

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

1. Governance risks in the Philippines are considered high, as significant challenges remain in public financial management, public accountability mechanisms, the capacity and integrity of government agencies, and local governance.<sup>1</sup> However, the government's renewed commitment to governance reform in recent years has helped improve the investment climate and achieve strong economic growth.
2. The weak capacity of the national government to manage public finances continues to be a major challenge. The dispersion of responsibilities among several oversight agencies hampers critical reform and fails to provide clear policy guidance to line agencies and local government units.<sup>2</sup> Corruption risks in the Philippines remain high. Weak public institutions and inadequate accountability mechanisms have negatively affected governance and development management. Although legal and regulatory frameworks for combatting corruption exist, the country's anticorruption agencies are generally ineffective and inefficient, principally because of the lack of investigation, prosecution, and enforcement capacity.<sup>3</sup> The problem is further aggravated by political interference in the operations of anticorruption bodies, including the politicization of appointments, inefficient coordination mechanisms, and court delays in corruption cases.
3. The procurement system is viewed as functioning relatively well, with well-developed legislative and regulatory frameworks. Reforms introduced by the government have significantly improved procurement operations and market practices. The country procurement assessment report gives the Philippine public procurement system a rating of posing a medium or moderate risk that needs improvement in the integrity of the public procurement system, especially regarding the appeals mechanism, management capacity, and the technical capacity of procurement personnel.<sup>4</sup>
4. Risks are moderate at the agency and project level.<sup>5</sup> The KALAHI–CIDSS National Community-Driven Development Project (KC-NCDDP) will be implemented by the Department of Social Welfare and Development (DSWD), considered to be one of the cleanest agencies in the government.<sup>6</sup> It has a strong and capable leadership with years of experience managing nationwide programs such as the Kapit-Bisig Laban sa Kahirapan–Comprehensive and Integrated Delivery of Social Services (KALAHI–CIDSS) project and a conditional cash transfer program financed by international development partners including the Asian Development Bank (ADB) and the World Bank. The DSWD has a rigorous system for processing, approving, and implementing subprojects that, together with built-in accountability mechanisms in the KALAHI–CIDSS project, have been effective in reducing fiduciary risks.

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<sup>1</sup> This analysis accords with the Asian Development Bank's Governance and Anticorruption Action Plan II and draws on a review of available assessments of the Kapit-Bisig Laban sa Kahirapan—Comprehensive and Integrated Delivery of Social Services project and the proposed National Community-Driven Development Program. It also draws on ADB governance risk assessments including the ADB country partnership strategy, 2011–2016; risk assessment and management plan; public sector management subsector assessment (summary): decentralization and local governance; country operations business plan, 2013–2015; Philippines procurement assessment report (2012); and Department of Social Welfare and Development internal documents.

<sup>2</sup> ADB. *Risk Assessment and Management Plan (Summary): Philippines, 2011–2016*. Manila.

<sup>3</sup> ADB. *Country Partnership Strategy: Philippines, 2011–2016*. Manila. pp. 1–10.

<sup>4</sup> Government of the Philippines et al. 2012: *Country Procurement Assessment Report*. Manila.

<sup>5</sup> Financial Management Assessment (supplementary appendix accessible from the list of linked documents in Appendix 2).

<sup>6</sup> Pulse Asia's March 2011 Nationwide Survey on Corruption. <http://www.pulseasia.ph/files/Download/3-28-2011%20MR3%20-%20UB2011-1%20MR%20on%20Corruption.pdf>

5. CDD operations in emergency and post-disaster context, coupled with the DSWD's other expanding programs for social protection, sustainable livelihoods, and disaster response, make project implementation and governance risks significant. Financial management and procurement risks are expected to intensify as demands arising from project expansion place a heavy strain on the DSWD management and oversight capacity. The difficulty of supervising the implementation of the program across thousands of villages and involving numerous small transactions increases fiduciary risks. The risks of political intervention and collusion among barangays in the prioritization and financing of subprojects are significantly intensified, as the scaling up may undermine the quality of process monitoring and auditing of subprojects. While attempts to misuse funds have been easily detected and prevented in the KALAHI-CIDSS project, effective monitoring and audit under the KC-NCDDP will be more challenging.

6. In post-disaster context, there is a risk that the DSWD will have difficulty recruiting adequately qualified staff. Training thousands of newly hired staff will be a major challenge considering the short period available for procuring the services of training providers. The need to act fast given the context and mobilize resources expeditiously requires (i) training of a critical mass of staff with the right skills mix quickly and mobilizing them where they are needed most, (ii) adequate management of resource allocation and (iii) necessary financial controls. Unless mitigated, these risks can delay the processing and implementation of subprojects.

7. Moreover, local government units (LGUs) are also often not functioning well, overwhelmed by the size of the recovery task at hand. A potential shortage of human resources to provide oversight and technical assistance in the face of increased demand for replacement or rehabilitation of basic community infrastructure increases the risk of inefficient or fraudulent use of funds. Another complication will be the interface of the KC-NCDDP with government planning and budgeting reforms, including measures to enhance the LGU performance.

8. These risks are manageable. Project funds will be traceable and auditable. Adequate oversight by and technical support from trained facilitators will ensure that the key principles of participation, transparency, and accountability are maintained. Financial policies and procedures are in place to ensure that funds are used for purposes intended. Further, the DSWD plans to manage the risks by incorporating in the KC-NCDDP design the following mitigation measures (i) instituting national and more local interagency governance structures; (ii) enhancing program management support systems, (iii) providing adequate personnel numbers and decentralizing functions to regional offices, (iv) providing additional grant funds for disaster-affected areas where extensive local infrastructure loss has taken place, (v) providing additional facilitators and operational funds to facilitators in disaster-affected areas, (vi) simplifying subproject selection and disbursement procedures and reporting requirements, (vii) instituting needs-based and sustained capacity development programs for program staff and stakeholders prior to fund disbursement, (viii) strengthening the grievance redress system, (ix) paying community bank accounts directly, and (x) using robust information monitoring and audit systems, including third-party evaluations and oversight by civil society organizations.

<b>Risk Description</b>	<b>Risk Assessment</b>	<b>Risk Management Plan</b>
<b>Country</b> Lack of harmony in ongoing government planning and budgeting reforms	Medium-High	National and more local interagency governance structures set up; national joint memorandum circular with national government agencies; adoption of common standards and procedures with other agencies on subproject financing
Lack of clear procedures on local counterpart contributions (LCC)	Medium	Memorandum of agreement between the Department of the Interior and Local Government and the DSWD

Risk Description	Risk Assessment	Risk Management Plan
		Remove LCC for at least two cycles in post-disaster context
<b>Program</b> Inadequate institutional and personnel capacity to implement and monitor the program in post-disaster context	High	Strengthen program management systems and due diligence, decentralize functions to DSWD regional offices, provide adequate number of technical staff and facilitation personnel that could be quickly mobilized accompanied by well-designed capacity building program.
Duplication of recovery and reconstruction efforts	Medium	Work closely with the stakeholders and provide regular updates to the central committee coordinating line agencies in the formulation, implementation and monitoring of the Yolanda recovery and reconstruction plan.
Poor quality and lack of regularity in the conduct of external audit	High	Clarify COA guidelines and conduct socialization for and training of additional COA auditors in the project's financial management policies and procedures and its loan covenants and conditions  Announce audits at the start of project cycle to deter misuse
Price inflation due to competition for resources in disaster-affected areas.	High	Increase operational budget to support personnel in disaster-affected areas and provide additional subproject grants for at least two cycles
Corruption in procurement	High	Procure goods and services only at central and regional levels and tracked through an electronic procurement tracking system and with prior ADB review; community monitoring of subproject procurement; strengthened grievance redress system; direct payment to community bank accounts; and robust information monitoring and audit systems, including third-party evaluations and oversight by civil society organizations
Delays in the implementation of subprojects	Medium	Expand the authority of regional offices to approve requests for fund release and disburse community grants; simplified procedures and reporting requirements, particularly in disaster-affected areas
Local political interference	High	Use the underlying principles of community participation and transparency in resource allocation and decision making during the subproject planning cycles; KALAHI–CIDSS project experience shows community priorities prevail even with changes in political leadership
Lack of participation by women and the poor in capacity building	Medium	Train community facilitators and volunteers on the needs of marginalized community members. Where under-representation is a risk, separate activities for marginalized households, including those headed by women, will be organized to select subproject proposals and related capacity building
Errors in recording and reporting project transactions and other information	Medium	Support the establishment of electronic management information and accounting systems toward the complete and timely capture and verification of transactions and other relevant information. Transactions will undergo subregional technical and compliance review and regional authorization. Reports will be consolidated to meet national and regional data needs.
Unclear information regarding ownership and/or prior occupation of land to be utilized for the subprojects	Medium	The resettlement framework specifies as a criterion that land to be used for the subproject is not subject to conflict of ownership. It also provides for public disclosure in the communities and grievance redress mechanism.
Overall Risk Category	High	

ADB = Asian Development Bank, COA = Commission on Audit, DSWD = Department of Social Welfare and Development, KALAHI–CIDSS = Kapit-Bisig Laban sa Kahirapan–Comprehensive and Integrated Delivery of Social Services.

Source: Asian Development Bank.