Risk Management and Funding Partnerships

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Mobile Guide

Learn best practices for managing operational challenges and risks affecting funding partnerships.

Partnering for Impact

The Importance of Risk Management in Humanitarian Partnerships

Partnerships are a key component for improving the efficiency and impact of humanitarian action. Many international aid organizations rely on national partners and actors to implement programs and deliver assistance to people and communities affected by crisis, especially in areas with limited humanitarian access.

Risk management is an important process for organizations who receive funding to work with partners and also for donors, such as the United Nations and governments who fund humanitarian operations.

Risk management enables organizations to identify and mitigate risks related to funding partnerships, leading to better outcomes for affected populations and improved relationships with donors.

Risk management enables organizations who receive funding to select the right partners to work with and determine how best to engage them in their programs.

Risk management enables donors to make key decisions about funding and the terms and conditions of partnership involvement once a grant is secured.

Types of Humanitarian Partnerships

The term ‘partnership’ in the humanitarian context is often used to describe the relationships and collaboration arrangements between different types of entities, such as donors, international nongovernmental organizations (INGO), national nongovernmental organizations (NNGO), local authorities, community-based organizations, government institutions, formal institutions (e.g. public educational institution), not-for-profit private institutions, and for-profit entities/businesses. Most partnerships usually involve some form of funding arrangement.

Teaming or Joint Proposal Partnership

An arrangement where organizations jointly draft and submit a proposal in response to a specific funding opportunity, such as a grant program. This type of arrangement only governs the joint proposal collaboration; it does not cover the actual implementation of a program.

Implementation Partnership

An arrangement where one organization provides funds or in-kind gifts to another organization to deliver specific program activities. Depending on the needs of the organization, this partnership can be in the form of a cooperative agreement or a Memorandum of Understanding (MoU).

Framework/Strategic Partnership

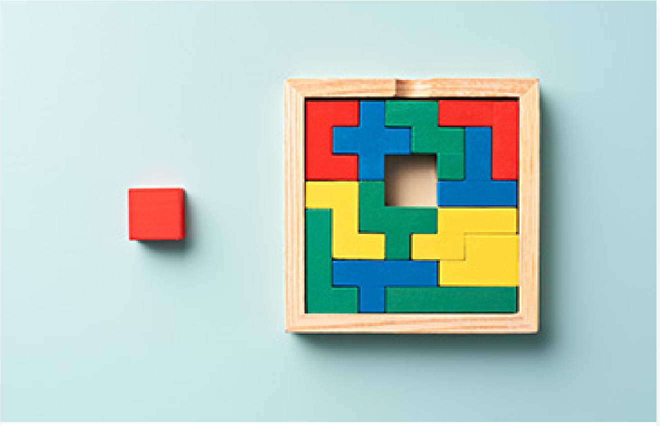
Organizations enter into an overarching partnership arrangement with the aim of collaborating on future projects together.

Risk Management and Funding Decisions

Before accepting donor funding to work with partners, your organization should first conduct a proper risk assessment to identify any major consequences or risks and determine if these risks outweigh the benefits of accepting the funding opportunity.

Consider these key questions to help ensure your organization uses good risk management practices and tools to make important partnership funding decisions.

- Can our organization meet the donor's expectations?
- Can our organization meet the donor's compliance requirements?
- Which risk controls are missing or should be strengthened in order to better enable our organization to meet donor's expectations and compliance requirements?
- Are we conducting a proper risk assessment to select downstream partners and determine their involvement in the donor-funded project?
- Are we using a proper risk rating system with partners to determine funding limits, flexibility, and levels of required oversight?
- Is there a balance between the donor's and our organization's level of risk appetite (willingness/desire to take on risk) and risk tolerance (ability to manage those risks) related to this funding



Managing Partnerships

The Four Pillars of Quality Funding and Partnerships

The Grand Bargain framework is an agreement established in 2016 between major donors and humanitarian organizations which consists of four pillars that prioritize quality funding, local response, accountability, inclusion, and participation of affected populations. A key part of this framework emphasizes the need for a system-wide understanding and adoption of risk management practices to support the delivery and capacity of local leadership.

Pillar 1: Flexibility, Predictability, Transparency, and Tracking
Humanitarian partners and local actors should receive a greater amount of flexible and predictable funding to enable the delivery of a high-quality response that is scalable, timely, and relevant. These partners must also ensure the appropriate tracking of and transparency around the usage and impact of the funding received.

Pillar 2: Equitable and Principled Partnerships
Funding and local partnerships must be based on a system-wide understanding of risk management, including risk sharing and transfer, and clear principles for partnerships to support local leadership and capacity building.

Pillar 3: Accountability and Inclusion
High-quality humanitarian response must adapt to the capacities, priorities, and views of people and communities affected by crisis. It is critical to engage groups who experience heightened vulnerability based on gender inequality, disability, social exclusion, and marginalization in order to provide an accountable response that meets their specific needs.

Pillar 4: Prioritization and Coordination
Funding should target the most vulnerable groups and their needs. Identifying these groups and prioritizing their needs requires an inclusive consultative process, gender analysis, and effective coordination by national and international actors in the humanitarian and development sectors.

Common Risks of Funding Partnerships

Risk can negatively impact and influence important partnership funding decisions and stakeholders involved in the partnership.

Overdependence on Donor Funding

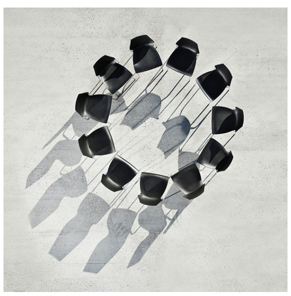
When organizations have an overdependence on donor funding for the survival of their programs, they could decide to accept funding despite the known risks the funding may bring to their organization.

Lack of Internal Controls and Risk Management Processes

When organizations do not budget for or take action to strengthen their internal control process and risk management activities, they might face operational risks or a loss of donor funding.

Limited Administrative Costs

When organizations do not allocate sufficient funding to cover administrative and resourcing costs, they are unable to effectively run general operations and risk management systems.



Lack of Partner Engagement

When organizations do not involve downstream partners in the project design process, it can cause a misalignment between the project's defined activities and goals. This discrepancy can consequently generate additional pressure from affected populations whose needs are not being properly met.

Resource and Funding Gaps

When organizations have a lack of flexible or unrestricted funding, it constrains their ability to properly resource programs and sustain multi-year/longer-term funded operations carried out by partnership organizations. As a result, organizations do not allocate sufficient funding to risk management practices to safeguard their organization, staff, and affected populations receiving assistance and services.

Embedding Risk Management into Partnerships

Consider these good risk management practices when engaging with funding partnerships.

Partner Selection Process

Use tools to vet a partner organization's existing controls, relevance, strategic fit, governance, and operational capacity. This is key to ensuring your organization does not engage with blocked/prohibited actors or organizations with inadequate capacity.

Partnership Agreements

Include specific terms and conditions in partner agreements that mitigate risk for both parties.

It is important for partners to realize that they have the power to negotiate the terms of the contract to better match their own internal risk appetite and tolerances.

Partner Implementation

- Identify measures to monitor partner risk management systems and their effectiveness in identifying and mitigating risks throughout the project cycle.
- Conduct risk-based audits at project closure to assess the performance of partner governance, internal control systems, and decision-making processes to understand the partner's ability to manage risks.
- Document lessons learned to help improve risk management practices for future partnerships.

Tips for Navigating Partnerships

Consider these tips to build strong, sustainable funding partnerships.

Increase the understanding of risk management.

Ensure your organization and staff understand the role of risk management in maintaining good partnerships with partner organizations, funders, UN agencies, and donor governments. Applying risk management practices to strategic and operational decision-making will result in a more relevant, timely, and effective humanitarian response.

Participate in decision-making.

Empower partners working with your organization to actively participate in the decision-making process regarding funding and project implementation. Their participation is essential for making informed decisions about mitigating risks and building equitable and effective partnerships.

Advocate for increased multi-year planning and funding.

Lower your organization's administrative costs to generate more responsive programming. Collaborate with partners to plan incremental funding mechanisms for longer program horizons that will produce better results and minimize administrative costs for both donors and aid organizations.

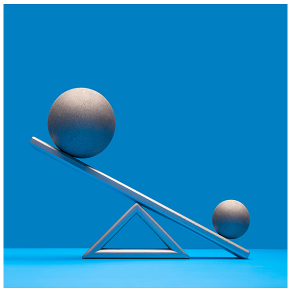
Strengthen operating systems.

Negotiate for more flexible resources, support, and risk management tools to build stronger internal controls for partners organizations. This will reduce potential risks to your organization and lower management costs to cover additional reporting requirements and oversight mechanisms.

Sharing Risk

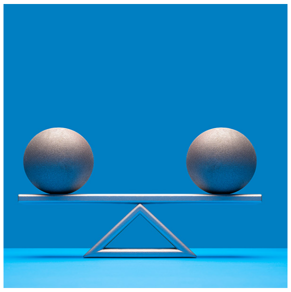
Risk Transfer vs. Risk Sharing

Humanitarian funding partnerships can expose organizations to different levels of risk and challenges. There are two key techniques you can use to manage risks in partnerships.



Risk Transfer

Risk transfer is a strategy where two organizations enter into a contractual arrangement in which risk is transferred from one organization to the other. It usually involves the organization receiving the funding to assume risk. Risk can be transferred from donor to aid organization and also from aid organization to a national implementing partner who receives funds to carry out certain program activities.



Risk Sharing

Risk sharing is a partnership-based approach that promotes 'good humanitarian partnerships' through mutual understanding and by jointly managing and mitigating risk. A risk sharing approach enables both partner organizations to focus on the overall effectiveness of their partnership in managing risk rather than individually focusing on limiting their own internal risk exposure.

The Disadvantages of Risk Transfer

A risk transfer strategy can expose your organization to additional risks when working in partnerships.

Partner organizations often experience added pressure to stay competitive with other bidding organizations for humanitarian response funding opportunities. To keep costs down, some organizations may avoid allocating funds for risk management resources, activities, and indirect 'overhead' costs in their program proposal budgets and plans.

Partner organizations have fewer available resources and inadequate support to effectively manage risk, which could include any work they are carrying out on behalf of your organization.

Humanitarian response contexts are inherently prone to high incidents of fraud, corruption, and mismanagement. Although the concept of risk transfer is largely driven by a zero-tolerance policy for incidents of fraud, corruption, and mismanagement in the humanitarian system, implementing partners might be unable to manage an appropriate level of risk for these types of incidents.

Moving Toward Risk Sharing

Consider these guidelines for moving from risk transfer to risk sharing in partnerships.

Understand each partner’s own risk appetites (willingness to accept risk) and risk tolerances (ability to manage risks).
Create a balanced partnership where both the donor partner and operational partner have good alignment between risk appetites and tolerances. In practice, this may mean one partner increases their risk appetite (takes on more risk), and the other decreases their risk appetite (takes on less risk).
Adopt a two-way partnership approach where each partner has an active role in dividing risk management responsibilities among themselves, either in equal or unequal parts.
Ensure that each partner manages and accepts responsibility for an appropriate level of risk given their capability and willingness. This should be a continuous process throughout the partnership and not a one-time effort.
Make sure each partner organization and their staff are constantly monitoring and adjusting risk management practices for improvement.