

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

| Risk Description | Risk Assessment | Mitigation Measures or Risk Management Plan |
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| National Risks^a | | |
| 1. Macroeconomic | Low | Given the significant improvements in the country's macroeconomic fundamentals, and the recent sovereign upgrade to investment grade, macroeconomic risks were not explicitly assessed as part of the country partnership and strategy. A macroeconomic and debt sustainability analysis has been prepared and can be accessed in the linked documents. |
| 2. Public financial management | High | ADB will support the government's whole-of-government approach with high-level leadership and facilitation of strong agency coordination for the entire public financial management cycle. This will include systematic assessments of the budget execution capacity of key government agencies, the scope of the problem and its impact on public services delivery, and the potential remedies. ADB will also support concrete actions to increase transparency and accountability of the budget, and will provide capacity development for internal control units. Support will be provided to make budget documentation more user friendly, information sharing by key agencies more effective, and civil society organizations more technically proficient. Finally, ADB's engagement will strengthen the fund release system and provide the public with access to fund release information. |
| 3. Procurement | High | ADB will support the revision of legislation to enable the participation of a wider range of bidders, including the direct participation of foreign firms. ADB will also strengthen the bid and evaluation process, and will attempt to professionalize and enhance the capacity of procurement practitioners. Concurrently, ADB will support outreach efforts to domestic private sector bidders in an effort to change behavior and attitudes. Improvements in supporting systems will include the development of a generic procurement manual and standardized records and documentation. Finally, ADB will strengthen the roles of enforcement bodies and increase their capacity to detect contract fraud, gather evidence, and prosecute violations. The capacity of civil society organizations will be enhanced to monitor implementation of accountability provisions under the procurement law. |
| 4. Corruption | High | ADB will support the government's efforts to develop a comprehensive and results-based anticorruption action plan, drawing on a review of the National Anti-Corruption Plan of Action. Reforms will ensure the fiscal autonomy of constitutional bodies and reduce duplication of initiatives. ADB will support enhancement of legislative oversight over anticorruption bodies, specifically on the use of resources and corresponding performance. In addition, ADB will support a systematic organizational and network capacity assessment of the Office of the Ombudsman and provide assistance to implement the recommendations. Finally, ADB will strengthen the capacity of the justice sector to perform its investigative and prosecutorial functions as well as the network of justice sector organizations. |

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| Contextual Risks | | |
| Global fiscal and regulatory actions undermine the development of the domestic capital market. | Moderate | Currently, global efforts to reduce systemic risk are also reducing liquidity in government bond markets worldwide and increasing compliance costs. The most immediate effect of these efforts is a general withdrawal of the global banks from local currency bond markets, as well as market making and price fixing, such as establishing local benchmark interest rates. Changes to the capital regime are also driving banks to a more uniform and universal adoption of international standards such as the choice of governing law, as well as instrument-specific factors including adoption of the Global Master Repurchase Agreement. To mitigate this risk, proposed reforms are modeled after global standards and are designed to increase liquidity, utilizing measures which require no or few exception approvals. In addition, reforms will be designed so as to minimize costs and capital charges. |
| Continuity of capital market development is not maintained. | Moderate | The capital market development blueprint will lapse in 2016, concurrent with the change in government. To mitigate this risk, the BSP, Bureau of the Treasury and ADB will collaborate to develop a basic framework to serve as a basis for the development of the next capital market blueprint. In addition, senior staff at key sector stakeholders, including the SEC and OIC, has terms that extend beyond the upcoming election. |
| ASEAN integration is disrupted by uneven progress or national priorities. | High | ASEAN integration represents a national priority of the Government of the Philippines. According to the scorecard published by the ASEAN Secretariat in 2012, ^b the Philippines had fully implemented 9 of 19 total measures, with the remaining 10 more than 50% implemented. A more recent evaluation, performed by the National Economic Development Authority, ^c noted that the government had implemented 84% of the 434 measures tracked by the AEC scorecard. The recent liberalization of foreign entry into the financial services sector is indicative of the government's continuing resolve to pursue integration. While constraints are noted, the most difficult appear to be widespread throughout ASEAN and include ownership liberalization in strategic sectors, agricultural tariffs, and the free movement of labor. |
| Technical capacity of regulators is insufficient to support the reform agenda. | Moderate | ADB has supported capacity development in the executing and implementing agencies since 2010. Initial efforts focused on identifying constraints on the corporate debt market, strengthening the capacity of the SEC, and developing a tax-deferred savings plan. ^d More recently, collaboration between ADB, the International Monetary Fund, United States Treasury, and World Bank provided a highly focused diagnostic on constraints on developing the government bond market. The resultant action plan is being supported by ADB and the US Treasury through its resident advisor program. ^e Complementary support is being provided to support ASEAN integration, ^f and to assist the OIC in implementing the revised insurance law. ^g |

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| Budget is inadequate to fund capital market infrastructure upgrades and regulatory action plans. | High | Under subprogram 2 of the Financial Market Regulation and Integration Program, ^h ADB supported SEC's efforts to increase its budget in line with the fiscally and operationally independent central bank. In addition, ADB provided a diagnostic and recommendation for priority organizational and infrastructure improvements to guide the SEC's strategic direction and budget requests. The SEC's request for exemption from the salary stabilization framework, as called for under the revised Securities Regulation Act, has been fully vetted and is with the President's office for final approval. In addition, budget line items have been increased leading to upgrades in the SEC's organizational structure and the agency's surveillance capacity. |
| The government is unable to meet the prerequisites to ASEAN integration. | Moderate | The primary impediment to joining ASEAN Capital Markets Forum cross-border investment initiatives is the government's failure to sign IOSCO's MMOU. ADB is providing technical support to SEC which covers drafting the submission, answering queries from the technical working group, and implementing reforms to address structural deficiencies. |
| Market development efforts outstrip financial inclusion and education programs. | Moderate | The program is being supported by an extensive financial literacy program, administered by the BSP, which is built on a three-pronged framework: (i) access to financial products and services, (ii) financial education and literacy, and (iii) financial consumer protection. The EFLP provides extensive outreach including briefings, seminars, and expos. Since the start of the EFLP in 2000, the central bank has conducted briefings in 54% of 81 provinces nationwide as well as in areas around the globe where there is a concentration of OFWs. |
| Overall | Moderate | |

ADB = Asian Development Bank, AEC = ASEAN Economic Community, ASEAN = Association of Southeast Asian Nations, BSP = Bangko Sentral ng Pilipinas, EFLP = Economic and Financial Literacy Program, IOSCO = International Organization of Securities Commissions, MMOU = Multilateral Memorandum of Understanding, NA = not applicable, OFW = overseas Filipino worker, OIC = Office of the Insurance Commissioner, SEC = Securities and Exchange Commission.

^a ADB. 2012. Country Partnership strategy: Republic of the Philippines, 2011–2016. Manila.

^b ASEAN Secretariat. 2012. ASEAN Economic Community Scorecard. Jakarta.

^c National Economic and Development Authority. 2014. Overview of the Philippines' Action Plan for AEC 2015. Manila (October).

^d ADB. 2011. Technical Assistance to the Republic of the Philippines for Capacity Development of Financial Regulators. Manila.

^e ADB. 2013. Technical Assistance to the Republic of the Philippines for Strengthening Treasury's Liquidity Management. Manila; and ADB. 2014. Technical Assistance to the Republic of the Philippines for Strengthening Treasury Operations and Capital Market Reform. Manila.

^f ADB 2010. Regional Technical Assistance Promoting an Interlinked ASEAN Capital Market. Manila (TA 7576).

^g ADB. 2013. Technical Assistance for Capacity Development to Support Regulation and Oversight at the Insurance Commission. Manila.

^h ADB. 2010. Report and Recommendation of the President to the Board of Directors: Subprogram 2 of the Financial Market Regulation and Integration Program. Manila.

Source: Asian Development Bank.