

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
1. Governance Risks^a		
1.1. Public financial management	Moderate	<p>Although Bhutan's public financial management system is more robust than those of comparable countries, it needs improvement in areas such as (i) forecasting of public finances, (ii) effective use of medium-term fiscal framework, (iii) monetary policy related to credit growth, (iv) debt sustainability, (v) local government finances, (vi) systematic assessment of fiscal risks of state enterprises, and (vii) overall macroeconomic stabilization. The policy actions and technical assistance support under SEMP II will mitigate these vulnerabilities and improve the macroeconomic management capacity. Public financial management will be strengthened in areas such as (i) cash forecasting, including reliable revenue projections; (ii) developing systems and procedures for effective debt management, including government debt securities market; (iii) improving the local and national tax administration; and (iv) strengthening of financial stability monitoring, including liquidity management and stress testing of the financial sector.</p>
1.2. Procurement	Low	<p>The existing national public procurement system generally provides Bhutan with a solid platform to address relevant risks and is found to be adequate. Some development partners such as the Danish International Development Assistance already use the national government procurement system; the World Bank intends to start doing so as well. General vulnerabilities include low internal audit capability, poor procurement planning, and inadequate monitoring of implementation and quality assurance of services. ADB will be working with the Public Procurement and Policy Division to enhance the procurement capacity of relevant agencies. As a policy-based program, no major procurement risks are expected.</p>
1.3. Corruption	Low	<p>Bhutan consistently scores high on global indexes for control of corruption. Bhutan has instituted a system of ethics-based governance to curb corruption. The two main integrity institutions are the Royal Audit Authority and the Anti-Corruption Commission, which are widely respected for their independence and quality of work. ADB strengthened areas of vulnerability in accountability, internal control, and audit capacity under SEMP I. No major corruption risks are expected for SEMP II.</p>
2. Political Risks		
2.1. Political instability	Low	<p>Bhutan is a constitutional monarchy with a stable political system. The King signed the Constitution of Bhutan on 18 July 2008. Local elections were held for the first time in January 2011. The second parliamentary elections were successfully held in July 2013 with an overall voter turnout of 66.1%. The winning People's Democratic Party secured 32 of 47 National Assembly seats.</p>

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2.2. Lack of government commitment for implementation of reforms	Low	The government has a strong commitment to achieve macroeconomic goals set in the Eleventh Five-Year Plan (2013–2018). ADB's continuous engagement with the program steering committee under MOF and regular monitoring of the reform measures will ensure full alignment of SEMP II with policy initiatives taken by the government.
3. Organizational Risks		
3.1. Weak implementation capacity of government agencies	Moderate	TA support will be provided in targeted areas to help improve the capacity of the implementing agencies.
3.2. Inadequate coordination among government agencies	Moderate	Establishment of a program steering committee chaired by the secretary and/or joint secretary of MOF will ensure strong commitment and coordination among stakeholders. ADB will continuously engage with all relevant agencies for effective coordination and monitoring progress.
3.3. Trained staff are not retained in relevant departments during program implementation	High	ADB will continuously engage with the government to stress the importance of staff continuity. Capacity building under the TA will also target development of junior staff to ensure continuity of expertise and knowledge if senior officials are transferred.
3.4. Inadequate monitoring and quality assurance	Moderate	Capacity building will be provided for program evaluation. Coordination with development partners for projects and programs will continue to ensure comprehensive monitoring of outcomes.
3.5. Adequate resources and budget support are not available to the implementing agencies to carry out all program activities	Low	The government has a strong commitment for the successful implementation of SEMP II. Additional TA support will be provided in targeted areas to help implementing agencies carry out the program activities.
4. External Risks		
4.1. Bhutan's medium-term economic outlook is negatively affected by uncertainties in the global economy	Low	Developing Asia, including South Asia region, is forecast to grow in FY2015 and FY2016. The economic growth in developed economies is expected to improve in FY2015 and FY2016 with the recovery in the United States. ADB. 2015. <i>Asian Development Outlook</i> . Manila.
4.2. Fall in exports and capital flows due to negative shocks to the Indian economy	Low	Indian economy is forecast to grow in FY2016. ADB. 2015. <i>Asian Development Outlook</i> . Manila. Based on bilateral agreements, Bhutan will continue exporting electricity to India, which has energy deficit. Capital flows associated with the hydropower projects will continue as scheduled.
Overall	Moderate	The proposed mitigation measures are expected to minimize the risks.

ADB = Asian Development Bank, MOF = Ministry of Finance, SEMP I = Strengthening Economic Management Program, SEMP II = Strengthening Economic Management Program II. TA = technical assistance.

^a Governance risks are evaluated based on ADB's Governance Risk Assessment, which was conducted in accordance with ADB's Second Governance and Anticorruption Action Plan (2014). The assessment is summarized in ADB. 2014. *Country Partnership Strategy: Bhutan, 2014–2018*. Manila.

Source: Asian Development Bank.