

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

This risk assessment and risk management plan for the Bhutan Health Sector Program summarizes the key risks and mitigation measures identified during due diligence in accordance with Asian Development Bank (ADB) Guidelines for Implementing the Governance and Anticorruption Action Plan II.¹ Project-related risks concern (i) technical aspects, (ii) governance and capacity issues in financial management and procurement, and (iii) environmental safeguards. Risks are rated substantial (S), moderate (M), or low (L). The proposed mitigation measures were discussed and agreed with the government and built into the design of the program.² The risks, rating, mitigation measures, and responsible agencies are summarized in the table below.

Project Level Risks and Mitigation Plan

Project risks	Rating	Mitigation Measures	Responsibility
Technical			
Changes in government priorities, particularly post-2018 general elections, may shift resources away from health sector policy reforms and improvements.	L	MOH will actively engage with the new government to advocate for full resources to implement health sector policy improvements under the 12th 5-year plan.	MOH
Political considerations may divert attention and resources away from primary health care strengthening.	L	The program's advocacy on primary health care will include policy-makers among the target audience.	MOH
Weather conditions may impair roads and the mobility of workers and thus delay construction activities.	L	The contractors will consider potential adverse conditions when scheduling the works, which will be closely monitored. MOH and district engineers will be responsible for regular supervision and monitoring to minimize work delays.	MOH, PMPSU, HIDD
MOH's monitoring and supervision of project civil works may be inadequate because of limited staff or conflicting priorities.	L	Monitoring of project civil works will be part of the annual work plan of MOH/HIDD and districts. The project will recruit additional engineers to support HIDD in civil works monitoring and supervision. For district-specific works, MOH will ensure adequate supervision by district engineers through agreed monitoring and supervision plans, and will cover their expenses for supervisory visits.	MOH, PMPSU, HIDD
The project will procure equipment for health facilities in the eight focus districts, but staff in the districts may not be familiar with operation and maintenance of the equipment supplied.	L	Contracts with suppliers will contain a clause that ensures proper commissioning of the equipment, and training of staff in its use and preventive maintenance.	MOH, PMPSU, Department of Medical Services
A. Governance (Financial Management, Procurement, Anticorruption Measures, Capacity, and Institutional)			
Financial Management			
The declining trend in government health	M	ADB will advocate for increased government	MOH, ADB

¹ ADB. 2014. *Revised Staff Guidance for Implementing the Second Governance and Anticorruption Action Plan*. Manila.

² The plan was prepared keeping in mind ADB staff guidance (footnote 1) as well as its Guidelines for Preparing a Design and Monitoring Framework.

Project risks	Rating	Mitigation Measures	Responsibility
expenditure as a share of GDP places additional stress on the financial sustainability of both the sector and project investments.		<p>spending on health proportionate to GDP growth, and for more hydropower revenue to be channeled to health and social spending as part of the CPS dialogue.</p> <p>Government health sector budget allocations and financial sustainability risks will be closely monitored during implementation.</p>	
The 2016 PEFA assessment indicates that the country has made good progress in PFM since the previous assessment in 2010; however, the PFM reforms are still incomplete. If progress in national PFM reforms stalls, line ministries will also be affected, and PFM performance under the project may be lower than expected.	M	The government, with World Bank's support, is expected to establish a multi-donor trust fund to support a new government-led PFM reform program, whose implementation progress will be monitored closely by the government.	Government of Bhutan
MOH follows the government's financial rules and regulations but does not have adequate exposure to ADB procedures, which may result in implementation delays.	M	A project management unit will be established that includes a full-time accountant and financial management consultant to help build the capacity of MOH. ADB will also facilitate attendance of MOH staff in its financial management and disbursement workshops.	MOH, PMPSU, ADB
MOH will depute a full-time account officer to the PMPSU, but all government accounting staff is centrally recruited and frequently rotated across ministries. Continuity in project management support may be disrupted if movements of account staff assigned to PMPSU are frequent and therefore delay project implementation.	M	MOH will ensure that the accountant designated for the PMPSU will continue for the full term of the project.	MOH, PMPSU
Insufficient staff in MOH's internal audit unit to cover all MOH programs, and internal auditing neither based on performance nor risk	S	A financial management consultant will be engaged to support MOH's capacity, and performance- and risk-based audits will be used to improve internal audit quality.	MOH
Audited project financial statements may not be submitted to ADB within the required 6 months; the government's usual cycle for reporting and disclosure is within 12 months of FYE, which includes presentation to Parliament and disclosure on MOF's website.	M	RAA will provide the audited project financial statements within 6 months of FYE, subject to MOH preparing its accounts and presenting them to the RAA for audit within 3 months of FYE. The PMPSU will ensure MOH's timely meeting of deadlines for audit preparation.	MOH, PMPSU, RAA
In line with the financial rules and regulations, MOH uses PEMS, a cash-based double-entry accounting system, for the preparation of financial statements. PEMS is a web-based government-wide system for financial reporting and monitoring, but it cannot produce customized financial reports for project-related financial reporting to ADB.	M	PEMS will be used for accounting purposes for the project, but financial data will be transferred to an MS Excel sheet to generate quarterly financial progress reports. The financial management consultant will assist in developing the financial reporting system (including review and reconciliation process) and formats.	MOH, PMPSU

Procurement			
The government has only recently established a central procurement cadre, and their current level of procurement knowledge and skills is still inadequate. MOH procurement staff also lack previous experience with ADB procurement guidelines, which could lead to delays in procurement.	M	The PMPSU will recruit a procurement consultant to assist with ADB guidelines and build capacity of MOH staff. ADB will also facilitate attendance of MOH staff in ADB procurement workshops.	MOH, PMPSU, ADB
Government procurement rules, which require bidders to be registered with the appropriate authority, are intended to ensure quality products and works but may limit competition.	S	Project procurement staff will follow ADB guidelines and use ADB SBDs with modifications, if needed, to ensure quality and competition.	MOH, PMPSU
Batches of drugs delivered are not routinely tested, and there is a risk that the drugs supplied are substandard and do not comply with the pharmacopeia.	S	The government will consider modification of government SBDs to require drug suppliers to produce certificates demonstrating that all batches of drugs have been tested by an ISO-compliant lab.	Government of Bhutan, MOH, PMPSU
Government procurement rules and regulations do not recommend that participating bidders be systematically provided with a copy of bid-opening minutes, which might undermine transparency.	L	ADB guidelines will be followed and relevant information will be disclosed on the project website.	MOH, PMPSU
MOH procurement arrangements may not be fully adequate to safeguard against anticorruption concerns. The ACC 2016 annual report indicated that 63 cases were investigated, of which two cases concerned procurement-related irregularities at MOH.	L	MOH fully implemented the ACC recommendations in 2014 and centralized its procurement to ensure transparency and reduce risks of irregularities. MOH is also fully informed of ADB's Anticorruption Policy, which requires the highest standard of ethics during procurement and execution of contracts.	MOH, PMPSU
B. Safeguards			
MOH is overloaded with large construction projects and does not have sufficient staff to oversee civil works under the ADB project, so project-related environmental safeguard risks may not be monitored adequately.	M	The PMPSU will recruit an environment expert to support safeguard monitoring and reporting. Additionally, two consultant engineers will be recruited to support HIDD.	MOH, PMPSU
Adequate national policies and rules on biomedical waste management and disposal exist, but implementation is inadequate.	M	Project investments include equipment and resources for infection control and waste management. MOH will ensure that management of medical waste follows all applicable national laws, and each municipality and district will prepare a medical waste management plan. MOH will also train health staff on waste management and infection-preventing control measures. PMPSU will also recruit an environment expert to support compliance with implementation, monitoring, and reporting requirements.	MOH, PMPSU
As the BHTF's capacity improves, more	L	MOH will monitor and ensure compliance with	MOH,

drugs and vaccines will be procured, and the risk that pharmaceutical waste is not disposed of adequately may increase.		rules and guidelines that are in place (Procurement Rules and Regulations 2009, Medicine Act 2003, National Drug Policy 2007) to guide the safe disposal of pharmaceutical waste.	PMPSU
With program support for technology infrastructure, new equipment may be procured, and old or redundant hardware may be disposed of improperly.	L	MOH will ensure compliance with standard practices, where all electronic equipment is required to be returned to the Department of National Properties, where it will be properly stored, sold, or disposed of.	

ACC = Anti-Corruption Commission, ADB = Asian Development Bank, BHTF = Bhutan Health Trust Fund, CPS = county partnership strategy, FYE = fiscal year-end, GDP = gross domestic product, HIDD = Health Infrastructure Development Division, MOH = Ministry of Health, MOF = Ministry of Finance, PEFA = public expenditure and financial accountability, PEMS = public expenditure management system, PFM = public financial management, PMPSU = Project Management and Policy Support Unit, RAA = Royal Audit Authority, SBD = standard bidding document.

Source: Financial Management Capacity Assessment, Procurement Capacity Assessment, Environmental Assessment (all accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President).