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Tensions in AUSAID'S Approach to Risk Management

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Managing Whose Risks. The Political Economy of Risk Management at AusAID

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ABSTRACT: *Little has been written about the nature of aid agencies' risk management policies and procedures and their implications for global efforts to reduce poverty and promote sustainable development. The purpose of this paper is to help fill this lacuna by examining the Australian Agency for International Development's (AusAID) approach to risk management. Aid agencies have portrayed their embrace of risk management as reflecting good public administration and a concern to promote poverty reduction, sustainable development and, in turn, the public good. In contrast, we argue that AusAID's risk management efforts are an expression of particular political and social interests and, in that sense, inherently political in nature. While AusAID's policies and guidelines on risk management identify a wide range of risks as being relevant to the agency's work, in practice it has focused on managing risks to its programs and objectives, both of which are deeply influenced by neo-liberalism and the Australian government's foreign policy objectives, rather than managing risks faced by the poor. As such, we suggest that AusAID's approach to risk management needs to be revised in a way that gives greater attention to the needs of the poor if it is to genuinely contribute to efforts to promote poverty reduction and sustainable development.*

1. Introduction

In recent years, risk management has become an integral part of the way in which international aid agencies do business both in Asia and elsewhere. Aid delivery, they have argued, is "inherently risky" (AusAID 2005a: 1) and may be becoming even more so. Not only does it require the ability to operate in "high risk environments" (DFID 2007), it also involves "multiple relationships, complex contractual arrangements and difficult development problems" (AusAID 2005a: 1), all of which heighten risk. Accordingly, many aid agencies have adopted formal policies or guidelines that define risk, identify the types of risk associated with their work, outline detailed approaches to assessing risk, apportion internal responsibility for managing specific risks, and recommend strategies for managing risk (see, for instance, AusAID 2005a; 2006a; 2006b; DFID 2007; 2009; USAID 2002). At the same time, they have mainstreamed risk management procedures across their operations so that they apply not only to activities that place their staff in physical danger such as

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humanitarian and relief operations or disarmament, demobilisation and reintegration programs but to decision-making at all levels and in relation to all significant activities. Whereas in the past aid agencies did not manage risk in any formal and systematic way, it now permeates everything that they do.

Despite its growing salience, however, little has been written about the nature of aid agencies' risk management policies and procedures and their implications for global efforts to reduce poverty and promote sustainable development.² The purpose of this paper is to fill this lacuna—at least in part—by examining the Australian Agency for International Development's (AusAID) approach to risk management. Aid agencies have portrayed their embrace of risk management as reflecting good public administration and a concern to promote poverty reduction, sustainable development and, in turn, the public good (USAID 2002; AusAID 2003a: 1; DFID 2007). In contrast, we argue that AusAID's risk management efforts need to be understood as an expression of particular political and social interests and, in that sense, as being inherently political in nature. The point here is that while AusAID's policies and guidelines on risk management identify a wide range of risks as being relevant to the agency's work including risks to poverty reduction and sustainable development, in practice it has focused on managing risks to its programs and objectives, both of which are deeply influenced by neo-liberalism and the government's foreign policy objectives, rather than managing risks faced by the poor. As such, we suggest that AusAID's approach to risk management needs to be revised in a way that gives greater attention to the needs of the poor if it is to genuinely contribute to efforts to promote poverty reduction and sustainable development.

In presenting this argument, we begin by outlining an approach to understanding risk management that emphasises its political nature. We then provide an overview of AusAID's approach to risk management as it is outlined in the agency's publically available policies and guidelines. In the following section, we assess the way in which this approach has served neo-liberalism, the Australian government's foreign policy agenda, and the particular political and social interests embedded in these agendas. In the final section of the paper, we explore ways in which AusAID's approach to risk management might be changed to better assist the poor in developing countries.

² In this respect, there is a marked contrast with other areas of public policy such as human services (Sawyer *et al* 2009), criminal justice (Braithwaite 2000), public financial management (Guthrie *et al* 2003), and public water supply management (Snider 2003).

2. Understanding risk management

Aid agencies have argued that risk management is essential to ensuring that they achieve their objectives, are accountable for their actions, and use their resources efficiently. USAID (2002), for instance, has stated that by “properly managing risk, [it] can improve the effectiveness and efficiency of its operations, while reducing the likelihood of waste, loss, and mismanagement” (USAID 2002).³ To the extent that such agencies separately claim to be serving the public interest rather than any particular political agenda, these views imply that risk management helps them to serve the public good. At the same time, aid agencies have adopted procedures and techniques for identifying, assessing, analysing, and responding to risk that are seemingly impartial and technical in nature. On the one hand, many have adopted procedures and techniques for managing risk recommended by professional standard-setting bodies such as the International Organisation for Standardization (ISO), Standards Australia, and ALARM, the UK’s National Forum for Risk Management in the Public Sector, giving their risk management processes a degree of technocratic authority. On the other hand, the very nature of these processes and techniques reinforces their seemingly impartial and technical nature. The use of risk assessment matrices for analysing and ranking risks is particularly important in this respect. These involve estimating the likelihood of risks occurring, estimating their likely consequences, multiplying one by the other, and then using this ‘score’ to rank individual risks according to a prescribed template. By converting qualitative phenomena—e.g. the potential for civil unrest, terrorism, or human error—into numerical scores that can be ordered in an apparently objective manner, the use of these matrices provides the whole risk assessment and analysis process with a sense of mathematical precision and hence impartiality.

However, such an understanding of risk management ignores its political dimensions. The point here is threefold. First, in many cases risk can only be understood with reference to the interests of specific groups. Aid agencies have typically defined risk in undifferentiated terms—that is, they have suggested that it impinges on everyone rather than just particular groups and that it does so in a fairly uniform manner. For instance, some have defined risk as the probability of suffering harm, loss or danger without specifying whose potential harm, loss or danger they are referring to or acknowledging the possibility that one group’s harm, loss or danger may be another group’s benefit, gain or

³ Similarly, the United Kingdom’s Department for International Development (DFID) (2009) has claimed that its risk management procedures help it “to ensure a high and consistent level of management everywhere [it] work[s]” and the Asian Development Bank (2010: 9) has argued that its risk management practices are a key element of “strong governance and conservative financial management.” Finally, the Canadian International Development Agency (CIDA) (2010: 64) has stated that one of the “three main drivers” of its risk management activities is “good project management to meet Canadian government and international standards.”

safety (see, for instance, USAID 2002: 1).⁴ Alternatively, they have defined risk as the possibility of an event or activity preventing the aid agency from achieving its organisational objectives, without specifying what these objectives are or how they align with different groups' interests and agendas.⁵ Yet risk is fundamentally linked to interests. Only property-owners face the risk of having their assets expropriated by the state as a result of a nationalisation program and only coastal dwellers face the risk of inundation as a result of climate change-induced sea level rises. At the same time, as noted above one group's risk may be another group's opportunity—for instance, the risk that poor people may be evicted from their land to allow a property development to take place is clearly an opportunity for the relevant property developers. To be sure, there are some risks—such as the risk of annihilation as a result of nuclear war—that impinge on everyone and relatively evenly. But these are few and far between. More generally, risk reflects where one stands or is located and the interests that one has as a result. As such, it makes much more sense to talk about specific risks and the interests that they threaten rather than risk in general.

Second, as Ulrich Beck (2006) has pointed out in his seminal work on the 'world risk society,' "some groups have a greater capacity to define risks than others" We would add to this that there are also inequalities in the distribution of risk and how individual and groups in society are able to address the risks they face. Indeed, according to Beck (2006: 333), "Risk exposure is replacing class as the principal inequality of modern society, because of how risk is reflexively defined by actors: 'In risk society *relations of definition* are to be conceived analogous to Marx's relations of production'". This means that risk, as defined and operationalised in particular contexts, is never neutral in political terms. It cannot, as Beck (2006: 333) points out, simply be reduced "to the product of probability of occurrence multiplied with the intensity and scope of potential harm," as per the risk assessment matrices that public sector organisations (and many private sector organisations) employ. Rather, it is an expression of the interests of particular political and social groups and a reflection of the relationships of domination between them and weaker groups.

Finally, given that risk is politically and socially constructed and there are only a few types of risk that are genuinely shared uniformly by all of us, the management of risk inevitably serves particular interests rather than, as aid agencies would have it, the public good. The subjective conceptualisation and framing of risk and the fact that it is influenced by underlying interests, ideologies and politics (Douglas and Wildavsky 1982) means that risk management is inevitably harnessed to particular political projects rather than simply

⁴ Similarly, the United Nations Development Programme (UNDP) has defined risk as the "probability of harmful consequences, or expected loss of lives, people injured, property, livelihoods, economic activity disrupted (or environment damaged) resulting from interactions between natural or human induced hazards and vulnerable conditions" (as quoted in United Nations University Institute for Environment and Human Security nd: 2) without specifying whose loss of life, property, livelihoods etc. matters in this respect.

⁵ CIDA (2010: 37), for instance, states that risk is "the effect of uncertainty on results."

being, as AusAID (2006b: 3) would have it, “an integral part of good business practice.” To be sure, there are more or less effective ways of managing risk and, in that sense risk management has a technocratic dimension. But the fact that perceptions of risk are invariably and inevitably embedded in individual or organisational values and interests means that risk management is an inherently partisan process and thus political in nature.

A more political perspective on risk management in aid agencies implies that any assessment of risk management processes needs to investigate the way in which these processes serve particular political and social interests and evaluate the appropriateness of this given these organisations’ expressed commitment to public goods such as poverty reduction and sustainable development. At the same time, it also implies a consideration of ways in which these organisations’ risk management processes and the activities to which they relate can be recalibrated to ensure that they more effectively promote the public goods to which they are ostensibly committed. In the following sections we apply this perspective to AusAID’s approach to risk management beginning with an overview of AusAID’s approach to risk management as outlined in key policy documents.

3. AusAID’s approach to risk management

AusAID’s approach to risk management is outlined in three main policy documents: its *Risk Management Policy (RMP)*, the current version of which dates from 2006 (AusAID 2006a); a *Risk Management Guide (RMG)* that is attached to the *Risk Management Policy* as an annex (AusAID 2006b), and *AusGuide*, the agency’s guidelines on program management, the current version of which was introduced in 2005. Within the latter, risk management is dealt with specifically in *AusGuideline 6.3: Managing Risk* (AusAID 2005a). A number of other AusAID policy documents also address risk management issues including Chief Executive Instruction 8.4 in the agency’s *Financial Management Manual*, the agency’s *Corporate Risk and Management Plan*, module 3 of its *NGO Package of Information (NGOPI)*, and the *AusAID Contracts Charter* (AusAID 2009b). However, the first two of these documents are not publically available, so we could not use them in the constructing this summary of AusAID’s approach to risk management.

AusAID’s approach to risk management as outlined in these documents has three key features. First, like many other aid agencies, AusAID portrays risk as undifferentiated rather than politically and socially constructed. The *RMP* states that risk can be defined “as the chance of something happening that may have an impact on the achievement of objectives.” *AusGuideline 6.3* makes it clear that it is AusAID’s objectives that are relevant in this respect, stating that risk is “the chance of things happening that could have an impact on AusAID, on the outcomes it achieves, or on the objectives of the various functions it undertakes” (AusAID 2005a: 2). But neither of these documents specifies what these objectives are or how they relate to the interests of particular political and social groups. Since the Australian government has consistently presented AusAID’s work as being consonant with the ‘national interest’ since at least the mid-1990s (see, for instance,

Downer 1997; AusAID 2006; Smith and McMullan 2009)⁶—it is implied that AusAID’s risks are shared uniformly by all Australian citizens. AusAID’s definition of risk is different from those cited earlier in the paper in that it incorporates both upside and downside risk—that is, it includes not only potential “harm, loss or danger” but also potential benefit, gain or safety. But it is still consistent with a view of risk as undifferentiated rather than politically and socially constructed.

This view of risk is reinforced in sections of the *RMG* and *AusGuideline 6.3* that detail the main types of risk that are relevant to AusAID and the main sources of these risks. These documents identify four main types of risk that AusAID needs to address: (i) risk to reputation/goodwill, (ii) risk to effective and sustainable aid outcomes, (iii) risk to output delivery/efficiency, and (iv) risk to capability (AusAID 2005a; 2006b).⁷ These risks are in turn seen as emanating from no less than 126 possible sources of risk ranging from software failure, a lack of relevant personnel skills, and operator error to ‘weak governance’ and ‘social and ethnic inequalities’ to floods and earthquakes (AusAID 2005a). From our point of view, the important point is that this extensive listing of types and sources of risk reinforces the idea that risk is everywhere, uniformly shared by everyone and hence undifferentiated in nature rather than politically and socially constructed.

Second, AusAID uses procedures and techniques for identifying, assessing, analysing, and responding to risk that are based on professional standards (in this case the Australian/New Zealand Standard for Risk Management, AS/NZS 4630: 2004) and are seemingly impartial and technical in nature, again like many other aid agencies. For instance, under *AusGuideline 6.3*, AusAID staff are required to analyse risk by estimating the likelihood of each risk occurring, estimating their consequences if they do occur, and then ranking these risks according to a prescribed template—in other words, to use a conventional risk assessment matrix. Having analysed these risks, they are then required to determine “feasible responses” based on apparently objective cost-benefit calculations. AusAID (2006b: 14) acknowledges that “it is not possible or cost effective to eliminate all

⁶ Indeed, the current official objective of the Australian aid program is “to assist developing countries to reduce poverty and achieve sustainable development, *in line with Australia’s national interest*” (emphasis added) (Smith and McMullan 2009: 1).

⁷ None of these categories is clearly defined in the *RMG* or *AusGuideline 6.3*. However, (i) is deemed to include risk to AusAID’s ‘international standing’ and ‘level of support’ in Australia, including its support from the government; (ii) is deemed to include the ‘strategic orientation’ of the aid program, ‘international coordination,’ ‘partner stability/governance,’ ‘macro-factors in-country’ such as ‘social context’ and ‘general economic movements,’ ‘poverty reduction risks,’ ‘environmental risks,’ ‘activity quality factors,’ and ‘targeting/design’; (iii) is deemed to include ‘activity performance/value for money’-related factors such as quality and timeliness, ‘contractual/delivery arrangements’-related factors such as ‘legal risks’ and ‘performance criteria,’ ‘external impediments’ or ‘hazards’ such as logistical or supply constraints and ‘social/institutional impediments,’ and ‘procurement/selection’ factors such as fraud risks and ‘capability/availability;’ and (iv) is deemed to include risks related to coordination, governance/accountability, ethics/probity, occupational health/safety, knowledge/skills/ motivation, productivity/efficiency, budgetary risk/economy, assets/financial management, fraud....., business continuity/security, legal compliance/liabilities, business systems/quality systems, and information management (AusAID 2005: 24-26).

risk attaching to management of the aid program.” Hence, depending on the circumstances, it recommends that staff either accept the risk, avoid the risk, reduce the likelihood of the risk occurring, mitigate the impact of the risk, or transfer the risk, depending on these calculations. Because AusAID works closely with contractors, NGOs, and partner governments, it argues that there is a need for “appropriate risk sharing” between AusAID and these organisations, “depending on who can control the risk more effectively” (AusAID 2006b: 15).

The final key feature of AusAID’s approach to risk management is a detailed system of internal accountability for risk management. Risk management is treated as an agency-wide responsibility rather than the responsibility of just, say, senior management or AusAID’s audit section. The *RMP* states that the Director-General of AusAID and the Senior Executive “are responsible for the implementation and maintenance of sound risk management” (AusAID 2006a: 4) but also assigns responsibilities to members of the agency’s Audit Committee, branch heads, heads of AusAID’s overseas posts, country program managers, and activity managers. It also calls on activity managers to “ensure that all NGOs and Contractors.....adhere to risk management requirements’ (AusAID 2006a: 4), effectively extending responsibility for risk management to key actors outside the agency. At the same time, the *RMP* declares that ‘[m]anagers at all levels are to create an environment where managing risk forms the basis of all activities’ (AusAID 2006a: 4), signaling that risk management relates not just to strategic-level decision-making but also lower-levels of decision-making as well. In practice, much risk management work at AusAID appears to focus on the activity level (AusAID 2005a). But, as *AusGuideline 6.3* makes clear, risk management also has two other ‘dimensions’—managing risk at the country portfolio level and managing risk and fraud within AusAID itself (AusAID 2005a: 1).

Understanding risk in undifferentiated terms and its own role as serving ‘the national interest’; employing procedures and techniques for identifying, assessing, analysing, and responding to risk that are based on professional standards and that are seemingly impartial and technical in nature; and defining a detailed system of internal accountability for managing risk, AusAID, like other aid agencies, has portrayed its embrace of risk management as a reflection of good public administration and a concern to promote poverty reduction and sustainable development and, in turn, the public good. Indeed, the *RMG* describes risk management as “a central element of good corporate governance” (AusAID 2006b: 3) while the 2003 version of *AusGuideline 6.3* describes risk management as an “integral part of good management’ and an ‘important part of [the] Australian public reform agenda and..... accountability requirements” (AusAID 2003a: 1).

Below we suggest, however, that such a presentation is misleading to the extent that it obscures the limited range of risks that AusAID in practice actually addresses through its risk management activities and the latter’s connection to powerful interests.

4. The political economy of risk management at AusAID

While the *RMG* and *AusGuideline 6.3* identify a wide variety of types and sources of risk, in practice AusAID's risk management efforts have primarily addressed risks to the spread of neo-liberalism and the achievement of the government's foreign policy objectives. There are two key points here.

First, much of AusAID's risk management work has focused on managing risks generated by the Australian government's introduction in recent decades of the New Public Management (NPM), a model of public administration informed by neoliberal principles. According to Dunleavy and Hood (1994: 9), the NPM has involved two main shifts in public administration. On the one hand, public sector organisations have had to move 'down group,' that is, become "less distinctive as a unit from the private sector (in personnel, reward structure, methods of doing business);" and, on the other hand, they have had to move "down grid," that is, "reduc[e] the extent to which discretionary power (particularly over staff, contracts and money) is limited by uniform and general rules of procedure." In more specific terms, these shifts have required public sector organisations to: (i) rework budgets "to be transparent in accounting terms, with costs attributed to outputs not inputs, and outputs measured by quantitative performance indicators;" (ii) view organisations "as a chain of low-trust principal/agent relationships (rather than fiduciary or trustee-beneficiary ones), a network of contracts linking incentives to performance"; (iii) "disaggregate separable functions into quasi-contractual or quasi-market forms, particularly by introducing purchaser/provider distinctions, replacing previously unified functional planning-and-provision structures;" (iv) "ope[n] up provider roles to competition between agencies or between public agencies, firms and not-for-profit bodies;" and (v) "deconcentrat[e] provider roles to the minimum feasible sized agency, allowing users more scope to 'exit' from one provider to another, rather than relying on 'voice' options to influence how public service provision affects them."

As a number of scholars have pointed out, these changes have generated a range of new risks for public sector organisations (Guthrie *et al* 2003; Lapsley 2009; Connell *et al* 2009; Sawyer *et al* 2009). A key aspect of the NPM has been greater entrepreneurialism on the part of public sector managers, reflecting a belief that these 'managers should be innovative and released from the "iron cage" of public sector bureaucracy' (Lapsley 2009: 15). This in turn has entailed greater risk-taking by public sector managers than was the case under the traditional model of bureaucracy. At the same time, increased contracting-out of government services to private companies, another key aspect of the NPM, has created risks for public sector organisations stemming from agency problems. With private companies rather than the government now directly responsible for delivering government services, there has been a risk for the former that the latter will not deliver what is required in terms of quality, speed, cost etc. because the two parties' interests do not completely align with one another. Contracting out has also probably increased the scope

for fraud and corruption. The risks associated with contracting-out have been regarded as so serious in the Australian context that they have been the subject of a number of major government reports and other publications (see, for instance, Industry Commission 1996; Australian National Audit Office 1998).

Much of AusAID's risk management work has focused on managing the risks associated with contracting out. Contracting out of aid activities has been a central part of the Australian aid program since at least the late 1970s, with AusAID relying particularly heavily on a small number of a specialist development firms—referred to in the business as Australian Managing Contractors (AMCs)—to deliver the aid program including Coffey International Development, Cardno ACIL, GRM, Hassall and Associates, ANUTECH/ANU Enterprise, and URS Sustainable Development. At the same time, it has dedicated a significant proportion of its budget every year to funding development NGOs such as CARE, World Vision, and Oxfam and their representative body, the Australian Council for International Development. This outsourcing of the aid program has generated a range of new risks for the agency, including ones related to quality, timeliness, cost, accountability, compliance, legal disputes, fraud and capability. These risks are explicitly identified in the *RMG* and *AusGuideline 6.3* under the category 'risk to output delivery/efficiency' and are deemed to include 'activity performance/value for money'-related factors such as quality and timeliness, 'contractual/delivery arrangements'-related factors such as 'legal risks' and 'performance criteria,' and 'procurement/selection'-related factors such as fraud and 'capability/availability;' Contracting out has also generated potential risks for AusAID in terms of its reputation and international standing and the effectiveness of its aid, given that the actions of AMCs have a significant bearing on perceptions of AusAID and how well its aid is used.

The second key point is that AusAID's attempts to manage risks to the effectiveness and sustainability of its aid projects has in practice meant managing risks to the spread of neo-liberalism in developing countries and the achievement of Australian foreign policy objectives because these have been the main objectives of many AusAID projects. Although this section is entitled the political economy of risk management, as we want to highlight the political nature and underlying power and interests of risk management, it also could be called the *economics* of AusAID's risk management because of its economic framing and approach. We have already covered AusAID's economic, technocratic and managerialist approach to risk management through the neoliberal framework of the New Public Management model. The link with neoliberal principles, however, is inherent in all AusAID's internal and external activities. As Rosser (2009) and others have argued in a special section of the *Australian Journal of International Affairs*, neoliberalism has been a major influence on Australian aid policies, as reflected in major policy papers, such as the 2006 White Paper on Australia's aid program. The general argument of these scholars, who examined specific sectors such as gender, migration, land and security and governance, is that neoliberalism has constrained the effectiveness of Australian aid. Despite a move from

the market-driven, strong neoliberal Washington consensus to a softer version of neoliberalism in the Post-Washington consensus, which includes issues of governance (and with that the importance of the role of state in development activities) and civil society participation (often framed in terms of 'social capital'), the dominance of the market-led economic development has been preserved.

Risk management has been no exception in this respect, as we will show in the following sections on aid effectiveness and governance. AusAID's risk management approach is framed by the neoliberal paradigm, and is an instrument to help further preserve this paradigm. Risks that are created through the neoliberal risk management approach are neglected. For instance, as Calhoun (2009) has argued, the increasing privatisation and marketisation of the economy not only affects the distribution of wealth but also of risk, and does not address the unequal distribution of the burdens of risk and might even create more risks, with the recent sub-prime mortgage disaster leading to the Global Financial Crisis as a prime example (See also Dymski 2009; Shibata 2008). Indeed the demand for risk management arose from the consequences of neoliberal policies leading to the decline in state involvement in the provision of public goods such as education, health, energy and transport systems. It could be said that "neoliberalism creates the climate of risk in order to justify its overall politics [and economics]" (Culpitt 1998: 117). The successful management of risk within this context of neoliberal privatisation and marketisation of social services, however, "usually meant mitigating harms rather than changing the structural conditions that exacerbated risks and unequally distributed actual loss and suffering' (Calhoun 2009: 261). The national and international structural inequalities that unfairly distribute risks to the poor⁸ are not factored into risk management approaches of aid agencies such as AusAID.

In other words, the risks of AusAID's neoliberal development model and risk management approach itself are not considered when AusAID does risk management. In fact as the following sections will show, AusAID's risk management approach is focused on eliminating risks to the spread and dominance of the neoliberal development model.

5. Aid effectiveness and risk management at AusAID

Risk management has become a major instrument for achieving aid effectiveness and AusAID's development objectives of poverty reduction and sustainable development, as stressed in various AusAID documents: the "effective management of risk enables AusAID to work successfully in a complex, challenging and changing environment to achieve aid and development outcomes" (AusAID 2010d: 7); "poverty reduction requires strong risk management" (AusAID 2005a: 13); and "sustainability is related to risk because many of

⁸ A well known and internationally accepted example is that the most vulnerable people to impacts of climate change are the poor people in mostly poor but also in rich countries. AusAID's most recent 2009 Annual Review of Development Effectiveness (ARDE) covers the challenges of climate change and makes this point (AusAID 2010b: 11).

the risks to achieving the objectives are also risks to achieving the sustainability of benefits “ (AusAID 2005a: 14). The link between risk management, ‘sustainability of benefits’ and aid effectiveness is even more pertinent in the context of AusAID’s goal to expand its ODA level from the current 0.33 (in period 2008-2009) to 0.5 per cent of Gross National Income by 2015, with the strategic focus on the Asia-Pacific region retained (AusAID 2010b: 12-13; AusAID 2010d). This expansion of the Australian aid program requires more coordinated efforts within AusAID and Australia’s ‘whole-of-government’ approach and with other donor agencies. Aid effectiveness becomes an imperative as an organisational or ‘business’ objective of aid agencies which attempt to improve the performance of their aid programs while at the same time expanding it.

As part of its commitment under the 2005 Paris Declaration and 2008 Accra Agenda for Action on aid effectiveness, the Australian Government has stepped up its efforts to improve its ODA performance. In addition to changing to a sector-wide and program-based approach, it established in 2006 the Office of Development Effectiveness (ODE) in AusAID to monitor the quality and evaluate the impact of Australia’s aid program. ODE produces since 2007 the Annual Review of Development Effectiveness (ARDE) of Australia’s aid program. The ARDE report is an important but, as Ian Anderson says, overlooked report as it provides a candid assessment of the issues affecting aid effectiveness of AusAID’s program, in particular seen in the context of scaling up the program which provides about half of its aid to so-called ‘fragile states’ (Anderson 2009). The overall assessment of ARDE 2009 is that the “aid program performance is improving” (AusAID 2010b: 22). Aid performance at country and regional level has a 10 per cent increase from 2008 to 43 per cent of objectives rated as “likely to be fully achieved” and a decline from almost 60 per cent to 50 per cent of objectives only partly achieved; and aid quality of implementation at activity level is up from 86 per cent to 88 per cent towards making satisfactory progress towards achieving their objectives. Sustainability has also improved with 77 percent of activities rated as satisfactory (AusAID 2010: 16-17).

We want to focus for a moment on the issue of sustainability as it has become closely linked in AusAID discourse of risk management and aid effectiveness. Sustainability can mean many things, such as financial, environmental or cultural sustainability. Environmental sustainability issues in AusAID’s development activities are predominantly approached through environmental impact assessment processes. But it is not the pursuit of environmental sustainability per se and how best to integrate it into AusAID’s development operations but how the environment impacts on the *sustainability of benefits* which is the concern here. The matrix of the sustainability analysis and sustainability strategy of development projects by AusAID includes a section on the “likely impact of these [environmental] issues on sustainability”, meaning the sustainability of the projects and the desirable outcomes (AusAID 2005b: 35).

As stated in the *RMG*, “sustainability is related to risk because many of the risks to achieving the objectives are also risks to achieving sustainability of benefits” (AusAID

2005a: 16). The *RMG* refers to the guidelines for promoting practical sustainability (AusAID 2005b) which defines sustainability as “the continuation of benefits after major assistance from a donor has been completed”, and “1). Managing sustainability and managing risk are interlinked in the efforts to achieve development objectives. From the various categories of risk identified in the *RMG*, it is the “risk to effective and sustainable aid outcomes” (AusAID 2005a: 24) that is the predominant objective of AusAID’s risk management approach. The other categories of risks identified, such as the risks to AusAID’s reputation either externally through a decline in its international standing or nationally through lack of community or parliamentary support; risks to output delivery and efficiency which could be undermined through fraud or inabilities in the procurement process or weak activity performance; and risks to the capability to coordinate and implement aid programs, are also important but play only a subordinate role in risk management. All the various risks are never clearly specified in the *RMG* and it is not clear how much they relate to AusAID itself or to the partner governments or donor agencies.

This major focus of AusAID’s risk management on the ‘sustainability of benefits’ is in itself not problematic as aid effectiveness includes the concept that the benefits of aid can be maintained once the aid program or project ceases. The issue we have with this focus on ‘sustainability of benefits’ is that it needs to include more specific analysis of risks for the poor created through neoliberal risk management. What perceptions of risk and capabilities to avert risks do the poor have in a specific development context? What kind of risks is transferred to the poor through the creation of markets in the neoliberal mould? For instance, the strategy of Australia’s aid program for 2010-2015 to bring ‘financial services to the poor’ (AusAID 2010e) builds on the dominant view that financial services in form of credits, savings, money transfers or insurance are effective instruments for poverty reduction and achievement of the Millennium Development Goals. But this approach neglects the risks of financial inclusion for the poor. Access to financial services can certainly help to overcome some financial disadvantages of the poor, such as the ability to borrow money. However, the effectiveness of microcredit and microfinance scheme as poverty reduction instruments is strongly debated (See Westover 2008). These schemes overall plug into the existing economic structures and flows of capital without questioning or challenging the structural inequalities that gave rise and perpetuate poverty in the first place. The poor are constructed as economic agents who self-responsibly move themselves out of poverty. AusAID stresses that its support for expanding access to financial services for the poor “will be guided by robust risk management strategies” (AusAID 2010e: 14) but these risks are perceived as risks to establish an enabling environment for financial services, such as “managing the risks of partnering with the private sector”, not what kind of risks this creates for the poor (in particular the poor who do not become part of financial services provision).

Similarly, the recent ARDE report does not delineate in what way the improved effectiveness of AusAID’s program resulted in ‘improving basic services for the poor, as the

subtitle suggests. As Anderson (2009) stresses, there is very little in the report that measures or discusses the positive impacts of aid interventions on the poor. At the same time, ARDE 2009 stresses itself, that for Australia's aid program, "development risks, such as failing to improve human development outcomes, are *rarely considered*" (AusAID 2010b: 59:emphasis added). One of the reasons for this is that with increased focus on ownership and country-system delivery for better aid effectiveness (as outlined in the Paris Declaration), there is an increased emphasis on the national to the disregard of the sub-national level, and in addition it also reinforces the role of the state which can only be beneficial for the poor when it is combined with improved governance (we discuss this in the next section). ARDE 2009 concurs with this analysis:

Australia needs to combine work at national and subnational levels. Most country programs focus on development at the national level, and those that work at both levels appear to be disjointed. Efforts to improve service delivery need to look at the entire delivery system and provide assistance in a manner that helps each level to implement its mandated role in that system. Providing assistance solely at the national level has the potential to undermine subnational capacity, and ultimately reduce the potential for sustainable outcomes. (AusAID 2010b: 21)

Sustainability in the sense of sustainable poverty reduction and development needs to start at the sub-national and local levels. It needs to start with the poor and participation. This is, of course, hardly a new concept in international development. The importance of stakeholder participation for achieving sustainability is stressed in AusAID's sustainability guidelines:

The critical factor in promoting sustainability is the role of the stakeholders, particularly those directly concerned with the activity, especially the partner government, the implementing agency and those who stand to benefit. Sustainability cannot be achieved without their involvement and support. Stakeholders, both men and women, should actively participate by having the opportunity to influence the direction and detail of design and implementation. (AusAID 2005b: 6)

If this is neglected, and as ARDE 2009 has confirmed this is currently happening at AusAID, then sustainability means not much more than sustainability of AusAID's business as an aid agency, and 'system maintenance' of the international political economic system and its neoliberal, market-led development paradigm. In its most recent performance review of governance activities, monitoring and evaluation, as well as sustainability (in the sense of sustainability of benefits of the programs) are weaknesses across AusAID's governance program (AusAID 2008a: 21). If risk management is about increasing aid effectiveness in achieving development objectives then it needs to include more the poor and risks to the poor.

6. Governance and risk management at AusAID

One crucial element of the new focus of AusAID on risk management in its internal functioning and external activities in development has not been discussed yet – the distinction of risk management and the governance of risk, and how governance and risk are combined in AusAID thinking and operations. The RMG state that “effective risk management contributes to improved governance” (AusAID 2005a: 3). But effective or ‘good’ governance is in itself a prerequisite for effective risk management. In this section we analyse more closely how AusAID approaches this relationship between governance and risk management. Since we consider risk and risk management as a socially constructed and hence political issue which is shaped by power relations and interests, the link between governance and risk management at AusAID can provide further insides on the effectiveness and purpose of risk management at AusAID.

‘Good’ governance is seen as essential for effective aid delivery and achieving poverty reduction and sustainable development (AusAID 2000; AusAID 2003b; AusAID 2008a). The Asian Development Bank and the World Bank have distilled for major pillars of good governance – transparency, accountability, predictability (the rule of law) and participation (AusAID 2003b: 11). Governance encompasses the state, private sector and civil society and how they interact in decision-making processes in a society. In situations where there is a weak state, private sector or civil society, such as in ‘fragile states’, the aim is to build first ‘good enough governance’ (Grindle 2007). AusAID defines governance as “the manner in which the state acquires and exercises its authority to provide public goods and services” (AusAID 2008a: 5)⁹ The governance sector constitutes the largest sector with 22 per cent of total of Australia’s ODA (AusAID 2008a; AusAID 2010d). Governance work is targeted towards five areas: (i) improving economic and financial management, (ii) strengthening law and justice; (iii) increasing public sector effectiveness, (iv) developing civil society, and (v) improving democratic processes (AusAID 2008a: 10).

AusAID’s governance program is heavily biased towards economic governance reform to the neglect of political governance and the ‘developing of civil society’.¹⁰ That there is an annual performance review of economic governance (See AusAID 2008b) but not specifically for political governance is indicative of this AusAID bias of economic governance. This bias can further be seen by projects such as the Philippines-Australia Partnership for Economic Governance Reform (PEGR) which ran from 2005-2010, and the on-going Australia Indonesia Partnership for Economic Governance (AIPEG) (2009-2012)

⁹ AusAID takes here a definition for governance from OECD Development Advisory Committee Network on Governance, *Policy paper on anti-corruption: setting an agenda for collective action*, September 2006.

¹⁰ Economic governance is about the decision-making processes in regard to economic activities in a country and economic relations with other countries; political governance is the process of policy-making for major decisions in a country and political relations with other countries.

but none specifically on political governance. These projects are about institutional strengthening and policy advice in areas such as tax administration reform, debt management, financial system stability and public financial management. The major objective of AusAID activities in the Philippines is the reduction of obstacles to economic growth through “stronger economic governance”, focusing primarily on public financial management and enabling a better policy environment for private sector development (AusAID 2004). The PEGR is a direct outcome of this objective. The establishment of a risk management system was part of the portfolio of the PEGR (AusAID 2005d: 13). But this remains a weakness in AusAID-Philippines development cooperation. In the latest assessment of the program performance in the Philippines it was emphasised that the “AusAID Philippines Program should have stronger risk identification and management approaches” (AusAID 2006d: 13).

New approaches to risk management are required, according to ARDE 2009 (AusAID 2010b), for Australia’s aid program to strengthen its approach to policy dialogue and delivering aid through partner country systems (AusAID 2010b: 2) – as part of the principle of ownership of the Paris Declaration on Aid Effectiveness. In particular, AusAID needs to manage the risks using partner countries’ public financial management system “if services are ever to reach the poor in a sustainable way, without dependence on donor financing and systems” (AusAID 2010b: 44). Some major risks that need to be managed in this context are corruption and with it transparency and accountability in government. There is widespread corruption in the Philippines and fighting it has become top of the national political agenda and aid agenda of donors. There are four key targets for AusAID’s anti-corruption work: i) improved public financial management and procurement practices, ii) strengthened community participation in government, (iii) improved transparency between government and citizens, and (iv) stronger institutional structures to support and promote government accountability (AusAID 2006d: 14). These are formidable tasks, and AusAID cannot be expected to achieve these objectives single handedly. But it can be expected to focus its political governance approaches more on civil society and community participation, and the political context and relations of civil society-government relations. As Carroll and Hameini have argued in their review of the 2006 White Paper, AusAID’s good governance approach “displays a fundamental neglect of politics”, and the market-led development model and economic governance approach with emphasis on building political and economic institutions for markets “does not necessarily lead to poverty reduction” (Carroll and Hameini 2006).

AusAID’s support for political governance in developing countries was recently independently reviewed (AusAID 2010a). The final report reiterates that Australia’s political governance covers three main, strongly interlinked, areas: “strengthening formal political institutions and processes; building more effective relations between governments and communities (e.g. civil society and media); and developing leadership” (AusAID 2010a: viii). Unfortunately, in our opinion, the review only focused on aid strengthening formal

political institutions and processes of state such as parliaments, political parties and electoral systems and processes. The crucial aspect of 'building more effective relations between governments and communities' was not covered, which only reinforces our point here. One of the key recommendations of the report is that AusAID develops a strategic policy framework for political governance (AusAID 2010a: xv). AusAID agreed with this recommendation and intends to establish such a political governance strategy.

Our point here is that the focus from economic governance and the emphasis on objectives in AusAID's governance work on 'improving economic financial management' need to shift more to political governance and the objectives of 'developing civil society' and 'improving democratic processes', and the 'strengthened community participation in government'. There is, we contend, an overall neglect of 'developing civil society' and of community participation in AusAID's governance approaches. ARDE 2009 confirms that the "focus to date has been on partner *government* systems, little has been said about which approaches and modalities for working in partnership with civil society are the most effective, nor how engaging with civil society can help extend 'ownership' beyond central government" (AusAID 2010b: 1; emphasis in original). Public sector and governance reforms can have only more significant positive effects on improving service delivery to the poor with the inclusion of civil society in the economic and political decision-making processes. As ARDE 2009 further states,

Public sector and governance reforms can have a significant impact (positive or negative) on service delivery. However, it cannot be assumed that giving support to central government agencies to improve economic governance and public financial management will result in better service delivery. If this support is to contribute to better service delivery, it needs to be underpinned by a clear strategy based on analysis of which interventions are most likely to lead to improved service delivery. ... There is also a tendency to focus aid efforts on government, even though civil society organisations are responsible for delivering many basic services. In most cases, this can be put down to a lack of understanding of the service delivery system and its capacity to deliver. Much of the aid program's knowledge of governance and the public sector is at the national level and there is little understanding of the complex system that determines whether services are actually delivered. Without such understanding, it is impossible to support national reforms that will ensure a reliable and predictable flow of funds right down to the facility level. (AusAID 2010b: 58)

In other words, the greatest risk to service delivery to the poor and poverty reduction and sustainable development is not to include civil society in the political and economic governance processes. It is generally accepted that a "vibrant civil society is important to the health of any society. Civil society can promote government accountability, strengthen the voice of and empower communities, and promote stronger linkages and transparency between states and their citizens" (AusAID 2009a: 1). This is not to say that there are no

civil society efforts in AusAID's program. A recent independent review of some of AusAID's civil society engagement projects assessed them as overall successful in strengthening the work of civil society in promoting social inclusion, strengthening the capacity of civil society actors and organisations to foster a more engaged and informed citizenry, and has helped to enhance civil society capacity to promote effective, accountable and transparent government (AusAID 2011). The Office of Development Effectiveness is currently in the process of evaluating civil society engagement in AusAID activities which will contribute to an AusAID strategy for civil society engagement. These are positive developments to bring in civil society into AusAID's governance program.

7. Conclusion

We first want to acknowledge the limitations of this paper in that the argument was mainly on the conceptual and theoretical level of how risk management in AusAID is framed and operationalised, and that the analysis was based on AusAID policy documents and reports but no field work about risk management and economic governance.

Risk management has emerged as a new strategic approach in development agencies to meet the Paris and Accra commitments on improving aid effectiveness and achieving the overall development objectives of poverty reduction and sustainable development. Risk management in AusAID policies and operations is framed in such a way that it is conducive to AusAID's neoliberal economic governance approach and market-based development ideology. Risk management becomes another economic instrument in the neoliberal development agenda. This approach neglects the consideration of risks created by the privatisation and marketisation of risks through the neoliberal agenda. The poor are the most vulnerable to any kind of risks, be it the environmental risks from climate change, or bearing the costs of financial risks created by financial speculation, or indeed the risk that development policies, programs and project might have adverse affects on the poor. The poor are the least capable agent to be self-responsible in risk aversion or 'management'. The focus of risk management therefore needs to focus more on the poor, civil society and the sub-national rather than to remain on the national level, governments and public financial management. The current risk management strategies by AusAID or other aid agencies do not challenge the structural inequalities on the national and international levels that create risks for the poor, and do not address how risks are distributed to the poor. We have argued that AusAID at this stage neglects the crucial element of political governance of state-civil society relations in its risk management and development approaches.

In line with ongoing changes in AusAID's policies, activities and practices, "AusAID's risk management policies and practices also need to evolve" (AusAID 2005a: 1). We want to suggest a few changes which, in our view, are necessary to make AusAID's risk management more participatory, empowering and effective for poverty reduction and

sustainable development. Our paper suggests that AusAID's risk management approach at the activity and portfolio levels can be improved by the following renewed focus and reform. First, political governance aid in form of stronger civil society development, and government-civil society relations needs to be strengthened. 'Risk management' needs to become pro-poor and driven by the poor, and needs to concentrate on how best to mitigate the risk to the poor. This would mean that the poor and their perceptions of risk and their solutions to their perceived risks need to filter into the process. In other words, risk management needs to become more participatory and needs to be democratised. AusAID has started to focus on this through current efforts of developing a political governance strategy and evaluating its civil society engagement efforts. This is, of course, a highly politically charged and sensitive area, and requires cooperation with other donor agencies.

Second, the political economy context necessitates a political economy analysis of all governance programs and projects. Interestingly, it is one of the recommendations of the independent review of AusAID's political governance activities that a "political economy analysis" should be prioritised to inform political governance programming and country and regional strategies (AusAID 2010a: xi). Third, AusAID's risk management approach needs to gradually move away from the technocratic, managerialist, and economic approach and have a stronger focus on political governance in particular the component of 'developing civil society.' Fourth, there needs to be more communication about risks with stakeholders. Risk communication is a crucial part of risk management but largely neglected in AusAID in particular the communication of risks to stakeholders. Risk communication, as Rothstein et al. have shown (Rothstein et al. 2006) can counteract the risks that are created through state-based risk regulation, which is the approach endorsed by AusAID. Fifth, *risk sharing* needs to be included in a more substantial manner. As AusAID defines in its Annex to the risk management policy, "risk sharing [is] sharing with another party the burden of loss, or benefit of gain from a particular risk" (AusAID 2006b: 6). Risk management as constructed in the neoliberal paradigm is about the privatisation and marketisation of risks but this does not address the structural inequalities that produce risks in the first place and that distribute the costs of risk unfairly. It does not help, for instance, to make the poor economic agents through better financial services provision, such as microcredit schemes, when the market operates in such a way that dominant interests are protected (See also Rosser 2009). Risk management is about the distribution of risk, in other words who benefits and who bears the costs of risk management? More research is needed into how AusAID distributes risk in its policies, programs and operations.

Finally, there needs to be better monitoring and evaluation of AusAID's risk management strategies. An effective monitoring and evaluation framework is crucial for effective risk management strategies. But overall, "monitoring and evaluation and risk management are weak across public sector linkage programs" (AusAID 2008a: 16), and

ARDE 2009 found that monitoring and evaluation activities had the lowest ratings in AusAID's aid program (AusAID 2010b).

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