Risk management in the Australian aid program: PNG

Australia's aid to Papua New Guinea is delivered in a challenging environment. By their nature, aid investments contain a high degree of risk, which require careful management. Australia remains open to accepting a reasonable level of risk in order to achieve its objectives and effective outcomes, and we acknowledge that it is not possible to eliminate all risk before embarking on an aid investment.

Our aid investments are not determined by risk profiling. Rather, DFAT works with partner governments and Australian whole-of-government partners to decide where we will target our assistance. Deciding where to work involves analysis of the country context, and identifying where Australia can most effectively use its resources to achieve objectives in our national interest in PNG and of priority to support stability and prosperity in the region.

DFAT considers risk at all stages of the aid management cycle. Risk and value assessments are undertaken at the planning and design phase of investments. Risk and treatments are reviewed regularly with a view to developing management strategies that balance risk against benefits, and the risk of not investing at all.

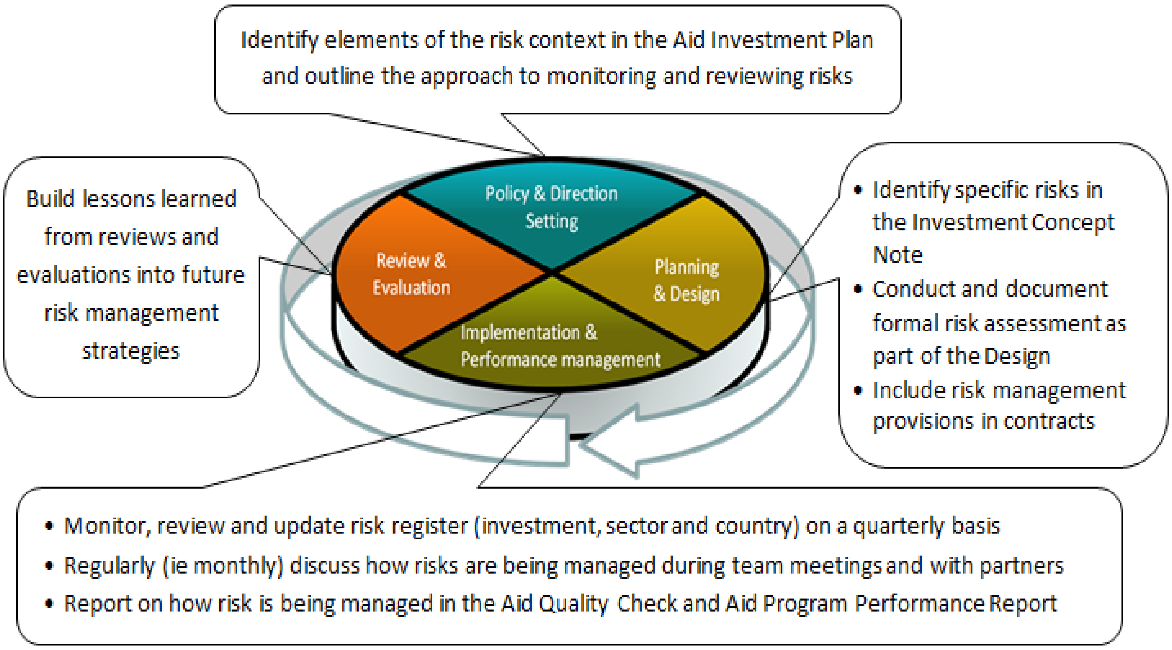
DFAT undertakes a range of risk management measures including fraud control, partner government system assessments, due diligence assessments, multilateral organisational assessments as well as the application of safeguards on environmental protection, resettlement and child protection (http://dfat.gov.au/aid/topics/safeguards-risk-management/Pages/default.aspx).

The department's approach to identifying and assessing risk in aid investments follows the principles of the International Standard on Risk Management (AS/NZ 31000:2009). DFAT has recently reviewed and updated its risk management policy and approach in line with Commonwealth Risk Policy reports for the now-integrated Department. Once an investment has been identified, a highly detailed program design process is undertaken.

The risk management documentation and monitoring requirements implemented by the Australian aid program in PNG include:

- An annual review of the PNG aid program Fraud and Anti-Corruption Strategy
- An annual PNG Aid Program Performance Report (APPR), including reporting on risk
- Regular review and updating of sectoral program risk registers for investments in PNG, to be outlined in DFAT's Aid Investment Plan for PNG which will be released by 20 September 2015.

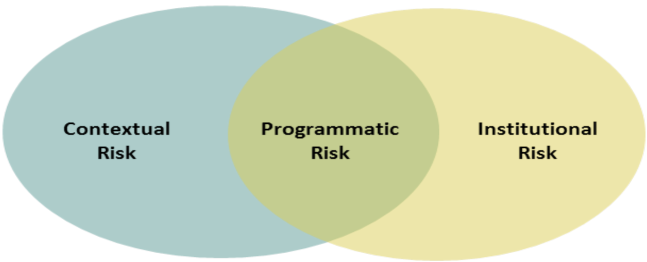
Risk Management in the Aid Management Cycle



Risk Management for Aid Investments Better Practice Guide: http://dfatintranet.titan.satin.lo/managing-aid/other-aid-management-risk-policies/Pages/aid-risk-management.aspx

For aid management, it is important to identify contextual, programmatic and institutional risk effectively to get the right balance of risks in development investments.

Spheres of risk



Contextual Risk: **risks within the environment in which the development project is operating.** Generally, DFAT will have little control over these factors but will still need to monitor the likelihood of the risks and prepare to deal with the consequences as effectively as possible.

Programmatic Risk: **risks to achieving project/investment objectives.** These risks should be identified early on in the design process so that the project can be designed to best deal with these risks by minimising the likelihood and/or consequence through proactive measures rather than reactive.

Institutional Risk: **risks to achieving internal business and corporate objectives.** These risks tend to receive the most attention by donors to minimise as they are often the factors that receive the most public scrutiny. Their impact must be weighed up in relation to programmatic risks and benefits and managed accordingly.