

Understanding the 2022 USAID Risk Appetite Statement

CYNTHIA SMITH AND JENNA THORETZ

The Policy:

On August 22, 2022, USAID released an updated [Risk Appetite Statement](#). First crafted in 2018, the RAS details the Agency's willingness to absorb, share, and/or mitigate the various risks – which have historically ranged from programmatic, reputational, fiduciary to legal, security, and human capital - related to its [strategic objectives](#). Since these objectives change over time and across administrations, so too must the Agency's RAS.

Why it Matters:

USAID's risk appetite is informed by [OMB Circular A-123](#) and is the "broad-based amount of risk USAID is willing to accept in pursuit of its mission and objectives." The Agency's risk tolerance is the acceptable level of "variance in performance relative to the achievement" of those objectives.

In the RAS, USAID sets forth its rationale for assessing and accepting risk across its program portfolio. USAID describes having a "low risk appetite" in the areas in which it typically seeks to maintain a very strong control environment and may still need to exercise caution in exploring opportunities. Conversely, USAID claims a "high-risk appetite" for disciplined, evidence-based risk

taking. Medium risk lies in between these two. In 2022, USAID introduced a new appetite level of "zero tolerance" for certain actions and inactions such as fraud, waste, and corruption. The RAS guides Agency decision-making around what risk it is willing to carry as it undertakes programmatic, partnership, and procurement decisions, thereby having direct implications for the Agency's locally-led and inclusive development agenda.

What is Noteworthy:

In its redraft, USAID incorporates more inclusive, equity-oriented language that tracks Administrator Samantha Power's stated commitment to building strong, equitable partnerships with stakeholders in the design, implementation, and evaluation of development and humanitarian assistance interventions, and as is reflected in the Agency's new Policy Framework. For instance, in the 2022 edition of the RAS, USAID references the risks to "USAID's workforce" in lieu of "USAID employees" alone, which excluded the myriad FSNs and others who are contractual. In another example, USAID now refers to "country-partners" in lieu of "host countries".

Similarly, USAID added two additional categories of risk in the 2022 redraft:

- **Operational**, which is defined as the internal or external events and circumstances related to Agency strategy (policy design, implementation, etc...) that can either improve or compromise USAID's achievement of its goals and objectives; and
- **Cross-cutting**, which USAID explains as context-based, as it can often increase the likelihood that other types of risk may occur (e.g., programmatic, security, and fiduciary risk, as well as other risk categories not specifically referenced in the RAS, such as climate change, supply chain, or emergency preparedness risk). Here and throughout the document, USAID emphasizes the impact of climate change and natural disasters on risk and risk mitigation.

There is also a renewed emphasis in the policy on the prevention of harm to USAID partners, program participants, and the systems in which it works. It does so by elevating in importance the prevention of sexual exploitation, abuse, and harassment (PSEAH), counter-trafficking in persons (CTIP), safeguarding, nondiscrimination, and accountability mechanisms. Specifically, the 2022 RAS incorporates safeguarding into operational and cross-cutting risk and states a zero-tolerance appetite for such risks.

Further, the 2022 RAS reflects the increased profile and importance of locally-led and inclusive development to USAID. With this increased profile comes the concomitant increase to a high appetite for the programmatic risks the Agency associates

with it. These risks include implementing through local partners, to which USAID now "shifts more ownership, decision making authority, and implementation responsibilities" as they are "best placed to drive change in their own communities." By stating it has a high appetite for assuming such risks, USAID is paving the way for more LLID-oriented programming.

In making these changes to the 2022 RAS, however, USAID notes that these and other "programmatic opportunities must be balanced, while ensuring corruption, fraud, waste, abuse, or diversion of funds are mitigated." To this end, "USAID has integrated Enterprise Risk Management and USAID's risk management processes into the Program Cycle and Collaborating, Learning, and Adapting (CLA) approaches to support outcome effectiveness." It is precisely here, in the nexus between the Agency's high appetite for a more equitable and accountable culture and programming and its zero-tolerance appetite for corruption, fraud, waste and abuse, where operationalizing the 2022 RAS will prove instructive.

Although the RAS indicates a higher risk appetite for working with local partners, only in implementation will USAID demonstrate how it intends to balance this stated high-risk appetite with necessary safeguards against corruption, fraud, waste, and abuse. The RAS simply outlines USAID's risk appetite across its programming; it does not indicate how such appetites will impact funding, decision-making authority, compliance requirements, or other elements of operational policy that can encourage or hinder locally-led and inclusive development.

The 2018 vs 2022 Risk Appetite Statement

Risk	2022 RAS Definition	2018 RAS Definition	2022 Additional and Changed Areas of Focus
Programmatic Risk	Events or circumstances that could potentially improve or undermine the effectiveness of USAID’s programmatic goals, the achievement of sustained development outcomes, and the delivery and effectiveness of humanitarian assistance.	Events or circumstances that could potentially improve or undermine the effectiveness of USAID’s development or humanitarian assistance.	New focus on prioritizing a “ purposeful and inclusive vision to expand practices and principles of locally-led and inclusive development and humanitarian assistance. ” HIGH risk appetite for additional areas of taking “smart and disciplined programmatic risks to achieve long-term, sustainable developmental outcomes. ”
Fiduciary Risk	Events or circumstances that could potentially advance the efficient use or contribute to the inefficient use and control of USAID resources . It includes the risk of corruption , fraud, waste, abuse , loss, mismanagement , 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.	Events or circumstances that could result in fraud, waste, loss, or the 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.	LOW risk appetite for a “lack of development and maintenance of effective internal controls.” ZERO-TOLERANCE for “Inaction or non-reporting of corruption, fraud, waste, or violation of law that involve U.S. taxpayer funds.”
Reputational Risk	Replaces “host-country governments” with “ partner-country governments ”	Refers to “host-country governments”	HIGH risk appetite for additional areas of “Embedding an anti-corruption posture across USAID” and “Countering mis/dis/malinformation across USAID” ZERO-TOLERANCE for “Non-action on corruption or accountability for corrupt actors.”
Legal Risk	Events or circumstances that could potentially improve or compromise compliance with law, regulation or Executive Orders, enforcement of contractual agreements, U.S. Government ethics	Events or circumstances that could potentially improve or compromise compliance with law, regulation, Executive Order, or other source of legal requirement.	No significant change.



	requirements, and/or other sources of legal or regulatory actions.		
Security Risk	"USAID staff" replaced with "USAID workforce members" and data added as a category	Refers to "USAID staff"	No significant change.
Human Capital Risk	Events or circumstances that could potentially improve or compromise the capacity, productivity, recruitment , hiring, retention, and wellbeing of the USAID workforce and implementing partners.	Events or circumstances that could potentially improve or compromise the capacity, productivity, hiring, or retention of employees.	<p>HIGH risk appetite for "Adaptations of locations, assignments, authorities, and capabilities of overseas staff and workforce flexibilities" and "flexibility for the workforce, adapting to a hybrid work environment, and considering lessons learned from the COVID-19 pandemic."</p> <p>LOW risk appetite for "weaknesses in the processes for recruiting, selecting, hiring, onboarding, evaluating, and promoting staff" and "Inattention to DEIA" particularly as it relates to inequities across workforce.</p> <p>ZERO-TOLERANCE for "Bullying, abuse, and sexual harassment in the workplace" "Discrimination in the workplace."</p>
Information Technology Risk	No significant change.	Events or circumstances that could potentially improve or compromise the processing, security, stability, capacity, performance, or resilience of information technology.	<p>HIGH risk appetite for "sharing open data."</p> <p>MEDIUM risk appetite (instead of High in 2018) for the "adoption of new technologies or platforms"</p> <p>ZERO-TOLERANCE for new categories of "Sharing data with unauthorized persons" and "Unauthorized access to systems"</p>
Operational Risk	Operational Risks are internal and external events or circumstances related to Agency strategy selection, prioritization, modification, implementation, processes, and tools that may improve or compromise achievement of USAID goals and objectives.	Not previously included.	<p>HIGH risk appetite for "Embracing flexible, iterative design, and implementation" and "Innovative modalities for acquisition and assistance."</p> <p>MEDIUM risk appetite for "Communicating strategic and operational decisions."</p> <p>LOW risk appetite for "Static strategies and operations that are slow to respond to change."</p>

