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G2G Risk Management and Implementation Guide

An Additional Help for ADS Chapter 220

This document is intended to be used in conjunction with ADS Chapter 220 *"Strengthening the Capacity of Partner Governments through Government-to-Government (G2G) Assistance."* It provides further details on issues that may be useful for Missions, and will be iteratively improved with users' feedback on G2G implementation and additional guidance needed. Questions and feedback on this Guide should be sent to the G2G Info Desk (G2GInfoDesk@usaid.gov).

TABLE OF CONTENTS

Introduction

Government-to-Government Programming (G2G) is a powerful expression of local ownership of priorities, resources and implementation and a critical driver of commitment to and sustainability of development results. G2G has a significant role to play as USAID plans, assesses, and implements activities in support of partner government self-reliance and strategic objective setting. To support the use of G2G as a mechanism in effective project design and in achieving Agency goals, this G2G Risk Management and Implementation Guide provides the necessary and suggested steps to Missions planning to provide direct assistance to partner countries through the use of Partner Government Systems (PGS).

Specifically, this guide is an accompaniment to ADS 220: Strengthening the Capacity of Partner Governments through Government-to-Government (G2G) Assistance - and complements ADS 201 on Operational Policy for the Program Cycle. ADS 220 integrates the principles of the [Redefining our Development Relationship (RDR) with Partner Governments](#) initiative, the [Local Systems: A Framework for Supporting Sustained Development](#), the Agency's [Enterprise Risk Management (ERM)](#) program and Program Cycle components with streamlined processes to encourage the appropriate use of PGS to deliver assistance. It documents an approach to assist Missions in identifying, assessing, evaluating, mitigating, and monitoring the threats and opportunities that USAID may face when implementing direct U.S. Government (USG) assistance with a partner government to achieve G2G goals and objectives.

The Agency's [ERM program](#) provides a holistic approach in identifying, assessing, and managing risks to support strategic decision-making in USAID's programming. To better understand and address risks, including those associated with G2G assistance, USAID developed a [Risk Appetite Statement](#) (RAS) to support the evaluation of opportunities and threats at a corporate and program level in key risk categories that may impact the Agency's mission and objectives. USAID definition of risk is **"the effect of uncertainty on objectives"** which considers the negative threats and positive opportunities on Agency objectives.

ERM addresses the full spectrum of the Agency's significant risks by considering the combined array of risks as an interrelated portfolio, rather than addressing risks only within silos. It is a coordinated activity to direct opportunities and control challenges or threats to achieving an organization's goals and objectives. Project/activity risk assessment and management focuses on whether risks to Mission delivery and programmatic results have been identified, prioritized, and alternative approaches developed. This process is to respond to risks with continuous monitoring and adaptation of activities to manage them to a tolerable level.

Understanding that development and humanitarian work involve inherent risk, this guide provides additional help for Missions to proactively manage risks across proposed G2G activities and portfolios. In the spirit of ERM and continuous learning and adapting principles enshrined in ADS 201, this guide is the distillation of lessons learned and best practices from the past 10 years. Missions can adopt this guide to improve risk management while allowing their own unique G2G implementation experience to inform risk management approaches.

Authority

This Guide supports Agency compliance with the Federal Managers' Financial Integrity Act (FMFIA) of 1982, as codified in 31 USC 3512, and is also issued pursuant to the [Office of Management and Budget (OMB) updated Circular A-123](#) Management's Responsibility for Enterprise Risk Management and Internal Control. The circular requires federal agencies to adopt Enterprise Risk Management (ERM), a holistic approach that emphasizes coordination and integration of risk management across an organization, in addition to continued and sustained attention to internal controls. USAID's internal ERM governance is enshrined in [ADS 596mab](#) which outlines the structure and roles and responsibilities of operating units in risk management and internal control.

ERM and the Program Cycle

> *"We need to sharpen our risk management practices to ensure we are making the investments that are most likely to produce sustained development. To do so, we need to develop a risk management approach that assesses risks in conjunction with strategic objectives, considers both risk and rewards rigorously and comprehensively, and is integrated seamlessly into the Program Cycle."*
>
> Local Systems: A Framework for Supporting Sustained Development

Effective ERM facilitates improved strategic decision making through a structured understanding of opportunities and threats throughout the Program Cycle. In addition, the Journey to Self-Reliance (J2SR) vision presents an excellent opportunity for USAID to integrate ERM in program and activity design. It allows the Agency to rethink how to engage with Partner Governments (PGs) to support them in achieving their self-reliance goals. To fully embrace this vision, the Agency must take a balanced look at how risks can inform design, program performance, and what can be asked of our government counterparts – from activity outputs to wider systems improvements. Broader self-reliance considerations such as cost-sharing and policy and governance reforms ultimately accelerate reliance and accountability for results.

ERM integration starts during the Country Development Cooperation Strategies (CDCS) planning phase when broad development risks and opportunities are initially identified. Examples are through scenario planning futures/foresight analysis with structured interviews, brainstorming with diverse external partners, and cross-sectoral representation. Risks identified can be either positive (opportunities) or negative (threats). ERM shares a common and natural link with scenario planning which focuses on future uncertainty where historical data is either weak or absent. More about scenario planning as a method can be found here along with a USAID field-based example here.

The Agency Risk Taxonomy is a useful tool to help stimulate thought and identify relevant risks. Risk identification and brainstorming sessions across sectors and different interest groups usually produce a long list of potential risks for consideration. These risks are considered priorities for further analysis. See ERM and Strategic Planning.

Link Risks and Opportunities to Development Objectives

The requirements, constraints, and opportunities to achieve Development Objectives and results should be considered during the CDCS planning phase. Risks are identified and analyzed against objectives and desired results. It includes:

- Integrating risk data and analysis to establish goals and objectives at the strategic level
- Assigning responsibilities within the risk management process
- Defining the scope (breadth and depth) of risk management activities
- Allocating budget and staffing resources
- Defining risk assessment methodologies
- Defining the approach for evaluating performance and cost relative to risk

The CDCS is where a Mission articulates the context and environment it faces. ERM principles enable proactive management of assumptions (or risks), for example, what is the likelihood of the external country specific event or circumstance described in the CDCS happening? If the event or circumstance occurs, what would be the impact on the Development Objective (DOs)? And what can be done (if anything) to reduce, or mitigate, the likelihood of it occurring and/or the impact if it does occur?

The CDCS presents the Mission's strategic vision for how it will engage with partner country actors. With J2SR in mind, the CDCS articulates, for example, expectations for partner country resources, from the public and/or private sector, in support of objectives. What is the likelihood of these resources materializing as expected? If not, what is the impact on DOs? A risk lens can help guide the analytic agenda for the CDCS as well. It can help inform what analyses would be useful and when they should be conducted. Some analyses are best left for a later date as project or even activity design takes off when the mission has a more specific idea of its proposed interventions and what risks they might entail.

See Technical Note: ERM in the Program Cycle for additional information on ERM integration and the logical entry points for risk management in CDCS and RDCSs, project design and implementation, activity design and implementation, monitoring, evaluation, and learning (MEL), and collaborating, learning and adapting (CLA). Also, refer to the discussion on how CLA supports ERM by helping take a balanced and systematic approach to risk-taking.

ERM and Anti-Fraud Activities

Fraud poses a variety of substantial risks to the integrity of Agency programs and erodes public trust in government operations. Implementing a risk-based approach to G2G program planning and implementation can effectively address fraud vulnerabilities in G2G activities. This is especially valuable in critical, often time-sensitive, disaster response service delivery or humanitarian financial assistance.

The identification, analysis, and response to risks should include the assessment of fraud risks and the consideration for the potential of internal and external fraud, as required by the GAO's Standards for Internal Control in the Federal Government (the Green Book) and the Framework for Managing Fraud Risks in Federal Programs. Assessment should include where, when, how, and why fraud can occur and the types of internal and external fraud risks the project/activity may be exposed to. This includes fraud related to financial reporting, misappropriation of assets, corruption, and nonfinancial forms of fraud. These broad categories of fraud encompass specific fraudulent schemes related to contracting, grant-making, beneficiary payments, payroll payments, and other areas of government activity. Factors that are specific to fraud risks include incentives, opportunity, and rationalization to commit fraud. As with other risks, the assessment should include the likelihood and impact of inherent risks, including the impact of fraud risks on the project/activity's finances, reputation, and compliance.

ERM provides an integrated framework for fraud awareness, prevention, detection, monitoring, early response reporting, and evaluation. Fraud risks should be included as part of the required annual Mission Risk Profile exercise undertaken by all Assessable Units (Missions, Bureaus, Independent Units). More information on ERM and Anti-Fraud resources can be found on the ERM resource page.

G2G Planning and Prerequisites

Successful G2G implementation and previous Mission experience has confirmed that adequate planning and preparation are key elements to G2G activities. In addition to the G2G prerequisites that Missions must undertake prior to exploring G2G options, Missions should ensure they fully understand necessary steps and sequencing to coordinate and plan for all aspects of G2G implementation.

Particular items to consider include:
- Identification, willingness, commitment, and availability of partner government representatives
- Interagency cooperation and Chief of Mission buy-in
- Clear articulation of Partner Government Systems Team (PGST) roles and responsibilities

- Availability of Mission staff and/or contractor resources
- Project management approaches and work breakdown structures (i.e. what needs to get done, by whom and when/timing through report drafting to final.)

Development and Composition of a Partner Government Systems Team

A key element of G2G planning is the establishment of a PGST. The team is responsible for conducting G2G management, monitoring and implementation activities, and making recommendations to Mission leadership on the advancement of risk management steps. Missions with extensive experience with G2G have noted that adopting an inclusive "Whole of Mission" approach can ensure the appropriate experience and technical assistance can be applied at relevant times during the G2G life cycle.

Each Mission will decide the composition and role of their PGST members as appropriate for their context, and based on the staff and capacity they have. Below is an illustrative chart on how Mission expertise can support G2G planning and implementation.

Mission Expertise	Illustrative G2G Roles
Financial Management Office	Key office on all financial aspects of G2G risk assessment, evaluate country context related to public financial management, review of financial aspects of risk management plan, financial reviews, supports G2G audits and closeout.
Contracting Office	Key office involved in developing G2G agreements, assists in understanding country context on procurement related issues. Assist in review of estimated budgets for G2G implementation. Engage in selection of contractor support for G2G Risk Assessment (as applicable).
Executive Office	Assist in understanding country context on human resources and staff-related issues.
Democracy and Governance Office	Conducts Expanded DRG review, where applicable, and evaluates country context and specific risks related to governance, human rights and democracy specific to the G2G activity.
Technical Office	Provide technical sector or economic insights to inform G2G planning, risk assessment, activity design and capacity development and reform. Assist in developing accurate G2G milestones, support G2G activity performance monitoring. Nominates GATR to monitor G2G award.
Program Office	Lead program and activity design plans for G2G Agreements, monitor G2G agreements. Identify context indicators relevant to risk tracking during CDCS development.

Mission Expertise	Illustrative G2G Roles
Regional Legal Office	Legal guidance on G2G agreements and negotiation. Legal interpretation of relevant regulations, contracts and accords with partner governments, and other external development actors.
Government to Government Technical Representative (GATR)	G2G activity management, oversight of G2G, and G2G liaison between the Mission and a partner government on all matters related to the management and implementation of a G2G agreement.
Country Cooperating Nationals (CCNs)	CCNs bring institutional knowledge and relationships with counterparts over many years. They play a vital role in continuity of G2G implementation ensuring Mission experience and lessons learned are incorporated into current country context discovery and future G2G planning.

G2G Support from Washington Stakeholders

Missions are empowered to identify, assess, evaluate, and monitor G2G risks with acknowledgement that Mission staff are best placed to understand the unique situations that can affect G2G in a given country. In most cases in the G2G process cycle, Mission Directors will provide clearance on actions related to G2G analysis and risk assessments. Washington support offices are available to provide up-front and continuous consultative advice, guidance, and support on G2G policy and implementation to Missions embarking or continuing G2G activities. See ADS 220.2 Primary Responsibilities for additional information on Washington Office roles and responsibilities.

G2G Risk Management Process

The G2G Risk Management process includes a holistic review of all risks. The risk categories included in USAID's Risk Appetite Statement (RAS) are: (1) Fiduciary Risks; (2) Reputational Risks; (3) Programmatic Risks; (4) Legal Risks; (5) Security Risks; (6) Human-Capital Risks; and (7) Information Technology Risks. The section that follows defines and outlines an approach for evaluating Programmatic Risk, Fiduciary Risk and Reputational Risk, most commonly explored as a part of G2G activity planning.

Programmatic Risk

Programmatic risk refers to events or circumstances that could potentially improve or compromise the effectiveness of USAID's development or humanitarian assistance. If USAID is to achieve our long-term objective of ending the need for foreign assistance, we must take smart and disciplined programmatic risks. USAID works in contexts that are often changing rapidly, where evidence is often incomplete, and where there is rarely one path to achieving results. A further complication is that many of our programs are in complex and non-permissive environments (NPEs) where we have to navigate higher levels of contextual risk to make effective progress against programmatic goals. In addition, the disciplines of development and development humanitarian assistance continue to evolve, and opportunities arise from ongoing innovations or the changing development landscape that can enable us to achieve breakthrough results. USAID makes decisions based on rigorous analysis and conclusions supported by the best currently-available evidence, while recognizing that it is often possible or practical to achieve the level of information we seek, and that the biggest risk is often the price of inaction or inadequate action. The overall risk appetite for Programmatic Risk is HIGH.

Fiduciary Risk

Fiduciary risk is a critical category with respect to G2G. It is defined as the danger that funds allocated from the budget:

> (1) may not be controlled properly,
> (2) may be used for purposes other than those intended, and/or
> (3) may produce inefficient or uneconomic programmatic results.

As financial stewards of taxpayer funds, USAID operating units work within the Risk Appetite Statement (RAS) to respond to events or circumstances that could potentially result in fraud, waste, loss, or unauthorized 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 realization of development or humanitarian outcomes.

USAID recognizes that corruption, low absorptive capacity, and weak management capacity in the country context can increase the Agency's fiduciary risk, and additional measures must be identified, as necessary, to mitigate this risk. In addition, the Agency acknowledges that there are times when minimizing fiduciary risk by avoiding implementation modalities that use partner-country systems could come at the cost of making progress toward our mission of ending the need for foreign assistance. USAID is thus committed to striking a balance between our obligation to safeguard U.S. taxpayer funds and our strategic objective to increase local capacity and ultimately transition partner countries from our assistance.

The amount of risk that a Mission is willing to accept will vary depending on the operational context and emerging threats. USAID's risk appetite for Fiduciary Risk is Low. This stance has implications and should be a key consideration for G2G planning, implementation, and monitoring.

Reputational Risks

USAID's ERM Risk Appetite Statement defines Reputational Risks as, "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." For G2G activities, reputational risks include, but are not limited to, risks that our partner governments may take actions that compromise basic principles of human rights and democratic governance concurrent with the implementation of a G2G activity.

Missions should consider several dimensions when examining overall government performance with respect to democracy, human rights, and governance (DRG). Reputational risk issues could include countries where leaders have been elected under a high degree of election-related fraud, where human rights are routinely curbed by the government, or where laws are arbitrarily applied or unjustifiably injure citizens. Reputational risks may also include cases where the government does not take reasonable steps to stop corruption or where it undermines accountability institutions and/or civil society. The Mission should also consider reputational risks associated with potential project activities, such as whether USG support for projects could be used in a way that may give government actors electoral advantages, exclude benefits to political opponents or marginalized groups, or project implementation could involve the forcible resettlement of citizens.

Reputational risks within G2G activities may be quite broad and may link with fiduciary and programmatic risks in particular. Democracy, Human Rights, and Governance is one of many reputational risks. That said, Democracy, Human Rights, and Governance issues play a particularly

important role in evaluating reputational risks associated with USAID's G2G assistance given the agency's institutional commitment to advancing democracy and human rights globally.

USAID Missions should examine the Democratic Accountability Environment as a part of USAID's due diligence for the preparation of G2G activities. This is to ensure partner governments have sufficient accountability mechanisms such that our assistance to partner governments is not being used at the expense of its citizens and to protect the USG from reputational risk. Consistent with risk management best practice, consideration of the democratic accountability environment should be woven throughout the risk management process. In high risk environments, the mission should conduct an Expanded DRG Review to identify and address those risks that might be reputational for USAID.

Decision-making on whether the democratic accountability environment is sufficient to proceed with the preparation of a G2G activity and whether to conduct an Expanded DRG Review lies with the Mission Director. Overall, USAID has a MEDIUM risk tolerance for reputational risk though this may be somewhat lower in the case of G2G activities and for specific countries. The amount of reputational risk an individual mission is willing to assume should be determined based on that mission's context. A member of the Democratic Governance (DG) office should be included in the Partner Government Systems Team (PGST) when an Expanded DRG Review is conducted to support risk analysis, risk mitigation and risk monitoring. The Risk Management Plan should discuss or reference the findings of the Standard or Expanded DRG Review and explain risk mitigation steps and Monitoring, Evaluation and Learning (MEL) related to risk mitigation.

Countries experiencing challenges in the democratic accountability environment do not necessarily need to avoid G2G modalities. The Mission must decide between balancing interests and available mitigating measures whether G2G is the right choice for project delivery. They must articulate the advantages and disadvantages of providing direct G2G assistance.

Establishing Risk Tolerance Levels

Using a neutral definition of risk, following ERM as a framework, and utilizing the RAS as a guiding approach to acceptable levels of risks, ensures that the Agency can take informed risks that are appropriately balanced risk tolerances, defined as the acceptable level of variation USAID is willing to take to achieve its strategic goals and objectives against USG policy objectives. This approach allows the Agency to adhere to all legal, statutory, and regulatory requirements including the prevention and detection of waste, fraud, or abuse, for which there is no acceptable level.

The Agency encourages Missions to take smart risks in an informed and documented manner that balances risk levels with potential opportunities. Mission Directors should make responsible and informed decisions and whenever Missions need assistance, they should reach out to Washington support offices. Missions should recognize compounding or cross-cutting risks and elevate them to the respective Bureau leadership for wider Agency consideration. Most importantly, Mission Directors can help guide the iterative improvement of ERM by testing concepts and tools to ensure they are useful for decision-making. Testing concepts and tools can help understand how risk-based data can be used for strategic planning and resource allocations.

Agency Risk Management Process

The Agency has adopted the seven-step risk management process defined in and adapted from OMB Circular A-123. The risk management process is not meant to be a stand-alone activity. Rather, it is a framework or approach to use in decision-making processes.

The seven steps are:
    Step 1: Establish the Context
    Step 2: Identify Risks
    Step 3: Analyze and Evaluate Risks
    Step 4: Develop Alternatives
    Step 5: Respond to Risks
    Step 6: Monitor and Review
    Step 7: Communicate, Learn and Adapt
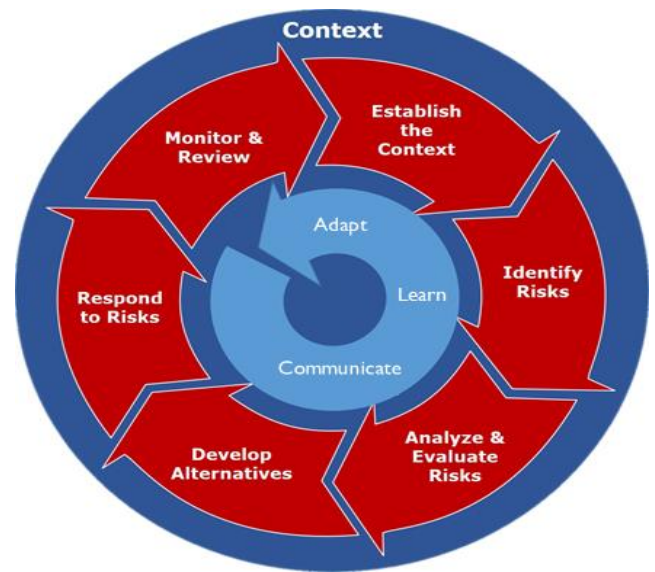
These sequential steps must be used to plan, assess, evaluate, implement, and adapt activities throughout the G2G project/activity life cycle. Through this framework, Missions must identify opportunities and risks of providing assistance to partner countries. While the seven steps must be followed for all G2G activities, irrespective of funding level, the scope for each step should be calibrated to reflect the funding level and complexity of the G2G agreement.

The level of risk identified should drive the appropriate actions to mitigate the risk. In assessing G2G risks, a risk score (Critical, High, Medium, or Low) is determined by analyzing impact and probability of the risk. For example, when the G2G assessment identifies critical risks, the risk mitigation measures will be extensive and require substantial supervision. Alternatively, a low risk environment may only require routine monitoring and oversight. The *level of effort within each step of the process is meant to be scaled up or down proportionally to the risk, funding*

level, and complexity of the agreement. See the <u>How-to-Note: Tailoring the G2G Risk Assessment</u> for further guidance on how to tailor the risk assessment to the country context and proposed G2G activity objectives.

Transition from Public Financial Management Risk Assessment Framework (PFMRAF):
There should be a seamless transition from PFMRAF as the G2G risk management integrates and enables customizing PFMRAF Steps 1 and 2. Below is a crosswalk illustration of PFMRAF deliverables and the Risk Management steps.

OMB A-123/Risk Management Process	G2G Risk Management	DELIVERABLES
Establish the Context	1) Review Policy ADS 220 & PFMRAF Guidance 2) Conduct Stage 1 Rapid Appraisal 3) Use results from Stage 1 to inform Stage 2 SOW	1) Stage 1- Rapid Appraisal Report 2) Stage 2 - Statement of Work
Identify Risk	1) Conduct Stage 2 Risk Assessment using questionnaire & interviews. 2) Perform testing	1) Risk Profile (begin) 2) Summary of testing conducted
Analyze & Evaluate	1) Score risks using Impact and Probability 2) Prioritize risks using a risk matrix.	Risk Matrix (heat map)
Develop Alternatives	Propose Risk Response strategies for **all** identified risks. Reach internal consensus/workshop with PGS Team.	Stage 2 Risk Assessment Report, questionnaire and risk response strategies.
Respond to Risk	1)Select those risks and risk response strategies that affect the objective(s) of the proposed G2G activity and formulate a Risk Response Plan. 2) Final selection of risk response & implementation	1) Risk Mitigation Plan (RMP) 2) AUPGS (includes: affirmation of PFMRAF completion, final RRP, MD concurrence.
Monitor & Review	Continuous review of risks throughout the life of the project	Monitoring Plan (i.e., Portfolio Reviews, quarterly risk response plan review meetings).

PFMRAF — Stage 1 Rapid Appraisal — Stage 2 Risk Assessment — ACTIVITY DESIGN — RISK ASSESSMENT — COMMUNICATE LEARN & ADAPT — Stage 2 Report Package, Subject Matter Experts (SME), G2G Resource Library, G2G Information Desk, Training and PFMRAF Policy & Guidance

Step 1: Establish the Context

This first step ascertains/verifies if G2G is a viable option in a partner country by determining the country enabling environment and understanding the governance systems. In layman's terms this step should respond to the following question: "What are we trying to do and why?" Of key importance is the need for Missions to set objectives/goals and understand the Public Financial Management (PFM) environment and the governance structure in the country that we are trying to partner with.

● This step includes establishing goals and objectives at the strategic level (CDCS) so that in the next steps of the G2G risk management process risks can be identified, analyzed, evaluated and managed against well-defined G2G activity goals and objectives. The context includes the significant factors that may affect the ability of a Mission to achieve and move forward with providing direct assistance through G2G type activities. This may include but is not limited to the following areas:

- o Budgeting, cash management, procurement and contracting, audit and reporting, internal controls, human resources and information technology (IT) systems for financial management and control
- o The technical and institutional aspects of governance and public accountability
- o Project design and program management
- o The sector(s) known to be of interest for use of country systems
- o USAID policies for use of partner government implementation mechanisms and details of the relevant instruments

Missions should familiarize themselves with how the partner government systems work and what the constraints and/or the opportunities are to using these systems to implement direct type of assistance. Establishing the context will help Mission Directors comply with the required due diligence process. It will also help the Mission make an informed decision as to whether to continue planning to provide direct assistance or whether an alternative mechanism and/or capacity development techniques should be used first. Managing expectations about the risk management process within USAID and with key external stakeholders, including the Partner Government, is key during the "Establish the Context" step of the risk management process. USAID is trying to build a partnership with the partner government with the intent that they gain better capability in executing and delivering development agenda.

Establishing the context involves Mission knowledge and experience, information from country roadmaps, risk profiles, audits, required analyses and any internal/external reports, and assessments/audits. This helps further understand factors that could present an opportunity, pose a challenge, or assist consensus building on the viability of G2G. Missions should not have to start "from scratch" and are encouraged to use all existing relevant and timely information sources.

Prior to initiating consultations with key stakeholders, the PGST should research various sources of information and complete responses to country context setting questions. They should draw on Mission PFM, governance, and other relevant background information, expertise and experience. To expedite country context setting, Missions PGST members should share the responsibility of researching and answering questions as appropriate rather than assigning an individual person or office.

A best practice includes sharing the completed draft responses to the country context setting questions in advance with members of the PGST who will participate in consultations. This approach will not only educate the team on the content researched, but also assist and guide the team during consultations/interviews with the partner government and other stakeholders. The PGST should maintain a list of sources that were referenced and create a bibliography as part of the final responses to the questions.

The responses to the questions will be revised, refined, and finalized upon completion of the consultations with key stakeholders to reflect updated information garnered through

consultations/interviews. The final deliverable of this first risk management step "Establish the Context" is a "Country Context Report" (CCR).

Key Sources of Information

As a starting point the PGST should review relevant and timely (generally, within the last three years) diagnostic reports of the partner country's systems along with the legal and regulatory governance framework. They should become familiar with the structure of the government including separation of powers, if any, between central or federal organization, factors such as media freedom, Civil Society Organization (CSO) development, and the role of political parties. The PGST should thoroughly review and understand this information prior to consultations with partner government officials and other stakeholders to enable more fruitful discussion. Useful references include the Country Procurement Assessment Reports (CPAR), Public Expenditure Review (PER), Poverty Reduction Strategy Papers (PRSP), democracy and governance assessments, and other similar documentation to inform responses and analysis.

Key sources of information include the following: Methodology for Assessment of Procurement Systems (MAPS), USAID J2SR roadmaps, and the Public Expenditure and Financial Accountability (PEFA) reports.

Methodology for Assessment of Procurement Systems (MAPs): The MAPS report offers countries and development partners the ability to identify strengths and weaknesses in the framework for how a partner country spends funds through public investment management and contracting.
- It is a universal tool for assessing public procurement systems. It assesses procurement as PEFA assesses public finance.
- It has 4 pillars: Legal and regulatory framework, Institutional framework, Accountability and Transparency, and Procurement Operations.
- It can be used at all levels of government.
- According to an Organisation for Economic Co-Operation and Development (OECD) representative, the MAPS methodology has potential to assist partner countries along their Journey to Self-Reliance.

Journey to Self-Reliance Country Road Maps: USAID has taken an important step towards improving how we think about self-reliance, and how we support our partner countries along their journeys.
- At a high-level, the Journey to Self-Reliance Country Roadmaps can illustrate how our approach to implementing Redefining our Relationship with Partner Governments (RDR) might evolve based on each country's progress along the journey. Specifically, the four "quadrants" of the Country Roadmap highlight countries at different stages on the Journey to Self-Reliance, and with varying levels of commitment and capacity.
- The Country Roadmaps are visualization tools that illustrate each nation's overall self-reliance according to individual, publicly available, and third-party metrics.

- USAID has produced Country Roadmaps for all 136 low- and middle-income countries. The Country Roadmaps are publicly available on USAID's website.
- Every one of the Agency's Missions and Operating Units around the world will receive their self-reliance Country Roadmap. The use of Country Roadmaps to Shape RDR Implementation in the Field Missions' approaches to operationalize the RDR vision in the field will be country- and context-specific. Each Mission's approach to engaging with PGs should evolve based on each country's commitment and capacity to address its own development challenges.
    - In countries that are accelerating toward advanced levels of self-reliance, USAID should expect more of its PG in terms of cost-sharing, policy reform, and private sector empowerment.
    - Conversely, in countries that are showing very low levels of commitment, but high capacity, USAID might engage more with civil society and other stakeholders to build political will while reviewing the effectiveness of direct engagement activities with the PG.

[Public Expenditure and Financial Accountability (PEFA) Report:]() The PEFA is a key source of important baseline information.
- Much can be drawn from this report and its use to comply with the "Establish the Context" step of the Risk Management process. The report may reduce the burden on the partner country and avoid any duplication of effort, thereby contributing to the harmonization goal specified in the Accra Agenda for Action.
- The PEFA, however, is not a risk-based tool. The PEFA may not substitute the Agency process to "Establish the Context". Feedback from development partners show that the PEFA is not solely relied upon to decide whether to use country systems. The PEFA is best used by development partners alongside additional instruments.
- PEFAs can become quickly outdated, so the information contained needs to be validated against current reality.

Consultations

Consultations are interviews and/or meetings held with partner country government officials and other key stakeholders. Prior to holding the consultations, the Mission should communicate with partner government officials to discuss the objectives of the G2G Risk Management Process and its different steps to help manage expectations.

Stakeholder consultation can be an important component in establishing data-driven, evidence-based information. Consultations and/or meetings with key stakeholders and counterparts (government, oversight and monitoring institutions, private sector, civil society, professional associations, and donors) should be used to:

- Develop a deeper understanding of the financial, governance and public accountability environments.

18

- Fill gaps in information and/or update data.
- Conduct a "reality check" on analysis provided in existing diagnostics.
- Share USAID's perspective on fiduciary risk issues, underscore the linkages between financial, governance and public accountability, and discuss options for moving forward.
- Build new and or advance existing relationships based on mutual respect, trust, and full knowledge of each party's strengths and weaknesses.
- Create a cooperative and congenial atmosphere to facilitate successful G2G implementation.

Completion of consultations will enable the PGST to:

- Understand and evaluate the financial, governance, and public accountability systems in a country/sector/level of government and identify/evaluate strengths and weaknesses.
- Assess the overall level of fiduciary risk factors including the risk of corruption, fraud, and the credibility of existing reform efforts.
- Obtain an overview of relevant legal and regulatory frameworks.
- Develop a basic understanding of the government practices related to the flow of funds impacting activities.
- Determine "tone at the top" and provide additional details needed to support conclusions in the final report.

Missions should consider partner government and stakeholder availability, notice, and protocols when considering consultations. The planning required to schedule consultations/interviews with respective stakeholders should not be underestimated.

Keeping Notes of the Consultations: Notes of consultation meetings provide a record of consultations/interviews held and key data obtained during the "Establish the Context" step of the G2G Risk Management Process. Notes should be objective, factual, and thorough and contain key information and takeaways from the meetings. Notes are not a verbatim record but rather a detailed and objective summary of the content discussed to assist the PGST to gather relevant contextual information. Although working paper files should include a record of meetings held and names of interviewees and attendees, the notes included in the "Establish the Context" Report package need not include personal names, just titles. The responsibility of note taking should be shared amongst PGST members as appropriate and properly managed to ensure timely completion.

Country Context Report (CCR): The "Country Context Report" should be a thorough yet succinct narrative report completed in line with CDCS formulation. The report is an important record of the due diligence undertaken to support commitment of USG resources through partner government systems. It should outline the data and supporting documentation relied upon in capturing country context takeaways. The report may be attached to the APAM but a summary of the conclusions must be included in the APAM.

An illustrative report format would begin with a statement of purpose, whether to inform a CDCS or test Development Objective(s)/implementing mechanism(s), and answer the following fundamental questions:

- What is the overall operating environment in the partner country?
- Are governance, public accountability institutions, and related support mechanisms sufficiently viable to support G2G?
- Are key risk factors manageable enough to move forward with the G2G Activity Specific Risk Assessment (covers steps 2, 3, and 4 of the risk management process)?

The report should place emphasis on two factors: first, emphasize factors that are weaknesses in the public financial management, governance, and democratic accountability areas. These factors would warrant further investigation before moving forward and may determine the next steps of the G2G risk management process before deciding whether to use partner government systems. Second, emphasize factors that reflect the government's commitment to transparency and development if it has been decided to proceed to the next steps.

A summary of the recommendation as to whether to proceed to the following steps of the G2G Risk Management Process, at this time, must be included in the Activity Planning Approval Memo (APAM).

The recommendation should be made based on the information available to the team including any issues raised in consultations or through analysis of data.

The CCR should be attached to the APAM sent to the Mission Director outlining conclusions/recommendations on whether G2G is currently viable. It is also the source documentation supporting and documenting Mission rationale.

Context in the CCR matters: A brief discussion of the economic and political situation will help the reader understand the financial, governance, and public accountability environments. Specific historical factors, such as massive inflationary episodes or disabling public sector corruption, will add important understanding to the incentive structure for reform. The report may also reference the implications that increased use of partner government systems may have on Mission staffing.

Suggested Context Report Components: The CCR package may include the following:

1. Executive Summary Report.
2. Supporting documentation including the Democratic Accountability Statement.
3. Consultation Notes (if conducted).
4. Additional addendum or appendices containing relevant materials should be included (as applicable).

If the decision is made to move forward with the next steps of the G2G Risk Management Process, the report should address risk factors (weaknesses). A formal, in-depth G2G Risk

Assessment (steps 2, 3, and 4 of the G2G Risk Management Process) will focus on opportunities for which government systems might seem sensible, potential implementing mechanisms, and possible safeguards that would help USAID achieve an acceptable level of risk in taking such opportunities. A description or analysis of possible funds flow arrangements, including impact on USAID's ability to move funds through the partner's financial systems, is strongly encouraged.

Step 2: Identify Risks - Threats and Opportunities

Risk identification is a structured process that seeks to generate a comprehensive list of risks. These risks are based on events that might create, enhance/accelerate (opportunities), or prevent/delay (threats) to the achievement of objectives. This should include the risk of not pursuing an opportunity and all risks regardless of the ability to control them.

Missions should make investments for impact and take balanced risks by thoughtfully assessing programmatic tradeoffs. Making hard choices can maximize the impact per dollar of their limited resources. This means taking an intentional risk-aware yet balanced approach that takes advantage of opportunities while reducing or mitigating threats. It also means identifying areas where strategic investments may reap advancements in J2SR and could potentially trigger large-scale systemic change. This is all while recognizing that sometimes these approaches will fail to fulfill their promise. (See USAID Risk Appetite Statement for further guidance.)

Step 2 of the G2G Risk Management process is the identification of risks and can only be undertaken with clear and defined G2G activity objectives. Therefore, before proceeding with risk management steps 2, 3, and 4, Missions should also have the following information:

- The proposed implementation/funding mechanism (e.g., FARA versus Cost-Reimbursement).
- The implementing entity/entities and roles and responsibilities in handling USAID funds.
- The flow of funds, funding level, proposed activity budget, duration, and beneficiaries.

All this information needs to be used to prepare a Statement of Work (SOW) that will guide the team conducting the risk assessment for the proposed G2G activity. See the checklist for "Elements of SOW" template to facilitate SOW preparation.

During this step, the Mission will determine: "What might affect the proposed activity? What can hinder or help achieve the goals? This is the step where a Mission will identify risks and/or opportunities through a comprehensive risk and partner government capacity assessment. At the completion of this step, the PGST team will develop a list of risks identified through assessment questions and testing (risk log) which will be analyzed and prioritized in subsequent steps.

Risk identification seeks to generate a comprehensive list of risks based on events that might create/enhance/accelerate (opportunities) or minimize/prevent/delay (threats) to the achievement of the proposed G2G project objectives. There are several methods and sources of information to identify risks; for example, interviews (in person or virtual), site visits, consultations, testing, walkthroughs of processes, and other observation activities. The G2G Risk Assessment requires that the PGST conduct testing of the proposed systems to understand their nature and functionality.

This is also the time for Missions to identify fraud risks that might affect G2G activities and the PGST should focus on previously conducted audits, investigations, and other fraud related information that might support risk identification and downstream risk mitigation.

Testing

Selective testing of partner government PFM and other systems is an important element of the G2G Risk Assessment. Testing provides a basis to fully understand and confirm the nature and functionality of the government practices, processes, and controls. Testing must be documented to support the level of rigor and due diligence applied by the team and assessment observations and conclusions.

The type and extent of testing is subjective and based on the professional judgment of the team. The type and extent of testing will vary by government entity(ies), its existing processes, information available, and based on the relevant functional areas reviewed by the assessment team. Random sampling can be used for selecting documents for review or sites to visit.

Testing may take the form of inspection, observation, inquiry, or combinations thereof. For example, an inspection/review of select documents and transactions to validate processes and controls or walkthroughs to confirm understanding that can determine whether controls are functioning as intended and key processes are being followed.

It is recommended to consider an initial test plan during the planning of the G2G risk assessment SOW. This will help the assessment team tailor the risk assessment (See How-to-Note: Tailoring a G2G Risk Assessment) and anticipate the functional areas, potential processes, and internal controls to be tested and establish responsibility for conducting them. This may include analysis of vulnerabilities identified during the "Establish the Context" step and other activity design considerations. The initial test plan should be viewed as a guide, and is subject to modification as appropriate based on actual work performed and information gained during the process.

Throughout fieldwork related to the G2G risk assessment, a record should be maintained of testing conducted and results achieved. This can be captured in the relevant sections of the G2G risk assessment report or in a separate annex. Any areas of weakness or deficiencies noted as a result of testing may require additional testing or inquiry and will be part of the evidence base

to inform whether there is a risk and the subsequent risk scoring and mitigation, where applicable.

For due diligence purposes, the type and extent of testing performed needs to be described in the G2G Risk Assessment report. Typically, this is included in the "Methodology/Approach" section of the G2G risk assessment Report. An illustrative table of testing is below. See also G2G Risk Assessment Workbook for the template and other optional tools that can be used for developing risk assessment scope of work and risk assessment reporting, etc.

G2G Risk Assessment			
Functional Area	**Test Objective**	**Items selected for testing**	**Results/Observations**
Procurement	To determine general compliance with procurement law and operating procedures	- Four procurement award files (2019) - Four procurement award files (2020)	- 2019 files are consistent with procurement procedures, including competitive procurements - 2020 – 3 files follow procedures; 1 file missing results of tender review committee – need to follow-up with management
Treasury/ Receipts (Cash)	Validate cash controls, specifically completion of bank reconciliations and supervisory approval	Two bank accounts from trial balance; For each account, reviewed bank reconciliations for 3 months	- Bank acct A – reconciliations completed; reflect supervisory review and approval - Bank acct B – reconciliations completed but 2 months show no supervisory approval; management indicated review was conducted but forgot to initial/sign off, indicating review and approval.
Fixed Asset/ Inventory Management	Confirm existence of timely updates of asset acquisitions	Fixed Asset Inventory Registry (2019) and supporting files	Inventory registry not updated this FY, although trial balance reflects increase in fixed assets/inventory. Management informed they are short staffed and running behind updating inventory register to reconcile to changes in inventory and tagging assets.

Who conducts the G2G Risk Assessment?

This is an important decision that needs substantial consideration. Based on time and resources available, and extent of the effort, the Mission should choose the method that completes the assessment in the most effective and efficient manner. Missions may also want to consider a

combination or "hybrid" of assessment mechanisms based on activity priorities. The table below outlines important factors to consider:

Assessment Mechanism Considerations		
	Advantages	**Disadvantages**
In House	Lower cost; potentially quicker mobility of resources; provides greater flexibility on timing and scope; promotes and strengthens greater G2G Mission ownership; ability to follow-up with counterparts, builds closer relationships with partner country government; better linkages between country context setting and follow on risk assessment; builds in house skills of USAID staff; emphasizes G2G role requirements.	Competing priorities; availability of resources; time delays; may lack objectivity; scope creep; lack of necessary skill sets among available staff; possible de-emphasis on respective SOWs
Contracted	Dedicates full-time resources to complete the assessment; enables Mission staff to focus on operational responsibilities; leverages experienced professionals to apply their expertise; potentially faster execution	Higher cost; availability of resources; acquisition lead time; unfamiliarity with the G2G risk assessment process; lack of knowledge and experience dealing with government entities; contractual and time frame constraints; conflicts of interest with other work in country and with government
Local Contractors	Strengthens partnerships with local audit and professional service firms; lower cost; builds capacity locally; allows for analysis of local assessment and audit capabilities; familiarity with the local environment and culture	May have limited personnel resources and applicable experience; government attitude to contractor may detract from the process; conflict of interest if the contractor also works for the government; may be reluctant to report negatively on the government
International Contractors	Depth of resources and experience; may hold applicable experiences in conducting G2G Risk Assessments elsewhere; highly specialized staff; wider access to qualified staff and resources	Higher cost; potential limited knowledge of country and government context; may not have the local language or cultural skills; may lack the local infrastructure or logistics capacity; may lack political sensitivity or exposure; logistical and security limitations; risk of scope creep

Risk Statements

As part of the risk identification process and the development of a risk log, Missions must develop risk statements that adequately describe identified risks and outline risk root causes. Lessons learned and best practices on developing a risk statement include the following elements:

- Condition: a description of an uncertainty that could adversely affect the activity/project were it to occur.
- Cause (if known): a statement about why the condition is happening.

● Consequence: contingent effect of the condition on activity/project objectives.

Risk statements that include these three elements make it easier to rate the risks and to develop the most appropriate risk response measures.

This is the first of three steps that make up risk assessment designed to tackle: "risk identification", "risk analysis and evaluation" and "develop alternatives" of a successful risk management process. This effort may be undertaken by Mission staff, contracted to third-party professional service firms, or a combination of both (hybrid). The Risk Assessment informs the project design process and forms a basis to incorporate fiduciary risk mitigation measures into the proposed G2G project components.

The G2G risk assessment is not a certification or seal of approval for a partner government system. It is an assessment of their systems and should be approached by the Mission and partner government as a partnership. It is a measurement of the risks presented to achieve a given Development Objective relative to the government systems to be used. The concept of "certification" transfers the risk from the partner government to USAID and suggests acceptance of these risks by the development partner. Such transfer is undesirable from a development perspective. Identification of risk neither eliminates nor mitigates the risk. Concrete actions will be required once analysis and evaluation are completed.

Risk Log: The Risk Log captures and maintains the information (both threats and opportunities) on all the risks identified related to the activity. It provides a record of risks including their status and history. It is used to capture and maintain information for development of a risk mitigation plan and identifies the risk categories and themes associated with the G2G activity. Not all risks identified in a risk log will move to a risk mitigation plan. See the Risk Log Template: G2G Risk Management Workbook.

Step 3: Analyze and Evaluate Risks

Once risk (threats and opportunities) are identified, they should be analyzed and evaluated. During this third step of the risk management process Missions need to evaluate "What are the most critical risks that might affect the proposed activity?" Mission must prioritize risks according to impact and probability.

● **Impact:** The severity of an adverse event associated with a risk or combination of risks.
● **Probability:** The likelihood of occurrence of an adverse event associated with a risk or a combination of risks.

Mission should determine the impact and the probability of a risk to score/rate the risk and use this risk score as a key determinant on risk prioritization. The Mission should analyze risks by considering all possible causes, current internal control effectiveness, and potential areas where

USAID capacity development or systems strengthening is contemplated to properly calibrate the appropriate level of risk. All risks identified must be evaluated to inform downstream risk mitigation. Risks must be prioritized and considered from a Return of Investment (ROI) perspective to focus time and financial resources on targeted improvements in overall risk levels. Missions can undertake analysis that is both quantitative or qualitative in nature or develop an approach which is a combination of both.

Risk Analysis and Evaluation Approach

USAID's approach for evaluating risk(s) identified in the G2G Risk Assessment relates the impact and probability of an adverse event in accordance with sound risk management principles as defined and described in the Impact and Probability Determinations following charts 1 and 2.

It also permits the quantifying of qualitative data in order to measure, compare, and prioritize risks and scorings. Impact – The severity of an adverse event associated with a risk or combination of risks is described under Step 1. Risks should be scored with an integer or rating reflecting the impact of the event.. Probability – The likelihood of occurrence of an adverse event associated with a risk or a combination of risks is defined under Step 2. The risk is scored with an integer or rating reflecting the probability of the event.

An analysis of risks can help prioritize and focus planning, monitoring, and reviews. The steps are as follow:

Step 1: Use the first chart below (Chart 1 - Impact Determinations) to assess **Impact** (Catastrophic, Serious, Marginal, Negligible) of an adverse risk on the five standard themes relevant to G2G assistance (International Practice, Development Objective, Commitment, Compliance, Accountability).

Impact Determinations - Chart 1					
Impact	**International Practice**	**Development Objective**	**Commitment**	**Compliance**	**Accountability**
Catastrophic	There are obvious and material divergences from good international PFM practice.	Realization of an adverse event associated with this risk factor would permit attainment of less than 40 percent of expected project outcomes. Expected effects include failure of the project, widespread and severe dissatisfaction by stakeholders, major financial losses, and extensive loss of reputation.	Political and management commitment to attainment of a state of compliance with good international practice is the exception or entirely absent.	Non-compliance with the internal control framework is expected to occur widely.	Vertical and horizontal accountability institutions have major gaps, or one or the other is severely under-developed. Opposition to accountability is organized or widespread and therefore expected.
Serious	Significant elements of the PFM system do not reflect good international practice.	Attainment of 40 to 70 percent of the expected outcomes associated with the development objective can reasonably be expected. Expected effects could include a major delay, limited dissatisfaction by stakeholders, and a material financial impact.	Political or management commitment to attaining a state of compliance with good international practice is inconsistent or questionable.	Non-compliance with the internal control framework is likely to occur.	Weaknesses in the horizontal and vertical accountability institutions are evident or one or the other shows significant gaps. Opposition to accountability is evident by some elements within the society.
Marginal	PFM broadly reflects good international practice with some gaps or inefficiency present.	Seventy to 95 percent of the development objective can be reasonably assumed to be attained. Expected effects could include minor delays in attainment, minor dissatisfaction by stakeholders, or a non-material financial impact.	Political or management commitment to closing the gaps and eliminating inefficiencies is present.	Non-compliance with the internal control framework is the exception, rather than the rule.	Weaknesses in the horizontal and vertical accountability institutions may be present or such institutions may be in an early and untested stage of development. Opposition to these institutions is not a "given" but may be detected.
Negligible	PFM broadly reflects good international practice.	The development objective, in the 95 to 100 percent range of expected project outcomes, can reasonably be assumed to be attained if conditions do not change.	Strong political and management commitment to democratic values and sound PFM practice is evident.	Routine compliance with internal controls is observed and expected.	Both horizontal and vertical democratic accountability institutions are mature, function routinely, and are not under threat.

Step 2: Use the second chart below (Chart 2) to assess the **Probability** of the adverse event occurring (Frequent, Probable, Occasional, Remote).

Probability Determination - Chart 2		
Probability	**Numerical Range**	**Adverse Event Definition**
Frequent	This number reflects a conclusion that the probability lies between .76 and .99	An adverse event associated with the risk is expected to occur. There is near certainty of occurrence because the controls do not exist or are ineffective.
Probable	This number reflects a conclusion that the probability lies between .51 and .75	An adverse event associated with the risk likely will occur because the controls are inadequate or are applied inconsistently.
Occasional	This number reflects a conclusion that the probability lies between .26 and .50	An adverse event associated with the risk might occur because the conditions for it exist, but controls exist and are effective.
Remote	This number reflects the conclusion that there is less than a .25 probability.	An adverse event associated with the risk is rare or would only occur in exceptional circumstances. There is little or no experience of a similar failure.

Step 3: Use the next chart below (Chart 3) to rate the identified risk cross-referencing Impact and Probability criteria. This process enables the evaluation and assessment of identified risk(s) for impact and probability to arrive at a score which will dictate the severity of the risk and appropriate treatment. Combining the impact and probability ratings leads to a Critical, High, Medium, or Low scores, as illustrated in Chart 3 (USAID Risk Rating Matrix).

Risk Rating Matrix: A Risk Rating Matrix is a tool to map risks on impact and probability and prioritize risks. The Risk Rating Matrix shows the impact of the adverse (negligible, marginal, serious, or catastrophic) and the probability of occurrence (remote, occasional, probable, or frequent). Combining the impact and the probability ratings leads to a Critical, High, Medium, or Low score. The Mission deliverable from this step is a prioritized and evaluated list of analyzed risks from which to develop risk mitigations alternatives and a corresponding plan to address those risks.

USAID Risk Rating Matrix - Chart 3				
	Catastrophic	High	Critical	Critical	Critical

IMPACT	Serious	High	High	Critical	Critical
	Marginal	Medium	Medium	High	High
	Negligible	Low	Low	Medium	Medium
		Remote	Occasional	Probable	Frequent
		PROBABILITY			

Classification within the matrix is subjective. Historically, impact has been given greater weight than probability because of the public scrutiny and potential reputational risks to USAID operations.

Scoring will always rely on some subjectivity, professional judgment, and experience. There is no substitute for experience and sound judgment. PGST members must rely on Mission expertise and experience and seek consensus where possible on risk rating/scoring. The nature of the planned program activities and the contemplated implementing mechanism should also be taken into consideration when assigning risk scores. This link provides the template for a G2G Risk Assessment report.

Step 4: Develop Alternatives

This step is related to "What should the Mission do about identified risks or opportunities?" This ensures that Missions think creatively and expansively to design responses to risk. The G2G risk management process requires that risk response measures/strategies be proposed for ALL risks identified. PGST should provide choices to respond to identified risks. The purpose of a risk mitigation measure is to provide a description of the approach to mitigate the risk(s). The deliverable under Step 4 is a list of risk response strategies for all identified and evaluated risks. The risk response measures should be SMART – Specific, Measurable, Actionable/Assignable, Realistic, and Time-related to the proposed activity:

- **Specific:** Achievable with targeted specific areas for improvement. Specific implementation and oversight responsibilities detailed and communicated through a consultative process with risk owners and other stakeholders.

- **Measurable:** Able to quantify how risk has been managed with an indicator of progress.

- **Actionable/Assignable:** Specify actions to be undertaken by USAID, partner government, and/or other stakeholders with specific individuals responsible for implementing the response action.

- **Realistic:** Results/actions that can be achieved given the available resources, country, context, etc. Consider cost/benefit factors and look at whether risks responses can be easily evaluated/replicated if working and revisited if they are not.

- **Timely:** Specify the targeted date for completing the results/actions. Monitor target and actual completion dates.

Step 5: Respond to Risks

This step relates to: "What are the risks that we need to manage and what are the opportunities that we need to explore?" Risks can be managed in one of the following ways, through the lens of "opportunity" or "threat".

As an opportunity, one of the following actions can be taken to respond to identified risks:

- **Utilize:** Action taken to pursue the potential positive outcome. Take deliberate action to maximize the impact and/or probability of a risk.
- **Enhance:** Action taken to enhance exposure to the risk.
- **Share:** Action taken to share risk exposure with another party.
- **Ignore:** No Action on opportunity at this specific time.

 As a threat, one of the following actions can be taken to respond to identified risks:

- **Accept:** No specific action to respond to a particular risk. Some risks cannot be cost-effectively mitigated because the cost of reducing the risk (probability or impact) is greater than the value of the reduction and transfer may similarly be impractical. If the risk is within the risk appetite, the choice is to accept the risk with routine monitoring.

- **Avoid:** No action to start or continue with an activity gives rise to the risk or removes the source of the risk. Risks can be avoided by taking an alternative route to achieving an objective that does not incur the same risk, or not pursuing the objective. Risks that are outside the risk appetite (i.e., cannot be accepted), or cannot be cost-effectively accepted, mitigated, or transferred should be avoided.

- **Mitigate:** Take deliberate action to reduce impact and/or probability of a risk to maintain at an acceptable level. This is the reduction in likelihood/probability, or impact/consequences, or both.

- **Transfer:** Shift/share the risk to/with another party(ies). For example, transfer by contract (e.g., prime vs. subcontractor) or contracting on a firm-fixed-price basis. Missions should consider there is almost always some tradeoff between the involved parties (i.e., quid pro quo) in risk transfer.

Risk Mitigation

Assignment of risk score (Critical, High, Medium, or Low) drives the appropriate level of treatment to mitigate the risk. A range of risk response options should be systematically identified. The goal of this step is to provide decision makers with a structured way to identify and choose risk management actions. Response options can seek to accept, avoid, mitigate, transfer, or leverage risks or opportunities. Response options are defined as the following:

- *Risk acceptance* is a decision to not take an action that would affect a particular risk.
- *Risk avoidance* seeks to reduce the Agency's level of exposure to a particular risk.
- *Risk mitigation* consists of deliberate actions taken to reduce potential harm or maintain risk at an acceptable level.
- *Risk transfer* shifts some or all risks to another entity, network, asset, etc.

In addition, risk leveraging deliberately takes on measured risk (such as a small percentage of the overall program budget) to try experimental approaches. Measured risk may yield dramatically improved results or help balance fiduciary versus programmatic risks. Generally, the level of investment should be proportionate to the level of risk entailed.

Section 7031(a) of the annual Department of State Foreign Operations and Related Programs Appropriations Act (SFOAA) requires that "each implementing agency or ministry to receive assistance has been assessed and is considered to have the systems required to manage such assistance and any identified vulnerabilities or weaknesses of such agency or ministry have been addressed." G2G assistance requires a Risk Mitigation Plan to address identified vulnerabilities or weaknesses.

As a key deliverable for appropriate risk response, the Risk Mitigation Plan among other considerations will inform the final choice of agreement to be used and incorporated into the actual agreement and associated documents. An important deliverable of Step 5, the Risk Mitigation Plan (RMP), should be co-developed and negotiated with the partner government implementing entity (see G2G Resource Library, for examples). In addition to the RMP, Missions may identify areas to strengthen the capacity of partner government systems, either as part the G2G activity being designed or through other complementary activities. Therefore, Missions may develop a Capacity Development Plan to describe such needs in conjunction with the RMP or separately and document actions on capacity development efforts. As part of this process, Missions have an opportunity to articulate and refine capacity development efforts or areas where Missions may strengthen the local system and further advance broader sectoral or self-reliance objectives.

There are key requirements for this step (see ADS 220.5.3.1 Risk Mitigation Plan and Capacity Development Plan for detailed requirements). These are:

- The Risk Mitigation Plan and, if applicable, the Capacity Development Plan must be included and approved in the Activity Approval Memo (see Template for AAM). The memo will approve the G2G activity and use of partner government systems. The contents and sufficiency of the RMP must represent the independent recommendation of the PGST and judgement of the Mission Director.
- All risk mitigation measures, i.e. the specific actions that USAID and the partner government agree to undertake to mitigate each risk and related risk indicators, must be expressly incorporated into the type of agreement chosen as the most appropriate for implementation of the G2G activity (see ADS 220.5.4 for the different types of agreements).

Development and maintenance of the Risk Mitigation Plan and the Capacity Development Plan:

The section below describes in more detail the development and maintenance of the Risk Mitigation Plan and the Capacity Development Plan.

The information gathered and the work performed during the G2G risk assessment will be used by the PGST to create a Risk Mitigation Plan and, as relevant, a Capacity Development Plan. Missions may select risk response measures from the alternatives developed in Step 4 after they are reviewed to ensure they affect the objectives of the proposed G2G activity. The Mission should weigh the strengths and weaknesses of the various alternatives and consider the practical restraints such as time, resources, and ability to develop local capacity and implement the measures in the plan.

Step 4 above (Develop Alternatives) includes the option to accept the risk with no specific action to respond to a particular risk. Some risks cannot be cost-effectively mitigated because the cost of reducing the risk (probability or impact) is greater than the value of the reduction and transfer may similarly be impractical. If the risk is within the risk appetite, the choice is to accept the risk with routine monitoring and with the option of not including a Capacity Development Plan. (This is further detailed in the Capacity Development Plan section.)

Unlike a Capacity Development Plan, a Risk Mitigation Plan **is required** for all projects incorporating G2G direct assistance. It is a component of the Activity Approval Memorandum (AAM). The Risk Mitigation Plan is informed by the entire G2G risk assessment process and should be (or include the following):

- Specific, measurable, actionable/assignable, realistic, and timely to the project objectives. Additional considerations look at whether risks responses can be easily evaluated and replicated if working or revisited if they are not.

- Outlines specific risks (impacting the objectives of the G2G activity) and corresponding mitigation measures that must be incorporated in the final project design. Mitigation measures that do not address the specific risk are of little value. For example, if a weak information technology process was identified as a risk in a particular area, recommending implementation of a new information technology system that will take longer to implement than the life of the project would be unrealistic based on timing and complexity.

- Cost-benefit of mitigation should be a consideration in final project design. The more extensive the mitigation plan, the more difficult it may be to work within the confines of the partner government systems.

- Specify implementation and oversight responsibilities for the mitigation measures. Mitigation measures may be actions undertaken by the partner government, USAID, other parties, or combinations thereof. PGST should share and negotiate mitigation measures with the partner government implementing entity. The content and sufficiency must represent the independent judgment and recommendations of the PGST and the direction and authority of the Mission Director.

- Risk plans must include the risk owners, response actions, risk monitoring roles and responsibility, and timing. Mission management and stakeholders should review the plan and remain informed of progress. Potential capacity-development opportunities should be evaluated during risk response planning.

- Risk indicators or Key Risk Indicators (KRIs) in ERM terminology, is an element of risk assessment that provides early signals of increasing risk exposure within the G2G activity or overall G2G portfolio. These are quantifiable metrics to measure and respond to risk. Risk indicators can support effective understanding of impact and probability as well as other dimensions of risk (such as risk velocity or the speed at which a risk can impact objectives) that may trigger enhanced tracking or increased mitigation approaches.

- Commensurate with the level of risk identified for the specific activity. In the G2G Risk Assessment, the risk score (Critical, High, Medium, or Low) drives the appropriate level of treatment to mitigate the risk. For example, when G2G is undertaken in a "Critical" environment, the risk mitigation plan will be extensive and require substantial oversight, which should be agreed to during the co-planning and co-design phase of the G2G activity, for example, more frequent consultative meetings especially at the start of the activity to build a sound foundation. Some examples of mitigating measures when the score is critical include: concurrent audit, affirmative transaction approval, and co-signature requirements on disbursements, physical verification of payroll, and other

active and continuous control features. Alternatively, a "Low" risk environment may only require routine monitoring and oversight. It is also important to identify any changes in the risk environment since the completion of the G2G Risk Assessment and ensure they are included in the final project design.

Below is an illustrative example of a basic Risk Mitigation Plan. Missions may add additional information they wish to track based on the G2G activity, implementing mechanisms, and risk indicators or triggers.

Illustrative - Risk Mitigation Plan							
Identified Risk	**Impact**	**Prob.**	**Risk Rating**	**Response Measure**	**Responsible Parties**	**Timeline for Completion**	**Periodicity of Review**
Lack of proper accounting and verification of fixed assets provides inadequate control over fixed assets. Assets can be easily removed or lost from the district premises without management's knowledge.	Marg.	Occas.	Med.	1.Prepare a complete fixed asset register with all required data. 2. Establish procedures for conducting annual inventory of fixed assets. 3. Reconcile the fixed asset registry to the annual inventory.	1. Partner government financial analyst 2. Partner government Finance Director 3. Partner government financial analyst and Director reviews.	1. Prior to project initiation 2.Procedure – prior to project initiation. 3. Inventory – at end of year 1 and thereafter; reconciliation – semi-annually.	1 & 2. Review before project initiation. 3. Quarter after year end (review inventory) and; thereafter throughout the LOP. **NOTE: USAID project mgr. responsible for monitoring and follow-up on risk response measures.**

Capacity Development Plan

Capacity is the ability of a human system to perform, sustain itself, and self-renew.   It encompasses the knowledge, skills, and motivations, as well as the relationships that enable an actor—an individual, an organization, or a network—to design and take action to implement solutions to local development challenges, to learn and adapt from that action, and innovate and transform over time. Capacity of any one actor is highly dependent upon their fit within the

context of a local system and the enabling environment. (Reference: Draft Local Capacity Development Policy)

Capacity development is the process of unleashing, strengthening, and maintaining such capacity. It is a form of potential and not visible until it is used. Therefore, performance is the key consideration in determining whether capacity has changed. Organizations with improved performance will have undergone a deliberate process undertaken to improve execution of organizational mandates to deliver results for the stakeholders it seeks to serve. (Reference: Standard Foreign Assistance Indicator CBLD-9)

Sustaining development outcomes depends on the continued use of the local system and strengthening the capacity of partner governments to perform their defined roles is an essential component of G2G assistance. From a local systems perspective:

- *Strengthening* means building up the capacities of local actors—governments, civil society, and private sector—and the system as a whole. Strengthening can be accomplished through a variety of means, including direct assistance to partner governments.
- *Use* means relying on that local system to produce desired outcomes. Direct assistance to partner governments and to other local actors is an essential feature of using local systems. The risk assessment of the partner government's system will inform the extent to which particular components can be relied upon or need to be further strengthened and integrated to the Capacity Development.

There are several ways assistance can be provided to partner governments to either use or strengthen their internal system. Missions should consider special strategic and design concerns in particular to providing direct assistance to partner governments. Missions may identify areas to strengthen the capacity of partner government systems either as part the G2G activity being designed or through other complementary activities. Examples are through policy dialog, interagency and donor coordination, and third party capacity development opportunities. Therefore, Missions may develop a Capacity Development Plan to describe such needs in conjunction with or separately of the RMP and document actions on capacity development efforts. As part of this process, Missions have an opportunity to articulate and refine capacity development efforts or areas where they may strengthen the local system and further advance broader sectoral or self-reliance objectives.

In terms of monitoring and reporting on capacity development activities, there are two broad categories:

1) Actions may be taken to address capacity deficits for the purpose of risk mitigation. The actions do not contribute to the activity's intended outcomes as described in the activity design and Theory of Change (TOC).

Expected outcomes of technical assistance to strengthen partner government management of G2G funds may include: 1) improved budgetary systems (including the use of electronic financial systems) of the partner government entities, and 2) improved procurement operations, including but not limited to, procurement planning, contract administration, and supplier management of the partner government entities. (See Global Health Example: Technical Assistance for G2G PFM Scope of Work)

2) Enhanced organizational performance is an *intended development outcome of the activity as part of the design and TOC* and should be reported under the USAID's Capacity Building indicator CBLD-9 (see CBLD-9 Capacity Building Indicator). It measures whether USG-funded capacity development efforts at the organizational level have led to improved organizational performance. Organizations must meet specific criteria for this indicator. (For more details on CBLD-9 requirements, see the section on Monitoring the G2G Activity MEL Plan, Risk Mitigation Plan, and Capacity Development Plan)

In both categories of capacity building, Missions can report on the purpose, focus areas, progress, and achievements of capacity development efforts with host country government partners in their Sustainability and Local Ownership Key Issue Narrative in the PPR.

As an additional help tool use the Organizational Capacity Development Decision Questions below to determine the category of Capacity Development most relevant for the G2G assistance. This will determine the monitoring and reporting requirements.
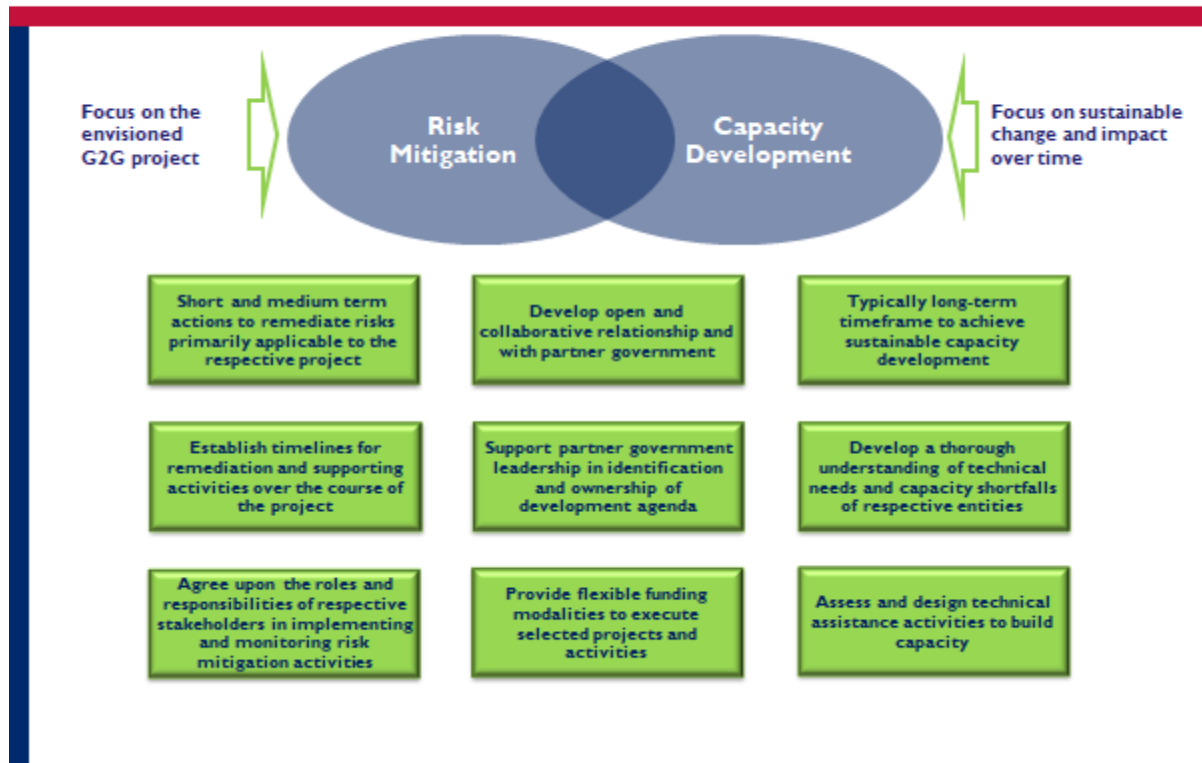
Organizational Capacity Development Decision Questions		
For each gap in organizational capacity that is identified as a risk by a pre-award risk assessment: ***Is this a risk that needs to be mitigated?***		
YES: This risk needs to be mitigated. ➢ Action: Check the activity design and Theory of Change: ***Is improved organizational performance in this area an intended development outcome of the activity?***		**NO:** This risk does not need to be mitigated. ➢ GATR continues to monitor risk for changes that might require mitigation, as described in the Risk Mitigation Plan (RMP)
If **YES**, undertake **ALL** actions below:	If **NO**, undertake **ALL** actions below:	
1. Include the risk in the Risk Mitigation Plan (RMP) and document how the gap will be addressed in the related Capacity Development Plan. The risk may be addressed as a part of a comprehensive or holistic capacity development approach that is part of the activity design. 2. Include the approach to organizational capacity development in the Activity MEL Plan (AMELP). This can be accomplished by including specific, agreed organizational performance indicator(s) in the AMELP; by incorporation of the Capacity Development Plan by reference into the AMELP; and/or by reference to a comprehensive capacity development approach reflected in the activity's design and work plan. 3. Refer to the Performance Indicator Reference Sheet (PIRS) for standard indicator CBLD-9 to determine whether planned organizational capacity development efforts under this activity meet the criteria to report against this indicator (see CBLD-9 Capacity Building Indicator) for more details).	1. Include in Risk Mitigation Plan (RMP); and, 2. Include successful management & implementation of the RMP as an assumption to the activity's Theory of Change to be monitored in the Activity MEL plan (AMELP); and, 3. Integrate with other donors' or third-party capacity development activities; and, 4. Report on your G2G activities in Sustainability and Local Ownership Key Issue Narrative in the PPR.	

For cross-referencing and monitoring Capacity Development activities, identified risks and risk responses Missions have the option to use the Template: Risk Management and Capacity Building Plan provided in the G2G Risk Assessment Workbook.

It is important to address both immediate risks (through risk mitigation) while ensuring sustainability (through capacity development). See illustration below:

Risk Mitigation vis-à-vis Capacity Development

Focus on the envisioned G2G project

Risk Mitigation **Capacity Development**

Focus on sustainable change and impact over time

Short and medium term actions to remediate risks primarily applicable to the respective project	Develop open and collaborative relationship and with partner government	Typically long-term timeframe to achieve sustainable capacity development
Establish timelines for remediation and supporting activities over the course of the project	Support partner government leadership in identification and ownership of development agenda	Develop a thorough understanding of technical needs and capacity shortfalls of respective entities
Agree upon the roles and responsibilities of respective stakeholders in implementing and monitoring risk mitigation activities	Provide flexible funding modalities to execute selected projects and activities	Assess and design technical assistance activities to build capacity

Approval for the G2G activity and the Use of Partner Government Systems (Activity Approval Memo (AAM)

The AAM can be considered the capstone document which affirms that the due diligence required for G2G (e.g., the Mission has complied with "Establishing the Context" and has conducted a G2G risk assessment) has been completed. It includes the Mission's fiduciary risk mitigation plan, informed by applicable project design analyses, inputs or outputs to be financed, selection of final methods of implementation and financing, and final recommendations with respect to the level of fiduciary risk and related accountability of USAID financing. The AAM is signed by the Mission Director who approves the activity and defines terms and conditions applicable to use of partner government systems.

A single AAM may cover more than one activity implemented by a single partner government entity or multiple partner government entities implementing the same activity. This is so long as activity and entity-specific mitigation measures are clearly identified.

AAM Mandatory Components: The AAM memorandum should include the following components:

1. Summary of key conclusions considering the information included in the CCR and after having conducted the risk assessment.
2. Affirmation that steps 2, 3, 4, and 5 of the risk management process have been completed in a Risk Assessment report.
3. The final Risk Mitigation Plan and, as applicable, the Capacity Development Plan.

Step 6: Monitor and Review

This step asks the question, "Did the Mission's risk response plan work and what changed?" The Mission must track the status of actions taken in response to a risk on a regular basis to determine if the response is working as intended. They should review the effectiveness of those actions over time. If evidence points to a risk response strategy not working, this provides an opportunity to change the course of action. Regular monitoring, review, and updating of the documented risk information should include the context, identification, analysis, alternatives, and responses. When implementing a risk response, context (including the internal USAID environment and the external context) and performance (included within the logic model) should be monitored periodically. If there is a change in context, the response may need to be altered. If the response is not having the desired effect, it may need to be adjusted.

The Mission should include participation by risk owners, management, and appropriate governance bodies as needed. They should also review higher organizational levels for progress and consistency with risk appetite. Monitoring, reviewing, and updating of risk should be done on a regular basis as part of the regular portfolio reviews, activity level M&E, project field visits, and audits. The Risk Mitigation Plan and, as applicable, the Capacity Development Plan that the Mission created for the proposed G2G activity should be monitored and reviewed over the Life of the Project (LOP). While new risks may be identified, Step 6 also identifies risks that are no longer relevant.

In addition, all Missions/Bureaus/Independent Offices are required to assess priority risks as part of the Agency-wide annual Risk Profile exercise (see Risk Profile Implementation Guidance and USAID Risk Profile Template). Missions are responsible for the continuous monitoring of country-specific risks, adaptations of programming, and operations to address new or emerging risks. Missions ensure consistency of risk responses with the USAID Risk Appetite Statement and report prioritized risks and risk actions to the relevant ERM governance structure (see Governance Structure for ERM and Internal Control Systems).

Monitoring, Evaluation and Learning (MEL)

Section 7031(a) requires, "effective monitoring and evaluation systems are in place to ensure that such assistance is used for its intended purposes." All G2G activities _**must**_ have an Activity Monitoring, Evaluation and Learning (MEL) Plan. The G2G Activity's MEL Plan specifies the procedures and processes to jointly determine if the activity is on the right track and achieving expected results. The MEL Plan is also used to course correct as needed based on new learning or contextual shifts. This requires up-front agreement during the design process, a collaborative approach, and joint decision-making in all phases of planning, implementing, and evaluating G2G activities.

The co-development of the Activity MEL Plan should start during the design phase (see ADS 220.5.3.2 Defining the Activity Scope and Implementing Mechanism). Collaboration around the development of the Activity MEL Plan can be used as an opportunity to articulate a shared vision about how the activity and its outputs are expected to lead to higher-level results. The Plan can then be supported by a common understanding of programmatic assumptions/risks and mutual agreement on the steps needed to mitigate those risks.

The G2G Activity MEL Plan is envisioned to be flexible and meet the needs of USAID and the partner government while promoting effective program management and adaptation, shared learning, and joint accountability. In order to ensure that MEL processes support the mutual respect, shared contribution, and joint accountability necessary for an effective G2G partnership ADS 220 6.2 provides guidance on the G2G Activity MEL Plan. The MEL Plan should:

- Align with government strategic development plans and their monitoring and evaluation strategies, protocols, and guidance.
- Be based on the activity Theory of Change, associated knowledge gaps, and assumptions which guides decisions on priorities for monitoring, evaluation, and CLA.
- Identify whether any key risks in the risk mitigation plan will require programmatic monitoring efforts that should be included in the G2G Activity MEL Plan.
- Be practical and reflect a joint assessment and understanding of the host country's existing systems and capacity in the sector the activity will be addressing.
- Clearly define joint expectations and document agreement in the Implementation Letter (IL) about the performance management of the activity on:
    - Expected results, associated performance indicators, and other quantitative and qualitative measures of program success.
    - Data quality standards and the methods for assessing quality and integrity of data.
    - Frequency and procedures for joint implementation reviews. USAID and the partner government will assess progress toward achieving results, integrate learning to adapt and improve the activity, and troubleshoot constraints and problems.

○ Whether an evaluation is planned and, if so, any details known on the type of evaluation and potential questions it will answer.

○ Roles and responsibilities of USAID, the partner government, and any third parties for monitoring, evaluation, and CLA. This is including responsibilities for sustaining critical performance monitoring, continuous learning and improvement, and public accountability functions after the agreement ends.

In addition to the requirement for an Activity MEL plan, Missions **_must_** integrate risk mitigation measures into activity design, implementation, and monitoring. Therefore, the RMP (Step 5) should be developed in tandem with the Activity MEL planning to ensure relevant risk mitigation measures are integrated with monitoring and evaluation planning (see ADS 220.6.4 and section below for more details).

Monitoring the G2G Activity MEL Plan, Risk Mitigation Plan, and Capacity Development Plan

In addition to the G2G Activity MEL Plan, a Risk Mitigation Plan (RMP) is required to monitor G2G assistance. To ensure Missions integrate risk mitigation measures into activity design, implementation, and monitoring, the RMP should be developed in tandem with MEL planning. Missions have the flexibility in organizing the RMP information either as a separate document or as an additional section of the MEL Plan. This is as long as the relevant risk mitigation measures are integrated with activity monitoring plans. The RMP should include the steps USAID and the partner government agree to take to mitigate risks identified. This can be through risk assessments or audits and include provisions to jointly verify partner government follow-up on any risk mitigation measures identified. The steps may include specific indicators that track partner government's compliance with risk mitigation measures, benchmarks to demonstrate progress in correcting financial management weaknesses, and agreed milestones. The RMP documents the specific identified risks and actions needed to mitigate the assessed threats and sustain results. It includes milestones to track progress in addressing risks that should be updated regularly throughout the life of the activity.

When specific risk actions identified in an activity's RMP are addressed through capacity development efforts and when the effects of these efforts are measured using appropriate capacity development performance indicators that contribute to the activity Theory of Change, these indicators should also be included in the Performance Indicator Summary Table in the Activity MEL Plan, and may be included in the Mission's Performance Management Plan (PMP) as part of ongoing monitoring and reporting.

Priority should be given to critical risks that could negatively impact the achievement of the activity's development objectives. The RMP should also address plans for monitoring context and emerging risks that may affect achievement of activity results. Regular joint reviews determine whether applied actions are effective and whether modifications are warranted.

Review and analysis of the risk actions and indicators occurs throughout G2G activity implementation, portfolio reviews, activity M&E, project field visits, audits, CDCS stocktaking exercise, etc.

The success of risk mitigation actions needs to be reflected in the Activity MEL Plan (AMELP) as a tracked assumption of the Theory of Change (TOC). This can potentially be done by reference to the RMP and the Capacity Development Plan instead of duplicating measures across documents. In cases where organizational capacity development of the partner government entity is not solely a risk mitigation action(s), but also contributes toward the activity TOC (as opposed to simply being an assumption for the TOC to hold true), then it should also be tracked as a development outcome with appropriate metrics. Missions may consider whether planned capacity development efforts meet the definition and requirements to report against USAID's Capacity Building indicator CBLD-9 (see CBLD-9 Capacity Building Indicator). CBLD-9 is a Standard Foreign Assistance Indicator that measures whether USG-funded capacity development efforts at the organizational level have led to improved organizational performance. Stated differently, CBLD-9 does not measure unexercised capacity (or "capacity as potential"), but rather improved performance that advances an organization's achievement of its own mission.   Capacity development with assisted organizations must meet specific criteria to be counted under this indicator. These criteria include consulting stakeholders on their own performance improvement priorities, designing solutions to fill the identified gaps, and systematically measuring changes in performance. For example, for G2G assistance, actions taken to address capacity deficits for the purpose of risk mitigation and which do not contribute to the activity's intended outcomes as described in the activity design and TOC are unlikely to meet the criteria to count toward CBLD-9. Capacity development actions which meet the criteria described above, as defined in the CBLD-9 Performance Indicator Reference Sheet (PIRS) and contribute toward enhanced organizational performance as an intended development outcome of the activity, should be reported under CBLD-9. In both cases, Missions can report on the purpose, focus areas, progress, and achievements of capacity development efforts with host country government partners in their Sustainability and Local Ownership Key Issue Narrative in the Performance Plan and Report (PPR). Missions should review the current CBLD-9 PIRS for details on the indicator's requirements, and use the CBLD-9 Worksheet.

Linking Risk, Risk Response and Capacity Building

Use the Risk Management and Capacity Building template to monitor risk, risk responses and capacity building.

Linking Risk and Risk Response to Activity MEL Plan

Missions should consider how best to meet the requirement to integrate risk mitigation measures into activity design, implementation, and monitoring. The RMP should be developed in tandem with MEL planning (see GAO's report on USAID's G2G Assistance).

Missions have the flexibility in organizing the RMP information either as a separate document or as an additional section of the MEL Plan as long as the relevant risk mitigation measures are integrated with monitoring and evaluation planning. If the RMP and the MEL Plans are separate, linkage can be undertaken by developing performance indicators that track progress in completing risk responses. For example, percentage of risk responses (or measures) completed on time in accordance with the RMP.

> **Example**: Using the illustrative Risk Mitigation Plan (see below), the identified risk has three response measures with different responsible parties (or risk owners) and different timelines. It is expected that most identified risks will have more than one risk response, multiple risk owners, and varying completion timelines. A pragmatic approach is to use the total number of response measures (combined for all identified risks) as the denominator and the number of response measures (combined for all identified risks) that are completed (per the risk mitigation plan) as the numerator.

Illustrative - Risk Mitigation Plan							
Identified Risk	**Impact**	**Prob.**	**Risk Rating**	**Response Measure**	**Responsible Parties**	**Timeline for Completion**	**Periodicity of Review**
Lack of proper accounting and verification of fixed assets provides inadequate control over fixed assets. Assets can be easily removed or lost from the district premises without management's knowledge.	Marg.	Occas.	Med.	1.Prepare a complete fixed asset register with all required data. 2. Establish procedures for conducting annual inventory of fixed assets. 3. Reconcile the fixed asset registry to the annual inventory.	1. Partner government financial analyst 2. Partner government Finance Director 3. Partner government financial analyst and Director reviews.	1. Prior to project initiation 2.Procedure – prior to project initiation. 3. Inventory – at end of year 1 and thereafter; reconciliation – semi-annually.	1 & 2. Review before project initiation. 3. Quarter after year end (review inventory) and; thereafter throughout the LOP. **NOTE: USAID project mgr. responsible for monitoring and follow-up on risk response measures.**

In addition and as appropriate, Missions may consider integrating USAID's Capacity Building indicator CBLD-9 (see CBLD-9 Capacity Building Indicator) to the MEL plan. This is to measure whether USG-funded capacity development efforts at the organizational level have led to improved organizational performance.

Monitoring and Evaluating Assumptions and Contextual Risks

Risks are inherent in all USAID's assistance programs with uncertain factors that may adversely affect project/activity outcomes. To get past these uncertainties, we make assumptions in the development of a project/activity strategy or design. To design a more effective project/activity, we should understand what assumptions we make about the factors that must exist for a project/activity to be successful. Missions must conduct a thorough analysis of underlying assumptions and risks that might negatively affect activity success. This is to develop the results framework and develop an effective activity design and strategy for proposed G2G assistance. Incorrect assumptions or underestimating the impact of known risks potentially could endanger the successful implementation of the activity.

The CDCS is where a Mission articulates its contextual risks that it faces. Quite often USAID has often used "assumptions" and "risks" interchangeably. Although, an "assumption" is often the opposite of a "risk" because it usually refers to a supposition that an uncertain event or

circumstance will *not* occur. Using ERM principles enables the proactive management of assumptions (or risks) – what is the likelihood of the external country-specific event or circumstance described in the CDCS happening? If the event or circumstance occurs, what would be the impact on the Development Objective? Also what can the Mission do to reduce or mitigate the likelihood of it occurring and/or the impact if does occur? (See Technical Note: ERM in the Program Cycle).

The process of creating a Results Framework forces drafters to articulate the cause-and-effect relationships that link activities and inputs to planned results in higher results. This is often referred to as the "how and the why" of an activity or project. Every project or activity design should include an analysis of underlying assumptions and risks that might negatively affect activity success. These are central in formulating the cause-and-effect relationships the project/activity strategy is based on. The causal logic embodied in the results framework indicates that, "if the lower level is produced, then the level above will be achieved, *if assumptions hold.*" Given the complex nature of development, it is critical to accurately and regularly assess the assumptions (or risks) throughout the life of the project/activity.

This process enables the analysis of critical assumptions, risks and "game changing" or "what if" scenarios that impact USAID's achievement of desired results. For this reason, Missions are increasingly using scenario planning exercises and techniques to explore the most significant drivers of change affecting their country's development landscape to inform the prioritization of Development Objectives. Since a risk factor or critical assumption may be beyond USAID's control, the CDCS should assess the degree to which the Mission can identify and control critical risks and explain how the identified assumptions and risks will be assessed periodically.

The G2G Activity MEL plan should capture critical assumptions and risks to achieving G2G assistance results and intended strategic objectives in using the G2G mechanism. MEL Plans should include lists of anticipated evaluations that can provide evidence for the validity of these assumptions. An effective MEL approach is particularly important to support necessary risk related to G2G implementation and for working in non-permissive environments (NPEs) or with local partners that have never worked with USAID before. For G2G assistance, the Activity MEL Plan should be used in tandem with the RMP to monitor and manage identified risks (see above section).

Assumptions and risks are context specific. There are assumptions and risks, however, that are common across countries and USAID sectors.

Risk Indicators

Risk indicators or Key Risk Indicators (KRIs) in ERM terminology, are used to provide early signals of increasing risk exposure, and are usually quantifiable metrics to measure and respond to risk. Risk indicators can support effective understanding of impact and probability as well as other dimensions of risk (such as risk velocity) that may trigger enhanced tracking or increased mitigation approaches. Risk indicators serve as triggers for revisiting the risk assessment and

RMP and the Capacity Development Plan, as applicable. This is done by analyzing data trends to set lower and upper tolerance limits for each indicator. These limits serve as triggers that alert when risks are about to fall outside of the targeted acceptable level. Tolerance levels should be mapped to the USAID Risk Appetite Statement (RAS) that provides guidance on the acceptable levels for programmatic, fiduciary, reputational, legal, security, human capital, and information technology risk.

Risk indicators provide an early signal of increasing risk exposures in various areas. To be effective and create value they must be methodically linked to the Mission development objectives, activities, and business processes to enable risk informed decisions for programs and operations. The "right" risk indicators are those that best suit the country operating context, Mission strategic goals, and risk appetite and controls in place. They should be regularly monitored and updated as part of the Program Cycle contextual and activity monitoring along with key assumptions. For additional information and guidance on KRIs and other ERM concepts, see the ERM webpage.

Risk indicators (as applicable based on the activity design) should be kept to the minimum that are helpful for making strategic and management decisions. They are for making decisions about adaptations to strategies, programs, and plans during the Portfolio Review or CDCS Stocktaking exercise. In cases where G2G risks could positively impact the achievement of an objective and provide opportunities to enhance development outcomes, G2G risk indicators can further Agency learning and encourage well-calibrated, risk-based strategic planning and decision making.

Data Management Plans (DMPs)

As a complement to Activity MEL plans, Data Management Plans (DMPs) should be developed to identify anticipated data assets across a full data lifecycle. DMPs provide clear understanding on data ownership, data sharing and use rights, and timeline for delivering data assets to USAID and/or to the host government. It is a tool to ensure the use of data management best practices and that data assets contribute to the Agency's evidence base. DMPs should be tailored to the overall scope, size, and purpose of the G2G activity and its resulting data assets. The DMP may be developed and approved as a section of the MEL Plan or as a separate plan. Similar to the Activity MEL Plan, OUs and Missions must put an Activity DMP in place before major implementation actions begin and update it as necessary (see ADS 579 – USAID's Policy on Development Data, and ADS Chapter 579: USAID Development Data).

Step 7: Communicate, Learn and Adapt

Internal and external stakeholders should be engaged throughout the risk management process to identify and prioritize risks impacting on development progress, understand how they impact different stakeholders (USAID, host government, implementing partners, and beneficiaries), and develop a coordinated response plan. This will help to shape the context of risk management as an interrelated portfolio, consider internal and external risks, and the operating environment.

Communication and learning should be an iterative process throughout the project. Good communications with key stakeholders will help establish and manage expectations, shape the context of risk management, ensure needs are considered, and provide an opportunity for more stakeholder involvement. Written and verbal communications between the risk manager, risk owner, and stakeholders will continue to occur throughout the risk management process.

Best practices and lessons learned should be shared and communicated within the Agency and with external stakeholders, as part of Collaborating, Learning and Adapting activities (see CLA and ERM: How USAID Takes Risks in Uncertain World).

The Mission, however, should be mindful of what to communicate and share with different audiences (internal versus external groups). The country context determines what is critical for open communication to manage partners' expectations.

Internal communication and sharing lessons learned are crucial and should happen throughout the G2G risk assessment process. The annual Risk Profile exercise provides a structured process for identifying, analyzing, and communicating the Mission's priority risks to Bureau and other internal stakeholders. Missions are encouraged to share their experiences with other Missions and discuss ways to simplify and improve processes. Best practices and lessons learned should be shared and communicated across the Agency as well as with appropriate stakeholders. An example of this is the G2G Resource Library, an online repository of Mission-developed documents, tools, templates, process maps, training materials, and other resources. Another example of communicating and learning is the "G2G Information Desk". See also G2G Best Practices.

The G2G Information Desk is maintained by the Office of the Chief Financial Officer (M/CFO) Risk Management Team (RMT). It is a cross functional information desk on all policy questions relating to G2G type of assistance. It includes members from the M/CFO, Office of the General Counsel (GC), Bureaus for Policy, Planning and Learning (PPL), Bureau for Development, Democracy and Innovation, Center of Excellence on Democracy, Human Rights and Governance (DDI/DRG) and other bureaus and offices as needed. The G2G Info Desk Repository contains many questions and answers for utilization by the Missions. The repository is a sampling of Mission's inquiries and the G2G Information Desk responses to those questions.

Sharing the Establishing the Context Document and Risk Assessment Reports

Sharing the "Establishing the Context" document and other risk assessment reports with the partner government is a Mission management decision to be taken with caution. Due to political sensitivities and/or related reasons, some report content may be deemed prejudicial to the development interests of the Mission. It may be necessary to redact and/or summarize information that may be shared or not share information with respective parties. The decision to share this document and associated reports should be made with input from the Mission's

senior management team as a whole and include consultation with the Operating Unit's (OU) legal advisor.

Similarly, the decision to voluntarily share risk assessment reports with external parties is also a Mission management decision to be taken with caution. The reports often contain non-public information and the release of which could undermine relations with the partner government. The information could be used to exploit partner government's system weakness or provide third parties an unfair competitive advantage in providing future services. Careful consideration should be given on a need-to-know or case-by-case basis and may include redaction or limited access to select data.

Note that documents and records related to the risk assessment in USAID's possession may be subject to disclosure outside of USAID under the Freedom of Information Act. This is in response to an official audit or investigation or in response to a request from the U.S. Congress.

Sharing risk assessment reports and related risk assessment experience with other Missions is encouraged and should be coordinated between respective Missions. Due to the confidential and or sensitive nature of report contents, proper steps should be taken to protect information.

Missions are ultimately responsible for maintaining all work papers and documentation supporting G2G. Missions must use the [Consolidated Audit and Compliance System (CACS)/Tracking Audit Consolidated System (TRACS) - Mission User Guide](#). It is a module within the [Agency Secure Image and Storage Tracking System](#) (ASIST) as a central repository and to manage risk assessment reports with identified risks, risk response plans, and supporting documentation for G2G.

TRACS' current capability allows for tracking of assessments and the development of a uniformed audit inventory and audit plan. TRACS also enables the maintenance of assessment and audit information in one electronic location. This prevents multiple OUs from conducting duplicative pre-award surveys on the same vendor or entity. TRACS is linked to and complements Phoenix, GLAAS, and the Consolidated Audit and Compliance System (CACS). The M/CFO/RMT will conduct routine queries of the system to ensure Missions submit all required documentation.

External Distribution: Ordinarily the final report, but not the checklist/questionnaire and notes, may be made available for distribution to the partner government and other stakeholders, as appropriate. Political, confidential, and related sensitivities, however, will need to be considered by respective Mission management. It may be necessary to redact some information where the contents may be prejudicial to the development interests of the Mission if the final report cannot be shared with respective parties due to political sensitivities or related reasons.

Risk Management G2G Deliverables

At each step of the Risk Management process, Missions should develop deliverables that ensure the requisite due diligence before proceeding to the next step. The following graphic provides a snapshot of the deliverables that Missions must produce and or clear at each state of the risk management process:
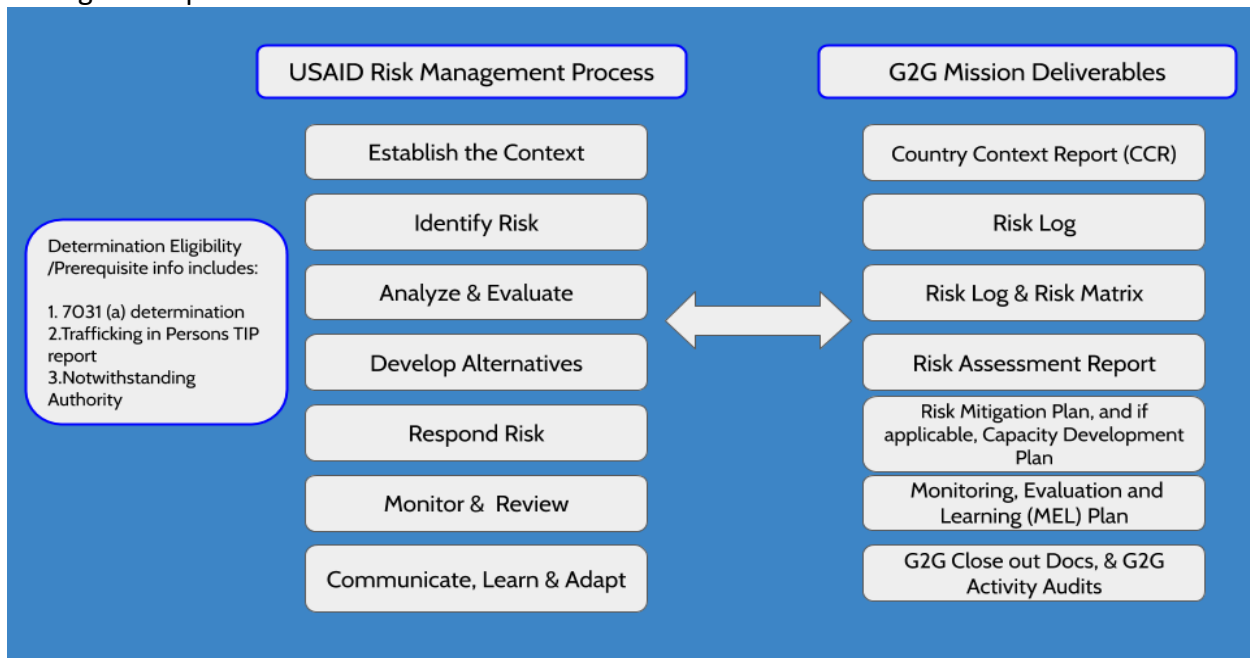

Audit Management

Missions are responsible for meeting audit requirements for G2G agreements as described in ADS 591.3.2.1. Host governments that expend $750,000 or more in USAID awards during the course of their fiscal year must have an annual audit of those funds in accordance with 2 CFR 200, Subpart F. Missions should also ensure that audit requirements as specified in any bilateral assistance agreement(s) (BAA) are met. To that end, Missions may find it useful to negotiate and approve one or more bilateral Implementation Letters (ILs) with the partner government. This is to provide guidance and implementation details for the specific project and/or G2G activity, inclusive of audit requirements and the establishment of an audit plan. While not required, taking this approach may prove useful if the Mission feels the need to amplify provisions and requirements related to the audit of USAID funds expended by the Host government. Missions should also note that as a general rule, audits of host government entities will be carried out by that host country's Supreme Audit Institution or its equivalent. It is incumbent upon the Mission to factor such an arrangement into its context establishment, implementation, and risk mitigation planning.

G2G Implementing Mechanisms

G2G activities may employ a variety of funding mechanisms to finance approved activities and inputs. Policy guidance and risk assessment requirements related to funding mechanisms are outlined in ADS 220 mandatory references, as applicable, and ADS 624 (General Assessments). Missions conducting a General Assessment can refer to this illustrative General Assessment Statement of Work.

In selecting and negotiating a particular implementing mechanism with a partner government entity, Missions should, 1) identify all of the mechanisms suitable to the particular circumstances for the subject G2G activity with consideration to when a combination of mechanisms may be appropriate, 2) fully understand the aspects of each mechanism available, and 3) use the implementing mechanism that will most likely accomplish the development purpose(s) being financed. Additional considerations for choosing G2G implementing mechanisms can be found on ProgramNet. Please see the following link: Decision Matrix for Choosing between FAR and Cost Reimbursement. Additional information on program assistance is also available on ProgramNet.
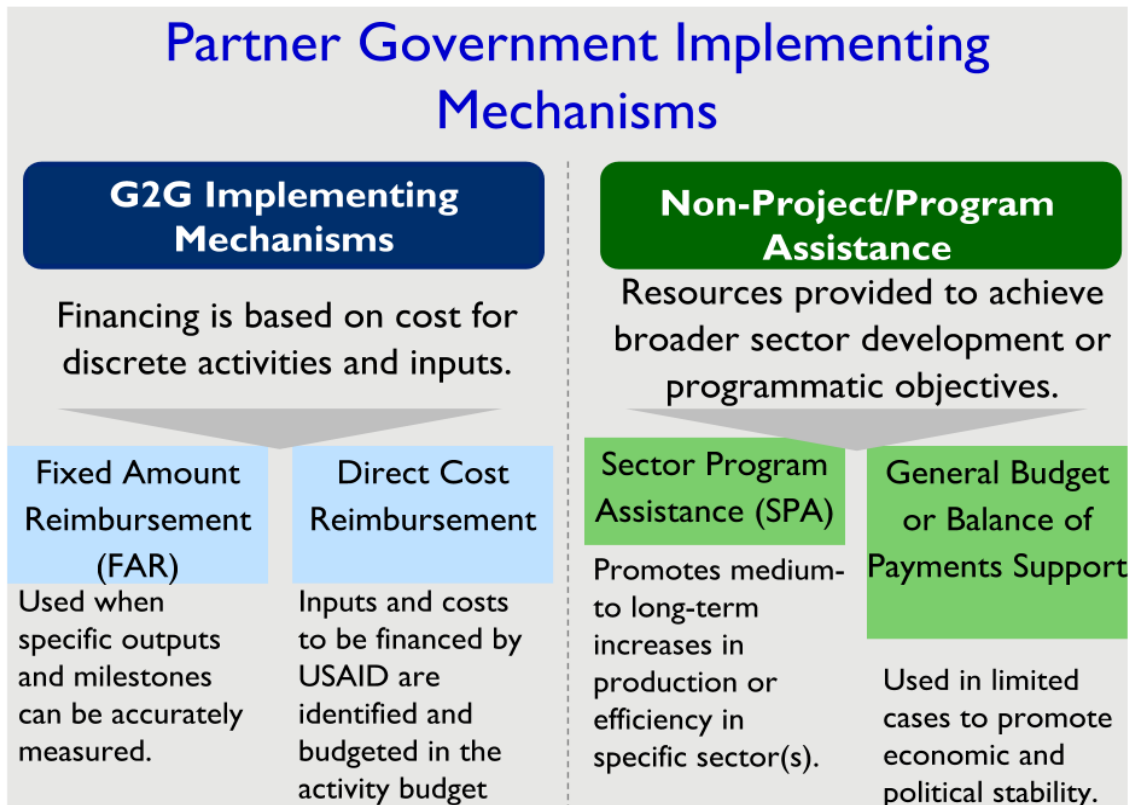
Joint Assessments

Missions may consider a joint assessment with other entities (bilateral donor, public international organization (PIO), or other USG agency) as an alternative to a USAID only G2G Risk Assessment if the opportunity to collaborate exists.

The timing and scope of donor efforts will dictate whether the opportunity presents itself in any country context. USAID must still take ownership of the final G2G risk assessment, the scoring of risks, and the risk mitigation measures needed to inform USAID's project design.

In cases where recent assessments by donors, international auditing authorities, partner governments, or Supreme Audit Institutions (SAIs) conclude that certain government PFM and other functions are already of acceptable quality, the G2G Risk Assessment can leverage information covered by the other assessments. Other assessments should be compared with the factors to be assessed and validated by the G2G Risk Assessment tailored for the specific G2G activities envisioned to confirm their reliability. Missions should also identify outstanding areas or customized factors still requiring assessment by USAID.

A. Where USAID joins another donor to perform a joint risk assessment, Missions should consider the following:

- Retain the right to provide input and approve the proposed due diligence methodology and any work plan or SOW for the assessment and the right to approve the final SOW.
- Obtain assurances that professionally qualified staff will conduct the assessment.
- Retain the right to reject part or all results at USAID's sole discretion.
- Obtain assurance that the deliverables will satisfy ADS 220 in all respects, including classification of risk and risk mitigation recommendations.
- Reject any/all scope limitations imposed by the assessed entity.
- Obtain access to all assessment working papers or supporting documentation.
- Reserve the right to conduct limited testing to confirm observations.
- Retain the ability to participate in the assessment.
- Receive copies of interim reports.
- Receive drafts of final deliverables.

B. Where another donor joins USAID's G2G Risk Assessment, Missions, subject to USAID record disclosure and other legal and policy requirements and procedures, should consider the following:

- Provide donor(s) the right to provide input to and to approve the G2G risk management methodology and work plan.
- Not permit scope limitations to be imposed on USAID's conduct of the assessment.
- Permit the assessment SOW to be expanded to meet the risk assessment requirements of the other donor(s), subject to the following:
  - The assessment SOW must meet the standards and policies of ADS 220; and
  - If the assessment SOW proposed expansion imposes additional cost, such cost will be borne by the donor(s) by whom the expansion is required/requested.
  - Grant access to USAID's working papers.
  - Provide reasonable assurance that professionally qualified staff will be used.
  - Permit reasonable, limited additional testing if the other donor desires to confirm observations.
  - Permit the other donor to accept or reject part or all results.
  - Permit the other donor to reasonably provide staff to participate on the assessment team.

C. Where USAID relies upon another donor's or another USG agency's risk assessment in its entirety, Missions should consider the following:
- Independently confirm the RMP.
- Confirm the findings with limited testing.
- Obtain access to working papers.
- Verify that no scope limitations were imposed by any party.
- Retain the right to reject part or all results at USAID's sole discretion.
- Document in Mission files that the product, plus any additional work that may be required, fully satisfies ADS 220.
- Review staff qualifications of the assessment team.

Templates and Tools

Optional tools to be used as needed and adapted to the country context are presented here:

How-to-Note: Tailoring the G2G Risk Assessment

G2G Risk Management Workbook includes:

- ❖ Sources of Information to "Establish the Context"
- ❖ Country Context Illustrative Questions
- ❖ G2G Implementing Entity Questions
- ❖ Budgetary Questions
- ❖ Procurement
- ❖ Cash Management
- ❖ Accounting and Reporting
- ❖ Human Resources
- ❖ Internal Controls
- ❖ Audit & Compliance
- ❖ Information Technology
- ❖ Governance (Standard)
- ❖ Governance (Expanded DRG Assessment)
- ❖ Risk Assessment G2G Tailoring Rationale
- ❖ Risk Log Template
- ❖ Risk Management and Capacity Building Plan
- ❖ Reference Card

Template: Scope of Work for Risk Assessment

Template: G2G Assessment Report

Activity Planning Approval Memo (APAM)

Activity Approval Memo (AAM) Template

Template for G2G Close Out

G2G Close-Out Checklist

G2G Resource Library

ASAP PEPFAR Risk Assessment Tool

Risk Mitigation Management Plan Template

ADS 220 Mapping