

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
National Risks			
1. Macroeconomic conditions deteriorate	L	Macroeconomic risks are low. GDP growth moderated to 5.9% in 2015 but rose to 6.8% in 2016, underpinned by broad-based domestic demand. However, GDP growth is expected to slow to 6.4% in 2017. Maintaining high growth rates over the medium term will require sustaining and deepening structural reforms in key areas such as infrastructure and investment. In response, the Government of the Philippines doubled outlays on infrastructure beginning in 2006 to 5% of GDP in 2016. Additional increases are expected to boost public expenditure on infrastructure to 7.4% of GDP by 2022.	DOF, BSP
2. PFM weakens	S	PFM is exposed to several significant risks, including (i) the dispersion of responsibilities among oversight agencies; (ii) weak budget execution, including the excessive use of in-year budget reallocations; and (iii) a lack of transparency that makes it difficult for civil society to hold the government accountable. However, these risks are being mitigated steadily over time. The 2016 PEFA assessment noted improvements in transparency, policy-based budgeting, and accounting and record keeping. The government has also strengthened the budget review process, reduced the number and size of special purpose funds, and institutionalized transparency as a precondition to accessing public funds. ADB is providing direct support to strengthen PFM through the Philippines Development Forum sub-working group on PFM.	DBM, DOF
3. Corruption may affect implementation	S	Past efforts to reduce and eliminate corruption have been constrained by political interference, inefficient coordination mechanisms, and a lack of enforcement capacity. To address these risks, the Philippines' Cabinet Cluster on Good Governance and Anti-Corruption implemented a comprehensive and results-based anticorruption action plan, drawing on a review of the National Anti-Corruption Plan of Action. ¹ Initiatives are being supported 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. ADB has supported and will continue to support the	All government departments or agencies

¹ <https://governancecluster.files.wordpress.com/2013/05/good-governance-cluster-plan-2012-2016.pdf>

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		government as it works to ensure the fiscal autonomy of constitutional bodies, and the enhancement of legislative oversight over anticorruption bodies.	
4. Confidence in the formal finance sector weakens	L	Recent ADB programs have helped to strengthen confidence in the formal finance sector, particularly the Encouraging Investment through Capital Market Reforms Program. ² Approved in 2015, the program aims to deepen the capital market and increase investor confidence. The Inclusive Finance Development Program will continue to strengthen overall confidence in the sector by addressing key barriers to financial inclusion.	DOF, BSP, SEC
Contextual Risks			
5. Changes in political priorities prevent implementation of identified reform areas	M	With the adoption of the National Strategy for Financial Inclusion in July 2015, there is a framework for continuing reform. In addition, the government has launched reforms aimed at overcoming key barriers to financial inclusion and has provided budget allocation for a national identification system. Legislation is pending in Congress to institutionalize a collateral registry and to introduce a regulatory framework for Islamic finance. The successful piloting of technology-based solutions through a regulatory “sandbox” approach will present opportunities for scaling outreach of financial services. ^a	
6. Potential data breach affects integrity of important electronic information	M	With the move toward an upgraded national retail payment system and cloud-based banking platforms, as well as the accompanying increase in digital financial transactions, the need to protect sensitive electronic data increases substantially. The BSP has engaged external support to develop effective regulation technology systems to manage new financial technology and address consumer protection issues. Through a regulatory “sandbox” or test-and-learn approach to cloud-based banking, the BSP will be adapting new standards to reporting and data protection as well as requirements for risk mitigation on the part of reporting financial institutions. ³	
Overall	M	Overall, national risks are considered medium, on average, with the exception of corruption, which is considered high. ADB and other development partners will mitigate the risk of	

² ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Republic of the Philippines for the Encouraging Investment through Capital Market Reforms Program*. Manila

³ A regulatory “sandbox” approach (i.e., a test-and-learn approach) is a framework set up by a finance sector regulator to allow small-scale live testing of innovations by private firms in a controlled environment (operating under a special exemption, allowance, or other limited, time-bound exception) under the regulator’s supervision.

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		corruption through a whole-of-government approach to strengthening PFM and improving procurement. The government has made addressing corruption a high priority and has demonstrated notable improvements. Contextual risks are considered medium, on average, and come mainly from succession issues associated with the government transition, such as the amount of time to make new appointments. ADB has provided mitigation through technical assistance prior to implementation of the Inclusive Finance Development Program for key implementing agencies' stakeholder engagement.	

H = high, S = substantial, M = moderate, L = low.

ADB = Asian Development Bank, BSP = Bangko Sentral ng Pilipinas (Central Bank of the Philippines), DBM = Department of Budget and Management, DOF = Department of Finance, GDP = gross domestic product, PEFA = Public Expenditure and Financial Accountability, PFM = public financial management, SEC = Securities and Exchange Commission.

^a A regulatory "sandbox" approach is a framework set up by a finance sector regulator to allow small-scale, live testing of innovations by private firms in a controlled environment (operating under a special exemption, allowance, or other limited, time-bound exception) under the regulator's supervision.

Source: ADB.