CLP'S FINANCIAL SYSTEMS AND RISK MANAGEMENT STRATEGIES

SUMMARY

After operating from 2004 – 2016, the Chars Livelihoods Programme (CLP) accumulated significant experience working with the extreme-poor in these remote areas.

During its final year CLP developed a series of Lessons Learnt briefs with donors and development practitioners in mind.

This brief is one in a series and shares many lessons and suggestions for those designing good Risk Management strategies.

LESSONS INCLUDE:

Implement systems that are empowered to monitor and audit.

Internal audits serve as a deterrent.

Fraud management starts with a zero tolerance approach.

Verification surveys with third-party providers can be effective.

Institute real-time verification processes for high-cost activities.

Use the element of surprise to optimise verification, supervision and deterrence.

Staff in outlying areas can play a crucial role in monitoring.

Technical risk management and enforcing contracts is essential to keeping all components in sync.

Regular communication about riskmanagement demonstrates high expectations and commitment.

BACKGROUND

The Chars Livelihoods Programme (CLP) was a poverty reduction programme implemented in Bangladesh and co-financed by the UK Department for International Development (DFID) and the Australian Department of Foreign Affairs and Trade (DFAT). It was managed by Maxwell Stamp PLC and sponsored by the Ministry of Local Government, Rural Development and Cooperatives (MLGRD&C) and executed by the Rural Development and Cooperatives Division (RDCD) of the Government of the People's Republic of Bangladesh.

People on the riverine islands ("chars") of north-west Bangladesh had precarious livelihoods. They were often heavily reliant on low-paid and unpredictable agricultural day labour, and there were few other stable livelihoods options open to them. They were vulnerable to environ-mental shocks that could have devastating effects on their livelihoods, with flooding a particular risk. Most chars-dwellers moved home several times in the last few years due to floods or char erosion. Many reported that they had lost all their possessions and assets at least once in the past.

The precariousness of their livelihoods meant that many chars households faced food insecurity and suffered from the effects of under-nutrition. Limited access to improved water sources and sanitation and low levels of services such as health, education and livelihoods support were further challenges, resulting in chars-dwellers being amongst the poorest people in Bangladesh. CLP aimed to work with these people to help them lift themselves out of poverty.

CLP operated in two phases – CLP1, from 2004 to 2010, and CLP2, from April 2010 to March 2016. Over that time, CLP accumulated substantial experience from working with the extreme-poor in remote areas.

CLP is widely recognised as having been a very successful programme. By the end of its tenure, CLP directly (and in many cases dramatically) transformed the lives of over 78,000 core participant households, and it improved the livelihoods of one million poor and vulnerable people. Moreover, it achieved this while operating in one of the most challenging environments in the world: the riverine island chars in the Jamuna, Teesta, and Padma rivers of north-western Bangladesh.

During the course of its implementation, CLP needed to undergo a number of major changes, to respond to a range of new challenges, and to test out a variety of approaches. It involved it self in many different activities, spanning everything from livelihood improvement to market development, from social protection to land reform, from education to nutrition, and from health to veterinary services. Over the years it operated, CLP learnt a number of very important lessons. These lessons are now documented in a series of Lessons Learnt briefs which are intended to share CLP's experience with donors and practitioners, both in Bangladesh and further afield.

This brief is about risk management and how CLP's approach and systems were refined to meet the challenges it faced.

FINANCIAL SYSTEMS AND RISK MANAGEMENT

The context of Bangladesh is one that can be considered "high risk" from a number of perspectives, and the nature of CLP compounded some of these risks. The pressing urgency of the need to address extreme poverty can place great pressure on systems to deliver results fast, with less attention to issues of quality and transparency.

The capacity of many stakeholders involved was often variable, meaning that, in some circumstances, people or organisations that were expected to deliver critical results struggled to achieve them. The spectre of fraud and / or corruption was a persistent one, with the danger of "leakage" or misappropriation of donor funds a very real threat.

To cap it all, the nature of the programme – asset transfers, payments of unconditional cash transfers, subsidy payments, labour payments – required large-scale cash-handling, which presented obvious targets for unscrupulous people and organisations. The wide-ranging technical activities also brought a whole spectrum of technical risks. To address these challenges CLP produced robust risk management systems, processes and guidelines.

LESSONS LEARNT

DEVELOP AND IMPLEMENT SOUND SYSTEMS THAT ARE EMPOWERED TO MONITOR AND AUDIT

A large programme such as CLP required sound financial systems and watertight approaches to financial risk management to ensure minimal "leakage" of funds through misappropriation, as well as promoting maximum efficiency. The Chars Livelihoods Programme was consistently judged to have had good financial control systems in place.

The starting point of good financial systems is to have a Finance and Administration (F&A) Division that is resourced and empowered to deliver good financial systems and financial risk management. CLP's F&A Division was headed by a Director who reported directly to the Team Leader. Programme staff and systems also worked closely and integrated well with the staff and systems of the company that managed the overall Programme (Maxwell Stamp PLC).

CLP's financial, administrative and procurement systems were all comprehensively documented in separate manuals. All three manuals were regularly updated and were regularly used to help CLP and Implementing Organisation (IMO) staff monitor monthly expenditure, ensure procurement activities were carried out to the required quality standards, and verify adherence to administrative guidelines.

These manuals were often used in the three types of routine audits carried out during each financial year. These were: CLP External Audits; FAPAD (Foreign Aided Project Audit Directorate) Audits carried out by the Bangladesh Government; and External Audits of Partner Implementing Organisations (IMOs). All three audits occurred between March and August/September of each Financial Year. These audits often randomly selected areas from finance, procurement and administrative systems and checked practices against them. During 2015, for example, as well as auditing the finances, the audit team checked that procedures covering asset registers, vehicle use and procurement approach and reporting were being adhered to.

ACTIVITY-BASED FINANCIAL REPORTING CAN HELP DETER AND DETECT FRAUD QUICKER

Learning from experience over the years, CLP developed additional means of detecting and deterring potential financial risks, such as cases of fraud. After a large fraud case in early 2014, a CLP investigation revealed a loophole in the control system. A corrupt accounts manager had been able to post bogus expenses to the financial system. Meanwhile, District staff were keeping track of activities on the ground, such as the numbers of income-generating assets being purchased and delivered. CLP's management realised that if District staff's monitoring of these "physical outputs" had been combined with additional detailed checks on the financial statements, it would have been clear sooner that more expenses were being entered into the accounts than could be accounted for by the physical outputs. Thus this "space"

for corruption would have been reduced or eliminated. As a result, the Finance Division instituted a system of Activity-Based Financial Reporting.

This system compared financial flows to the IMOs against expenditure for each budget line related to individual activities listed in the reporting system. District staff were tasked with checking the activities against financial transactions and could raise the alarm if there was suspicious activity. For example, during the 2014 fraud case, District staff would have spotted within one month that financial expenditure records did not match actual outputs (such as livestock purchases, water points being constructed, and so on) and could have "blown the whistle" much sooner.

While this type of reporting significantly added to the District staff's workload in some instances, reports from the field indicated that this extra line of tight control helped focus attention on quality standards in the accounts departments of all IMOs. This created a significant deterrent effect and allowed for the smooth integration of operational and financial risk management.

REGULAR AND SURPRISE INTERNAL AUDITS CAN SERVE AS A GOOD DETERRENT

CLP also carried out internal audits by the Finance team to create further deterrence. Previously, CLP had carried out its internal audits following a sampling method, a standard accounting procedure. However, from 2014, the Finance Division began to carryout a total fund reconciliation at each audit. This audit investigated all vouchers without exception, requiring the check of approximately 2,000 pieces of documentation for each IMO.

The process was time-consuming, requiring two days' preparation at the CLP office and another full day at the IMO office. Despite being time intensive, it was found to be one of the most useful audit tools for ensuring the correct fund positions of every IMO.

In addition to these regular internal audits, CLP carried out spot-checks. Members of the Finance team would visit a particular IMO (sometimes selected randomly, but sometimes purposely chosen if weak nesseswere perceived) without prior notice and verify samples of vouchers. The knowledge that such visits could occur at any time, unannounced, were an extra incentive for IMO financial staff to maintain high standards.

Many of these general financial management and risk avoidance approaches were made easier by the fact that CLP had rigorously implemented a common chart of accounts across all IMOs, as well as requiring the use of Quickbooks, a single accounting system. This ensured that all IMOs used similar approaches to posting expenses and all used the same lines of activities. IMO Account Managers were trained how to use the software and were given refresher training each year to help them maintain high standards.

CLP also regularly brought together all IMO Programme Managers (PMs), Accounts Managers (AMs) and Accounts Officers (AOs) to discuss issues and share best practices for financial risk management and value-for-money. These regular sessions also served to highlight CLP's zero-tolerance approach to fraud and financial mismanagement.

FRAUD MANAGEMENT STARTS WITH A ZERO TOLERANCE APPROACH

The operating environment in Bangladesh is one that brings the danger of "leakage", or fraudulent activities aimed at misappropriating money or assets, to the fore. CLP's fraud deterrence and incident management processes evolved over time, combining to create a series of inter-related activities and mechanisms to both detect and deter fraud.

The starting point for all CLP's fraud management was the "zero tolerance" approach. Promulgated by DFID and DFAT, it was adhered to strictly by the implementation team. This approach meant that there was no level of "allow-able" fraud, nor were any suspicious activities over-looked because they were not deemed serious enough to spend management time on. All potential incidents of fraud or suspected fraud were fully investigated until it could be concluded that they either were or were not fraud-related. If they were, then appropriate management action was taken immediately. If they were not, then any systemic, individual performance or other implementation lessons were identified and modifications made as necessary. This commitment to full investigation and resulting action, including swift modifications to working practices, processes or guidelines, was a major platform for ensuring that fraud was both deterred and corrected when found.

IDENTIFY OPPORTUNITIES FOR FRAUD AND PRE-EMPT

Opportunities for fraud existed at every stage of CLP's implementation, so anti-fraud activities began from the start of the cycle. During identification of potential participants for each cohort, CLP's District staff accom-panied the IMO's field staff on a random, ad-hoc basis, to ensure that the participatory appraisal methods were implemented fairly.

Once participants were identified, CLP's senior manage-ment team verified at least 5% of every IMO's participant list by independently re-visiting each randomly-selected household and checking the eligibility criteria. If too many instances of inclusion or exclusion errors were found, the IMO would be instructed to re-do the identification process, either for the whole cohort or for certain areas; an exercise for which it was not reimbursed. All IMOs were informed that this policy would be implemented, and this alone had a strong motivating effect. Since the early days of CLP, no IMO had to re-do its entire partici-pant identification process.

During the identification of the final batch of participants (Cohort 2.6 during 2014), CLP Management identified the potential for increased risk of fraud. Given that it was the last cohort, CLP identified the risk that errant IMO staff might try to include non-legitimate participants in the programme in order to take kick-backs from them, as it would be their last chance to profit in this manner. As a result, CLP randomly verified 7.5% of the final cohort lists, rather than 5%. Again, the IMOs were informed that this would occur beforehand and no significant problems were found.

VERIFICATION SURVEYS WITH THIRD-PARTY PROVIDERS CAN BE VERY EFFECTIVE

During CLP's implementation, there were also many opportunities for staff to potentially misappropriate money as well as scope for poor quality implementation, given the remoteness of some areas and therefore the difficulty of implementing effective monitoring. As a result, CLP instituted a Verification contract with an external, third-party survey contractor to verify that outputs being reported were actually being implemented.

For example, a large portion of CLP's budget was spent on infrastructure activities: plinths, water points, hygienic latrines. On a random basis, CLP would assign certain outputs for checking by the Verification contractor, who would then send teams to verify output reports by the IMO. These teams would visit the assigned villages to find out, for example, if the number of plinths that were reported were actually there, and were built to the appropriate quality. Where evidence of mis-reporting or quality problems were discovered, reports were immediately sent to the Innovation, Monitoring, Learning and Communications Division (IMLC) for investigation. An Incident Register was instituted to track such cases as both a management and reporting tool, and also to provide feedback to IMOs on the kinds of performance issues that were being found.

INSTITUTE REAL-TIME VERIFICATION PROCESSES FOR HIGH-COST ACTIVITIES

After reviewing the lessons from the Verification surveys above, CLP realised that it might be missing potential incidents during the "big money" outputs, such as plinth-rais-ing and asset transfer, which also involved substantial cash-handling requirements. While verification surveys usually occurred after the fact, to check on outputs, it was decided that CLP also needed real-time verification while work was ongoing. As a result, CLP also instituted Customer Satisfaction Surveys (CSSs) to interview participants directly. These surveys were aimed at gauging whether implementation was going as planned and if participants were satisfied. These CSSs were also contracted to a third-party survey provider, with reports going directly to the senior managers of the IMLC. Again, all reports of irregularities or concern were fully investigated and registered in the Incident Register for future learning.

Both sets of surveys were randomised, so no IMO ever knew when and where either team would turn up to check. CLP believes this led to significant positive pressure on IMO performance. It also helped ensure that all staff were aware that CLP took performance and anti-fraud measures very seriously and did not hesitate to act upon incidents once discovered.

STAFF IN OUTLYING AREAS CAN PLAY A CRUCIAL ROLE IN SUPERVISION AND MONITORING

CLP's District staff were a major component of CLP's risk management and anti-fraud activities.Based in District towns, close to the chars, District staff were able to visit all implementation villages, even the most remote. Their overall role was to check on progress and quality of implementation, the planning and reporting of the IMOs in their area, the satisfaction of participants and also to alert CLP to potential cases of fraud or poor performance.

This role became vital as an additional form of monitoring and supervision, and also evolved over time. District staff became responsible for providing the technical insight and knowledge into the Activity-Based Financial Reporting (see above) process.In addition, District checklists were implemented, which aimed to systematise the areas for monitoring and supervision and promoted good quality supervision visits.

Several field visits by senior managers revealed that, on occasions, District staff were not investigating or questioning certain practices or incidents closely enough, to the quality expected. This resulted in the assessment that, in some circumstances, performance issues or possibly even fraud incidents could be going un-reported, and therefore un-addressed. The checklist approach, along with capacity building in its application, was designed to raise these standards and ensure better supervision and monitoring.

Regular and (usually) unannounced spot-checks by senior managers were also a source of both performance supervision and fraud deterrence. CLP learnt early that it was important to be accompanied by the respective Project Managers (PMs) of the IMOs being visited.PMs were much more likely to swiftly and thoroughly address issues they had personally witnessed, as opposed to reports that came through via email or telephone calls.

REGULAR COMMUNICATION WITH STAFF AND PARTNERS ABOUT RISK MANAGEMENT DEMONSTRATES HIGH EXPECTATIONS AND COMMITMENT

CLP also instituted regular communications regarding fraud and the zero tolerance approach with all staff and its IMOs. Fraud and risk management were a regular item on the agenda of the quarterly meetings that CLP held with its District staff and IMO Project Managers and Executive Directors. During these sessions, lessons were discussed and information on "trending" fraud cases shared. CLP also carried out workshops and sessions on risk management, for example reviewing the risks associated with the six voucher schemes that it implemented. Where a pattern of worrying Incident Reports were seen from an IMO, CLP management took swift action to communicate performance concerns to the IMO concerned, as well as to follow up with action plans, field visits and performance reviews.

UNDERPIN ALL ACTIVITIES WITH STRUCTURED POLICIES AND PROCEDURES BUT RECOGNISE DEMANDS WILL BE PLACED ON RESOURCES

All of these activities were underpinned by a structured Incident Investigation Policy and Procedure, which included detailed processes, clear responsibilities, strong oversight and review of cases, capacity-building in investigation approaches, and a Management Information System to record, track and report on incidents.

While this structured approach resulted in thorough investigations and appropriate responses to incidents, whether performance- or fraud-based, nevertheless it was found to be very resource intensive. During some periods, senior managers of CLP were spending around a quarter of their time on incident investigation and reporting – a significant resource allocation. It was difficult to plan and resource for such incident investigations. In some years, there were quite a few incidents which absorbed significant management resources; in other years, less. It is arguable that the level of both investigation and reporting required by the donor increased markedly over CLP's life. However, this increased expectation was not matched by additional management resources, potentially leading to shortfalls in other critical areas. While CLP's implementation did not seem to suffer significantly, these resourcing issues need to be carefully considered when designing programmes.

TECHNICAL RISK MANAGEMENT AND ENFORCING CONTRACTS IS ESSENTIAL TO KEEPING ALL COMPONENTS IN SYNC

CLP was a large and complex programme, with up to 19 sub-projects in three technical areas, implemented by 18 IMOs and two Special Service Providers (SSPs). As a result, technical risk management played a critical role in ensuring that all relevant components worked well together.

Underpinning this was the approach to contract management. Each IMO and SSP was separately contracted on a yearly basis to fulfil the activities necessary to deliver poverty alleviation in their working areas. These contracts were rigorously written, checked and re-checked, and then monitored and enforced. If a contract was breached, the monitoring and enforcement of violations through management action were vital components in ensuring that performance issues and other technical risks were taken seriously.

Through the IMO Performance Balanced Scorecard, a range of both positive and constructively critical feedback was provided to IMOs, ensuring that enforcing contractual obligations was not all seen as negative. The Scorecard developed over time into a comprehensive assessment of the IMOs' performance, based on numerous data sources. These performance areas included the quality of financial systems; procurement systems; and technical delivery standards in chosen areas, such as delivery of assets and stipends, the quality of plinths, and so on.

In addition to the Scorecard, many of the fraud risk management approaches mentioned above also played a major role in managing technical risks. Through the verification and CSSs and regular visits by District staff, a constant stream of performance-based information flowed between CLP and the IMOs, ensuring that standards were maintained and problems fixed. Regular oversight from Secretariat visits also ensured that IMOs understood that quality control was taken seriously and rigorously implemented.

Getting the basics of project management right also helped to mitigate technical as well as management risks (refer also to the Lessons Learnt Brief on Corporate Culture). Good planning, budgeting and recruitment of appropriately skilled and qualified staff underpinned much of CLP's success. Performance management systems were also appropriately applied, with under-performing staff given the opportunity and support to come up to standard. If performance did not improve, their contracts were terminated. This kind of "real" implementation of performance systems was critical, in the same way that the rigorous application of the "zero tolerance to fraud" policy was critical. A check-box or whitewash approach benefits no one; neither the staff that could perform better if problems were identified nor the project which could achieve better impact, economy and efficiency if fraud or mismanagement were identified.

Regular quarterly meetings between CLP and IMO senior managers ensured there were opportunities for discussion and lesson dissemination, as well as being a forum for sharing experiences more widely. Similarly, regular internal meetings among IMO teams and the District and Secretariat teams ensured good overview and communication.

Communications and liaison with other stakeholders, particularly the Government of Bangladesh, through regular local and national-level steering committee meetings, as well as with the donor / client through regular management meetings, also ensured good oversight and opportunities for lesson learning and constructive feedback.

Finally, the full integration of monitoring and evaluation (M&E) data and reports into management decision-making was also a powerful tool to mitigate technical risks (see more in our Lessons Learnt Brief on Monitoring & Evaluation).

If you wish to learn more about CLP or the lessons learnt series of briefs please visit the CLP website www.clp-bangladesh.org.

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Chars Livelihoods Programme

Reducing Extreme Poverty on the Riverine Islands of North West Bangladesh

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