

### RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
<b>Technical and Organization Risks</b>			
Weak coordination hampers implementation of policy reforms.	M	<p>For internal DOC coordination, the PIF will be established under the supervision of the deputy director general (management) of the DOC, overseeing the work of five thematic groups, responsible for (i) coordination, (ii) legal reforms, (iii) risk management, (iv) automation, and (v) organization development. Each thematic group will comprise at least a section director, an officer from the respective section, and an officer from the CRM section. The PIF will thus provide internal coordination mechanisms across multiple DOC sections—CRM, tariff, risk management, information technology, and administration.</p> <p>Externally, the PSC will provide DOC a mechanism to coordinate with key ministries. Chaired by the director general of the DOC, with the DOC director of CRM as the member secretary, committee members will be drawn from the DOC, MOC, MOF, and Department of Industry. The PSC will report on program implementation progress and issues at the regular Customs National Trade Facilitation Committee meetings to ensure stakeholders in the public and private sectors are consulted.</p>	PIF, PSC
Execution of reform measures is hampered by frequent government staff turnover and resistance to change.	M	<p>(i) The program and its associated TA will support institutional reorganization and government staff capacity development. The reorganization plan will include recommendations for creating positions. The program will implement the pool of experts (training of trainers) scheme to maximize retention of technical expertise in the DOC.</p> <p>(ii) The program's reform measures will require fundamental changes of significant magnitude in the customs operation. The TA will help develop change management skills at the DOC to deal effectively with staff's fear and resistance, their need for in-house training and career development, as well as the DOC's need to strengthen internal staff integrity.</p>	DOC, PIF, ADB
Inadequate monitoring and quality assurance	L	Detailed strategy and action points to comply with the tranche conditions will be developed and updated to monitor progress. Information technology software to monitor the progress of the CRMSAP, 2017–2021 <sup>a</sup> implementation is under development with support from ongoing ADB TA <sup>b</sup> . Field-based ADB TA consultants and regular ADB review missions will monitor the quality of outputs.	PIF, PSC, ADB

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Inadequate DOC human resources—in terms of low staff numbers and limited technical expertise of the serving staff—pose risks to timely implementation and sustainability of reform.	M	Since capacity development is a long-term process, the risk cannot be fully mitigated by the program and its associated TA, particularly in its first years of implementation. Nonetheless, the requirement under the policy matrix for the DOC to embark on institutional reorganization and launch a capacity development plan and a pool of experts scheme for the trade facilitation priority areas (including accounting, automation, procurement, and integrity) will allow for adequate attention to be given to staff capacity.	PIF, PSC
Lack of timely availability of UNCTAD technical assistance delays or hampers progress in implementing the ASYCUDA World system.	M	The DOC will enter into an agreement with UNCTAD to stabilize and enhance the ASYCUDA World functionalities.	DOC
<b>Financial Management</b>			
Unavailability of resources required for achieving policy matrix requirements and sustaining the reform initiatives.	M	(i) MOF has committed to allocate all the loan proceeds from the program to the implementation of the CRMSAP, 2017–2021, by formally approving the strategy's budget plan with funding source information. This will significantly enhance the sustainability of the investments proposed under the program, and the predictability and reliability of budget allocation and release. (ii) The associated TA will provide technical expertise to the government in all aspects of the policy actions, including legal amendments, procedural improvement, automation, reorganization, and human resources.	MOF, DOC, ADB
Weak internal audit framework in the Government of Nepal	M	The Government of Nepal has envisaged several PFM reform actions under its PFM Reform Strategy, FY2016–FY2026, <sup>c</sup> which will address some of the country-level fiduciary risks. Processes are under way to revise the legal framework of the existing internal audit function in Nepal as well as to increase capacity building interventions by the PEFA secretariat. These measures will strengthen the internal audit function and also help the Public Accounts Committee improve the process and procedures for follow-up to auditor general findings.	MOF (PEFA secretariat)
Integrated and timely financial information	L	Rollout of the Computerized Government Accounting System web-based accounting software to the DOC and its field offices is planned in phase 1, expected in 2017.	MOF
<b>Procurement</b>			
Limited experience in managing procurement processes delays the implementation progress of the reform actions to be	M	(i) At the national level, the Public Procurement Monitoring Office has completed formulating a training plan on public procurement and an e-government	Public Procurement Monitoring Office, PIF,

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supported by investments in information technology and infrastructure.		procurement system to be extended to all public entities at the central as well as subnational and local levels. ADB has provided TA to establish the Capacity Development Resource Center in Nepal Administrative Staff College to address the capacity development needs of government officials in procurement, financial management, contract management, and other thematic areas. <sup>d</sup> (ii) The program's institutional reorganization and capacity development outputs target, among other priorities, the DOC's procurement challenges. TA will also be provided.	ADB
<b>Anticorruption</b>			
Perception of customs revenue leakages	M	This is a sector risk, which is being partially addressed under the program.  (i) A key feature of the program—automation of customs—will significantly reduce the potential for revenue leakages and strengthen monitoring. Streamlined and transparent customs clearance procedures to be introduced through the reforms will reduce opportunities for arbitrary behavior by authorities. (ii) MOF is implementing a performance-based incentive scheme. (iii) The capacity development plan under the program's policy action will include staff integrity.	DOC, MOF, ADB
<b>Others (Overall)</b>			
The planned elections and transition from a unitary state to a federal structure delay implementation of reforms.	S	Political instability may be triggered by the planned national, state, and local elections, as well as the government's initiative to transition from a unitary state to a federal structure. ADB's continuous dialogue with the government, underpinned by close development partner coordination, will contribute to reducing the severity of this risk. The associated stand-alone TA will support close monitoring of the CRMSAP, 2017–2021 implementation. The government has committed to allocating adequate resources to the CRMSAP, 2017–2021, which will help keep the implementation on track. The CRMSAP, 2017–2021 has an implementation action plan, not only at the national level, but also at the field customs office level to help with implementation.	Other actors
Political instability may cause unexpected and irregular trade patterns, such as dramatic increases in the rate of noncompliant trade, and	S	Nepal witnessed such a disruption in the August 2015–February 2016 border blockade with India. While a temporary event of this nature may require revisions to the program's outcome indicators, it will not negate the	Other actors

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disruption in cargo clearance operations at the borders.		positive long-term impact of the trade process reforms. The program does not have mitigations measures for this risk.	
Slow progress in infrastructure development may hinder the sustainability of modern cargo clearance processes.	M	Major border facilities are primarily being developed with assistance from the Government of India, while other development partners are supporting the development of major transport routes. Delays in the completion of such initiatives may limit traders from benefiting fully from the trade facilitation reforms. ADB's continuous and broad policy dialogues with the government, beyond the trade facilitation sector, are expected to mitigate the risks.	Other actors
<b>Overall</b>	M	The proposed mitigation measures are expected to minimize the risks.	

ADB = Asian Development Bank, ASYCUDA = Automated System for Customs Data, CRM = customs reform modernization, CRMSAP = Customs Reform and Modernization Strategies and Action Plan, DOC = Department of Customs, L = low, M = moderate, MOC = Ministry of Commerce, MOF = Ministry of Finance, PEFA = Public Expenditure and Financial Accountability, PFM = public financial management, PIF = program implementation framework, PSC = program steering committee, S = substantial, TA = technical assistance, UNCTAD = United Nations Conference on Trade and Development.

<sup>a</sup> Government of Nepal, Ministry of Finance, DOC. 2017. *Customs Reform and Modernization Strategies and Action Plan (CRMSAP), 2017–2021*. Kathmandu.

<sup>b</sup> ADB. 2013. *Technical Assistance to Nepal for Supporting Participation in the South Asia Subregional Economic Cooperation Trade Facilitation Program*. Manila.

<sup>c</sup> Government of Nepal. Ministry of Finance. PEFA Secretariat. 2016. *Nepal's Public Financial Management Reform Strategy/Program (PFMRP) Phase II (2016/17–2025/26)*. Kathmandu. <http://www.pefa.gov.np/wp-content/uploads/Second-Phase-PFM-Reform-Actionplan.pdf>.

<sup>d</sup> ADB. 2014. *Nepal: Enhancing Portfolio Performance*. Manila

Source: Asian Development Bank.