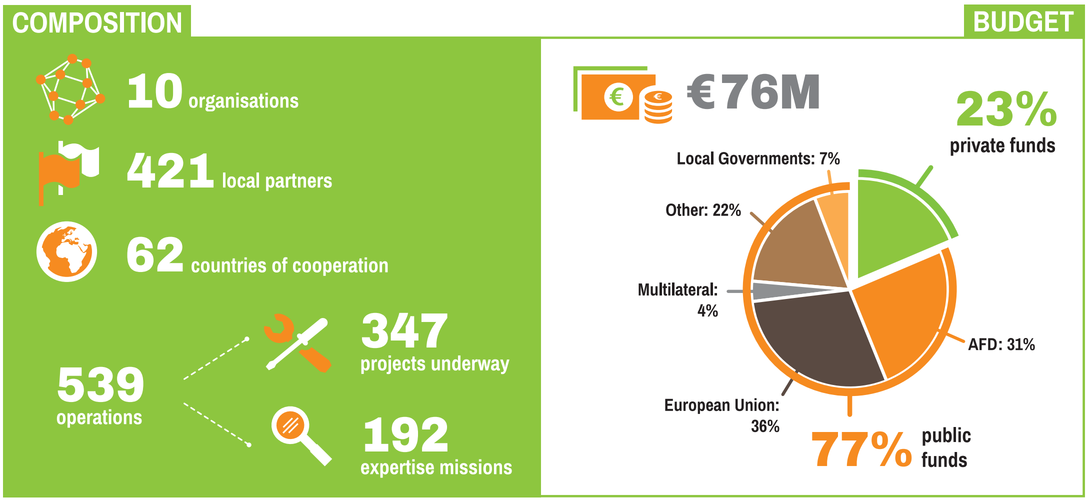
7. See positions nos. 1, 4 and 5 in the GI Position Paper on partnerships "Daring to question our convictions – 7 pledges and proposals in order to renew partnerships and tackle the issues in our interventions areas" (op. cit.).

## BUILD A COALITION OF STAKEHOLDERS TO INITIATE DIALOG WITH OUR FINANCIAL PARTNERS

Even though our ISOs are committed to collectively elaborating, sharing and pooling management tools and best practices, we do not feel any less isolated and sometimes powerless in the face of risks that we cannot control because they do not depend on us: must we then continue to manage all these project risks on our own? Can donors, whose practices expose us constantly more, hear us and question some of their requirements so that the observed risks are not responsible, in the short term, for inefficient projects and, in the medium term, for the disappearance of several of our structures? We can assert that, as things currently stand, no projects offer sufficient margins to cover the real risks they carry for our organizations. And we regret the apparent asymmetry in the balance of power and the lack of arenas for dialogue between ISOs and certain donors,[8] notably the European Union.

We would like to promote these proposals within the various arenas for reflection and decision by building multi-stakeholder alliances with French (Coordination SUD) and European (CONCORD) civil society and the French public authorities (Ministry of Foreign Affairs and International Development, AFD) to dialog with European institutions (DEVCO, NEAR, HOME) so as to contribute to the necessary renovation of our cooperation and international solidarity models.

8. In this regard, the model used in the work undertaken since 2013 between CSUD and the AFD in the "AFD and CSOs" Cross-cutting Intervention Framework is highly inspiring.




*Groupe Initiatives Associations: A Few Key Figures*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