

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

1. This summary risk assessment follows the requirements of the Second Governance and Anticorruption Action Plan and related guidelines of the Asian Development Bank (ADB).<sup>1</sup> The summary assessment highlights the reforms by the Government of the Philippines that have been successfully started by the Good Governance and Anti-Corruption Cabinet Cluster, notably in public financial management (PFM), results-based budgeting, the improved leadership of accountability institutions, and the transparency of government transactions to combat graft and corruption.<sup>2</sup>

2. Despite the recent progress, the overall governance risk remains high. ADB-supported risk mitigation measures are focusing on the following: (i) results-based budgeting, in particular the identification of results-monitoring systems for all national government agencies for the 2014 General Appropriations Act and the establishment of data management systems to monitor the indicators; (ii) establishing a Treasury Single Account and civil society organization (CSO) initiatives related to mitigating procurement risks in local governments; (iii) piloting innovations introduced under the PFM reform map in ADB-supported loans (e.g., CSOs monitoring road construction and procurement); and (iv) analyzing procurement work, such as leading the Country Procurement Assessment Report and reviewing the engagement of CSOs in procurement.

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
<b>Public Financial Management</b>		
Limited budget credibility	Medium	Mitigation measures are included in the PFM reform map. ADB will closely monitor the development through participation in the Philippine Development Forum sub-working group on PFM.
Weak controls for payrolls and non-salary expenditures, and ineffectiveness of the government's internal audit	High	A number of measures are being implemented under the PFM reform map. This includes a new internal control and audit system currently being piloted in line agencies.
Low quality and delays of budget reports and annual financial statements	Low	Assistance will be granted under the PFM reform map. ADB will closely monitor developments and assess support needs that may arise (i.e., piloting reforms in selected agencies with which ADB cooperates).
Lack of capacity of civil society organizations compromises social audit	Medium	ADB will support improved information sharing by key agencies and strengthen the capacity of CSOs to engage in budget-related accountability initiatives, in particular in local governments through a technical assistance project to be implemented from June 2013 to May 2014.

<sup>1</sup> ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila; ADB. 2011. *Revised Guidelines for Implementing ADB's Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

<sup>2</sup> This assessment draws on ADB. Forthcoming. *Country Governance Risk Assessment and Management Plan: Philippines*. Manila. Other important sources include: World Bank. 2010. *Public Expenditure and Financial Accountability (PEFA)*. Report No. 54584-PH, Manila.; Australian Aid. 2012. *Assessment of National Systems, Philippines: Analysis of Strengths, Weaknesses and Risks Associated with using the Public Financial Management Systems of the Government of the Philippines*. Manila. Government of the Philippines, the World Bank, the Asian Development Bank. 2013 (forthcoming). *Philippines. Country Procurement Assessment Report*. Manila.

<b>Risk Description</b>	<b>Risk Assessment</b>	<b>Mitigation Measures or Risk Management Plan</b>
<b>Procurement</b>		
Inefficient procurement operations and absence of a regulatory body	High	The Civil Service Commission will implement a career stream for public procurement personnel and enable the monitoring of compliance by procurement entities with standard record-keeping guidelines. The contract review function will be removed from the GPPB.
Absence of contract administration and dispute resolution systems	Medium	ADB will monitor the progress of dispute resolution cases and support the strengthening of contract implementation monitoring by civil society organizations, in particular in the road sector.
Inadequate monitoring of the implementation of procurement laws	High	Recommendations for reform are currently under review by the DBM.
General absence of an effective control and audit system at the local level	High	The DBM will implement routine internal audit procedures using the new internal audit manuals that have been supported by ADB.
Access to the public procurement market is inhibited and competition is reduced as a result of limited access to information at the local level and lack of access to credit	Medium	The GPPB will support implementation of a strategic communication program designed to change private sector behavior and attitudes.
Prosecution of procurement cases is ineffective due to a complex cooperation arrangement among several anticorruption bodies	High	The GPPB will support a review of the roles of various bodies currently involved in enforcement. A special training program for investigators, prosecutors, and auditors will be developed on procurement contract fraud detection, evidence gathering, and prosecution techniques.
Procurement operations at the local level are not mainstreamed into the public sector management system	High	The DBM will integrate local procurement with the logistics procedures and business standards on the processing and releasing of payments in the Philippine Government Financial Manual.
Procurement monitoring and data collecting to evaluate the performance of the implementation of the YRRP is not yet fully in place	Medium	The YRRP has a monitoring and reporting mechanism that will promote better transparency. In addition, both domestic and international civil society organizations providing relief and emergency assistance are also engaged in CSO monitoring. The emergency assistance loan will adopt the YRRP's monitoring and reporting mechanism. Also, ADB is preparing technical assistance to directly engage a CSO to assist with monitoring selected activities of the YRRP in severely affected areas.

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
<b>Corruption</b>		
Inefficient coordination mechanisms and lack of investigation, prosecution, and enforcement capacity. The organizational capacity of the government's Office of the Ombudsman to efficiently perform its investigative and prosecutorial functions is limited, and an overall justice sector policy is lacking.	High	The Good Governance and Anti-Corruption Cabinet Cluster of the Philippines is in the process of developing a comprehensive and results-based anticorruption action plan, drawing on a review of the National Anti-Corruption Plan of Action. Initiatives are underway by various development partners (e.g., the United States Agency for International Development) to strengthen the capacity of the Office of the Ombudsman and the justice sector to perform their investigative and prosecutorial functions.
<b>Political Economy</b>		
Weak interagency coordination among national agencies and stakeholders may undermine the effective implementation of the YRRP	Medium	The government has set up a central committee to coordinate with line agencies to formulate, implement, and monitor the YRRP. Nevertheless, coordination with local government units (LGUs) in the severely affected areas remains weak because government infrastructure and systems have been damaged. The Philippine government has relaxed procurement procedures for emergency and relief operations, and this will help facilitate better coordination of efforts.
<b>Others</b>		
Risk of further natural disasters and their adverse impact on regional economies	High	The Philippine government's principles underlying the YRRP will be to rebuild better. The YRRP will incorporate enhanced building standards to withstand stronger storms and climate proofing of coastal towns and settlements. While this will improve infrastructure in the rebuilt parts of Eastern Visayas and Western Visayas, the areas will remain at risk, and other unprotected areas will continue at high risk.
<b>Overall</b>	High	This is a high-risk environment, but credible measures are being taken by the Philippine government, with the support of development partners, to address the risks.

ADB = Asian Development Bank, AusAID = Australian Agency for International Development, CPAR = country procurement assessment report, CSO = civil society organization, DBM = Department of Budget and Management, GACAP = Governance and Anticorruption Action Plan, GPPB = Government Procurement Policy Board, PFM = public financial management, USAID = United States Agency for International Development, YRRP = Yolanda recovery and rehabilitation plan.

Source: Asian Development Bank