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RISK MANAGEMENT AND PUBLIC GOVERNANCE PROJECT PROPOSAL FOR 2007-08

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**RISK MANAGEMENT AND PUBLIC GOVERNANCE
PROJECT PROPOSAL FOR 2007-08**

1. The Public Governance Committee discussion on risk and public governance on 6-7 April 2006 focused on the need to improve risk management in OECD countries in order to be better prepared to face new policy challenges in the twenty-first century. The discussion covered: *i)* the risk policy process, *ii)* risk in a broader governance context, *iii)* OECD work on risk and public governance and *iv)* the some of the key features of good governance in risk management. It was suggested that the OECD develop practical tools and a comparative analytical framework for risk and public governance, to be carried out in the 2007-08 Programme of Work.
2. Subsidiary bodies of the PGC have also discussed the topic of risk management in the last six months. The Working Party on Regulatory Reform and Management considered risk and regulatory policy on 24 April [GOV/PGC/REG(2006)1]. The discussion focused on the need to improve risk management in OECD countries in order to be better prepared to face new regulatory challenges in the twenty-first century. The discussion covered the need: *i)* to strengthen government capacity to manage risk, *ii)* to better resist pressures to regulate after a crisis, *iii)* to co-ordinate the public and private sectors' responses to risk, *iv)* to develop more holistic strategies for managing risk, and *v)* to extend regulatory responses to risks which are increasingly interdependent and cross-border.
3. A paper on assessing fiscal risks through long-term budget projections was presented at the Senior Budget Officials meeting in Sydney last June. The main topic of the meeting was how to make long-term projections and, to some extent, how to draw policy conclusions from these projections. The paper [GOV/PGC/SBO(2006)9] promoted greater incorporation of long-term considerations in the work in budget departments as a method to consider and quantify fiscal risks systematically. The paper was very well received with many comments by the countries that produce long-term projections and the types of risks included. Several countries were interested in details on how to prepare such estimates, and in the political reception such projections received. Follow up work on the subject of long-term projections was discussed and is being considered.
4. The Annual Meeting of Senior Officials from Centres of Government on 28-29 September focused on leadership in managing risk. The discussions covered a number of aspects: *i)* developing a knowledge-base within public administrations for risk management, *ii)* strengthening the links between centres of government and the line ministries for risk management, and *iii)* developing a positive culture of "lessons" learned from previous crises and integrating these into risk management practices. The participants confirmed that future GOV work in the area of risk management would be of a great interest to them and they agreed to provide feedback on the different steps of the project.
5. This note develops the broad outline of a two year work programme covering risk management and public governance. The project's main deliverables will consist of *i)* a series of country case studies of risk management across a number of risks areas based on an analytical framework and *ii)* guidelines with specific proposals for policies, tools and institutions integrating risk in public policy and practice.

Introduction

6. Earlier discussion on risk management indicated the common need of increased co-ordination among the activities contributing to risk management, a better use of the various instruments of risk management (regulation, information, insurance, liability law, technology, etc.), an improved capacity to be forward-looking and flexible in a changing environment, the development of multidisciplinary approaches, and communication of best practices with other risk areas and countries. One option to address this need would be for the OECD to carry out a series of (voluntary) country reviews on risk management. These reviews could focus on the consistency of related policies and on their ability to deal with the challenges - both present and future - created by emerging systemic risks, and identify opportunities for improvement and best practices.

7. To provide such a cross-sectoral and forward-looking perspective on risk management, this project could start by examining in detail how participating countries deal with concrete risk issues. A core feature of the project would consist of a series of case studies which would provide the material for a cross-sectoral analysis of risk management policies in each of the reviewed countries. At a later stage, the case studies would feed into the elaboration of a cross-country risk management toolkit.

A Conceptual Framework for Case Studies

8. The case studies will review and evaluate policies related to a specific risk management issue against a conceptual framework. For this, a comprehensive set of criteria and indicators will need to be derived and adapted. At the start of each case study, a preparatory period would be required and devoted to:

- defining the scope of the case study
- determining the policies, institutions and tools to be reviewed
- preparing questionnaires for stock-taking and self-assessment by the government, and
- elaborating the evaluation tools.

9. What follows are some of the methodological aspects for each of these four steps. This discussion is not meant as a procedure to be followed in all cases, but rather as a framework which can help in designing each case study. The methodology is broad, in order to encompass a large range of risk management questions. However, it is likely that only a limited part of it will be pertinent for any individual case study.

Step 1 - the choice of risk area

10. Three important aspects of the choice of case study are described below. They include the risk sectors and issues that would be the subject of each study; the type of analysis (risk/vulnerability), and the emerging challenges to be emphasised.

Risk sector and issues for case studies

11. This project could potentially covers a wide range of risks: natural disasters - such as floods and windstorms; health-related risks - notably infectious diseases; security and safety issues in critical infrastructures – such as energy supply, information and communication systems, water treatment and supply; and industrial accidents. Within each of these areas, the scope of the case study will have to be

narrowed down to a specific risk issue. For instance, a case study on infectious disease would not deal with the topic generally but could focus on strategies to cope with an influenza pandemic.

12. In order to be compatible with the objectives of the project, the selected issue needs to fulfil a number of criteria:

- to be representative - significant illustrations of the country's exposure to and handling of hazards, notably of the economic, social and political context of risk management;
- to involve new challenges - issues that are new or growing in importance, and have the potential to cause serious difficulties for risk management in the future; and,
- to have an international dimension - policy responses to risks which are increasingly interdependent and cross-border.

Risk and vulnerability: two alternative types of analysis

13. Two types of risk management policies may be at work in any one of the risk sectors listed above. The first are those policies which address the exposure of society as a whole to a **given** hazard. The second are those policies which concentrate on a given system – e.g. a population group or infrastructure - that is threatened by a **variety of** hazards. In order to fully capture the issues confronting risk managers, the case studies will have to adopt two alternative standpoints suited for these two types of policies: risk analysis and vulnerability analysis.

14. Risk analysis targets a specific hazard, for example a chemical substance that can adversely affect people or the environment. In this approach, the exposed populations, ecosystems, etc. are usually of secondary importance, and receive less attention. The analysis is centred on hazard control, and tries to determine:

- to what extent exposure is harmful,
- what this means for hazardous activities, and
- how to restrict them.

15. Vulnerability analysis, by contrast, considers a given system, and asks how it could be adversely affected by hazards, and hence how it should be reinforced. For instance, one can examine the vulnerability of a critical infrastructure by investigating how it could be damaged as the result of obsolescence, a technical failure, a natural disaster, a terrorist attack, etc. Here, emphasis shifts from the source of risk to aspects of the exposed system and of its environment that ultimately determine damage:

- factors that reduce or favour exposure,
- response and coping strategies,
- interactions between the system and other systems, and
- long-term effects of exposure.

The focus on emerging challenges for risk management

16. The project will also try to shed light on emerging challenges for risk management which are the consequence of a number of underlying changes. Four categories of such driving forces have been identified in the OECD report *Emerging risks in the 21st century*:

- demographic evolutions, such as growing populations, ageing, migration, and the expansion of urban centres and human settlements
- changes in the environment, in particular global warming and its impact on rainfall and on weather extremes
- technology-related factors, from increased connectedness and mobility, and the speed and pervasiveness of technological change, to the nature of next-generation technological risks (biotechnology, xeno-transplantations, etc.)
- finally, socio-economic forces such as increased competitive pressures, market concentration, income disparities, the shift in regulatory roles and responsibilities within OECD societies, and the role of the media.

17. The case studies could investigate the practical consequences of these driving forces, and examine the capacity of existing management systems to deal with emerging risk issues.

18. In summary, the first stage of a case study would consist of *i*) choosing a specific risk management issue; *ii*) deciding if the issue is better understood from a risk or from a vulnerability standpoint; and, *iii*) identifying the major emerging challenges involved. The Secretariat would propose to work closely with the country being reviewed to make these decisions. In developing these case studies, the Secretariat will couple this work, where possible, with other activities in the work programme, especially the work on risk and regulatory policy, long-term budgeting and inclusive government.

Step 2 - clarifying the policy context

19. Once the topic of the case study has been determined, the following step consists of establishing what risk management policies and tools should be included in the review and evaluation process.

20. Risk management is a complex process involving many different phases, from the evaluation of threats and the elaboration of protection strategies to the settling of liability issues and investigations after a disaster. Failure to consider risk management in its entirety can lead to some important linkages between these activities being overlooked, thereby undermining the overall effectiveness of policy. This is the case, when the assessment of risk is not closely articulated with the identification of affordable means of prevention, or when conflicting regulations or incentives increase vulnerabilities and confuse roles and responsibilities.

21. The methodology used in the case studies therefore has to be holistic and avoid excluding a priori any aspect of risk management, while at the same time remaining tractable. One solution for this is to consider risk management as a multi-layered system encompassing a range of actors, institutions and rules performing specific functions with regard to a specific risk. Table 1 illustrates such a system.

Table 1. Risk management as a multi-layered system

Functional layer	Objective	Principal instruments	Principal links
Assessment	Describe risk	Scientific and technical expertise Resource allocation on the basis of costs, benefits and other considerations	Policy decision-making Information
Policy decision-making	Choose a risk management option	Laws, regulations and administrative rules, and economic instruments	All other layers
Framework conditions	Implement rules, norms and incentives in risk-generating and risk-sharing activities	Applied scientific and technical knowledge	Protection Information Rescue Recovery enhancement Information
Protection	Create, improve and adapt protective mechanisms	Various information and early warning channels	Rescue Recovery enhancement
Information	Inform about the occurrence of hazard, make citizens aware	Contingency planning and organisation of emergency services	Information
Rescue	Mitigate immediate damage	Economic, social and medical support	Information
Recovery enhancement	Mitigate long-term damage	Audit, investigation and reform	All other layers
Experience feed-back and organisational change	Analyse and correct inadequacies		

Source : *Emerging Risk of the 21st Century*, OECD (2004)

22. As Table 1 shows, the eight layers forming a risk management system each have a distinctive function and require particular instruments. It is therefore possible to identify the functional layer(s) directly concerned by any specific risk management issue, and examine and evaluate the functioning of that layer(s) specifically. At the same time, the important linkages between different layers can be identified and integrated in the analysis. This should limit overlooking or ignoring policy elements relevant to the issue under study.

23. In summary, the second step in devising a potential case study of a specific risk issue is to identify the functional layers of the risk management system that should be examined and evaluated. In addition, the study will need to take account of the interactions within this system.

Step 3 - preparing the ground for stock-taking and self-assessment

24. As in any evaluation and review exercise, the reviewed country has to collect and provide information on those of its institutions and practices that are concerned by the study. The countries will not be asked to provide a detailed description of their risk management system, which would engage them in a comprehensive institutional and regulatory mapping – a challenge in itself in many OECD countries. Rather, they will have to focus on some limited parts of the system which are pertinent for a specific management issue.

25. In order to assist countries in this task, detailed questionnaires will be developed. Each questionnaire will comprise stock-taking and self-assessment elements.

Stock-taking

26. To take stock of a country's risk management organisations and policies, questions will address some of the following points:

- the status, roles and responsibilities of the various agencies and administrative services involved in the risk management layer(s) concerned by the study
- the operational tools of the various organisations (budget, personnel, communication capacities)
- the institutional links and communication channels between the layer(s) and other (pertinent) layers
- the legal and regulatory material applicable in the layer(s)
- the data collected in each organisation, and use made of them
- market conditions in risk-generating and risk-sharing activities.

Self-assessment

27. To complete this information, countries will be asked to self-assess the relevant elements of their risk management system by answering such questions as:

- What recent changes have been made in the risk management system? Why were they introduced? Are there any signs that the changes have been effective?
- What are the procedures and practices in the various layers of the risk management system that are perceived as a best practice by the country's authorities? Why?
- What are the elements, procedures and practices in the various layers that need to be strengthened or improved? Why?
- What are the strong and the weak links between the different layers?

28. The third step in devising a potential case study includes developing a questionnaire relative to those parts of the risk management system that are concerned by the case study. The first part of the questionnaire would need to address the institutional setting, organisation, means and tools of the entities involved in risk management. The second part of the questionnaire would concentrate on recent reforms and best practices.

Step 4 - developing the evaluation tools

29. The case studies could review and evaluate policies related to a specific risk management issue against some of the key principles of the OECD report *Emerging Risks in the 21st Century*. A comprehensive set of evaluation criteria and indicators has already been derived from the report's recommendations for action. These criteria could be adapted to each case study, in particular in the form of quantitative and qualitative indicators.

30. The evaluation could include an overall assessment of the risk management system as well as separate analyses of the functional layers. The overall assessment could examine linkages between functional layers, in particular by emphasizing the dynamics of the risk management system:

- its past achievements;
- the quality of experience-feedback and the capacity to trigger organisational change during the “window of opportunity” opened by an accident;
- the capacity to detect changes and to adapt to new conditions;
- the management of uncertainties and the consistency of precautionary measures;
- the existence and pertinence of a risk management strategy.

31. Analyses of risk management layers could concentrate on three aspects - the coherence of organisation, the effectiveness in achieving objectives, and the openness to external sources of information. Coherence of organisation could be evaluated along similar lines in the different layers, with particular attention to consistency between the institutional setting of the layer and its ultimate objective. Effectiveness criteria would seek to assess past achievements, adequacy of instruments, resource efficiency, and whether every aspect of the function is effectively taken into consideration. Openness criteria could emphasize the importance of external sources of information for the improvement of the instruments and procedures used in the reviewed layer.

32. In summary, step four consists in developing evaluation principles and criteria adapted to each case study. The evaluation would scrutinize i) the linkages between layers and the dynamics of risk management and ii) the coherence of organisation, effectiveness and openness of each pertinent layer.

Policy guidelines

33. This second stage of the project will consolidate the earlier work into a set of guidelines for improving risk management in public policies and institutions. The guidelines will likely include a number of elements:

- an analysis of both the downsides (negative consequences) and upsides (opportunities and benefits) of risk;
- the multi-levels nature of risk policy (national, provincial, local);
- the international dimension, where risks are increasingly interdependent and cross-border;
- risk perception and the different ways in which citizens and public officials may view risk;
- risk sharing and, generally, a greater stress on economic approaches to risk;
- effective risk communication strategies;
- the structure and interplay of the different actors dealing with risks (governance structure);
- the policy-making style prevalent within institutions having a role in the risk process (political culture); and,
- the organisational assets and capacity needed for effective risk management.

34. Beyond the classic component parts of a risk process as well as the contextual or cultural aspects of risk, the framework will need to contain a number of value-based or normative premises. These premises obviously also have their part in shaping the recommendations and strategies resulting from the guideline's application. They may include:

- the conviction that a balance needs to be achieved between considering both the physical and the social characteristics of a risk;
- the need to ensure early and meaningful involvement of all stakeholders;
- an acknowledgement of the important role of risk-benefit evaluation and the existence of risk-risk trade-offs;
- an obligation to explore the possibilities and limits of the self-regulatory power of 'market forces' and to engage in the search of innovative ways of risk coverage (including insurability and supranational liability regimes);
- the understanding that, while it is necessary to know and properly accommodate the risks related to emerging technologies, innovation and progress must not be stifled.

General consideration

35. This project should aid the active transfer and dissemination of knowledge to countries which are currently in an early phase of formulating their approach to risk management. Policy and decision makers in these countries should benefit both from the case studies of existing approaches in countries with more established and elaborate strategies.

36. Furthermore, the project is expected to provide new insights to risk practitioners across OECD countries. The project aims to map out the appropriate roles of the different stakeholders of trans-boundary, trans-sectorial risks and illuminates the role of civil society, including the interfaces and interactions between the different actors, it can perhaps help those already dealing with risk to apply a new and broader focus to their task – thus improving the quality of stakeholders' contribution to the governance of a risk. Some of these practitioners might also find the proposed guidelines a useful checklist which helps ensure a systematic approach to the individual tasks at hand while equally providing an overall picture.

37. The reviews do not aim at auditing risk management systems, but rather at exchanging views, collecting experiences, identifying and sharing best practices. The evaluation criteria, therefore, need to be made as open to the variety of country experiences and contexts as possible. When adapting and applying the criteria to each case, particular attention will have to be paid to the historical developments which have led to the present situation, and to the specific cultural, geographical and social context of risk management.

38. Clearly the most challenging phase of the project will be developing the policy guidelines. This will require scaling-up the findings and analysis from the individual case studies. In order to carry this out, the Public Governance Committee will need to have a representative sample of countries/risk areas from which to base the guidelines.

39. Implementing the project will have significant resource implications. While some Part 1 resources have been allocated to this work, additional funding will be need. In particular, the case studies will have to be financed entirely through voluntary contributions.