

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

1. This summary risk assessment follows the requirements of the Second Governance and Anticorruption Action Plan and related guidelines of the Asian Development Bank (ADB).¹ The assessment notes the governance reforms that have successfully been started by the Good Governance and Anti-Corruption Cabinet Cluster, notably in public financial management (PFM), results-based budgeting, improved leadership of accountability institutions, and transparency of government transactions to combat graft and corruption. Despite the recent progress, governance risks remain high. The individual risks (summarized below) have all been assessed as “high”; the listed mitigation measures highlight ADB’s involvement. ADB-supported risk mitigation measures will focus on the following priorities: (i) results-based budgeting, in particular identification of results-monitoring systems for all national government agencies for the 2014 general appropriations act and the establishment of data management systems to monitor the indicators; (ii) CSO initiatives related to mitigating PFM and procurement risks at the local government level; (iii) piloting innovations introduced under the PFM reform map in ADB-supported loans, i.e., monitoring of road construction and procurement by CSOs; and (iv) analytical work in procurement, such as leading the Country Procurement Assessment Report and reviewing CSO engagement in procurement.

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
Public Financial Management		
Wavering commitment to reform the system of intergovernmental fiscal relations	Medium	An ADB TA will finance the Government-led review of the Local government Code, a participatory exercise that will include all local and national stakeholders.
Lack of legislative oversight for budget execution	High	Mitigation measures are included in the government’s PFM reform map. ADB will continue to provide technical assistance support to the DBM from August 2013 to April 2014 to analyze the performance of agencies in delivering outputs and increasing the effectiveness of government expenditures for results-based budgeting purposes.
Limited budget credibility	Medium	Mitigation measures are included in the PFM reform map. ADB will closely monitor development through participation in the Philippine Development Forum sub-working group on PFM.
Weak controls for payrolls and non-salary expenditures and low effectiveness of internal audit	High	A number of measures are being implemented under the PFM reform map. Support will be provided to the Department of Public Works and Highways to strengthen its internal audit function beginning in August 2013.
Low quality and timeliness of in-year budget reports and	Low	Assistance granted under the PFM reform map. ADB will closely monitor developments and assess support needs that may arise, i.e. piloting reforms in selected agencies

¹ ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila; ADB. 2011. *Revised Guidelines for Implementing ADB’s Second Governance and Anticorruption Action Plan (GACAP II)*. Manila. This assessment draws on ADB. 2013. *Country Governance Risk Assessment and Management Plan: Philippines* (forthcoming). Other important sources include: World Bank. 2010. *Public Expenditure and Financial Accountability (PEFA)*. Report No. 54584-PH, May; Australian Aid. 2012. *Assessment of National Systems, Philippines: Analysis of Strengths, Weaknesses and Risks Associated with using the Public Financial Management Systems of the Government of the Philippines*. Manila. October. Government of the Philippines, the World Bank, the Asian Development Bank. 2013 (forthcoming). *Philippines. Country Procurement Assessment Report*. Manila.

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annual financial statements.		with which ADB cooperates.
Limited resources for capacity development	Medium	The program is developed in close coordination with the Philippine Development Forum, which coordinates and monitors all development partners programs in this area.
Lack of capacity of civil society organizations compromises social audit.	Medium	ADB will support improved information sharing by key agencies and strengthen the capacity of CSOs to engage in budget-related accountability initiatives, in particular at the local government level through a technical assistance project to be implemented from June 2013 to May 2014.
Procurement		
Inefficient procurement operations and absence of a regulatory body	High	The Civil Service Commission will implement a career stream for public procurement personnel and enable the monitoring of compliance by procurement entities with standard recordkeeping guidelines. The contract review function will be removed from the GPPB.
Absence of contract administration and dispute resolution systems	Medium	ADB will monitor the progress of dispute resolution cases and support strengthening of contract implementation monitoring by civil society organizations, in particular in the road sector.
Inadequate monitoring of the implementation of procurement laws.	High	Recommendations for reform are currently under review by DBM.
General absence of an effective control and audit system at the local level	High	DBM will implement routine internal audit procedures using the new internal audit manuals that have been supported by ADB.
Access to the public procurement market is inhibited and competition is reduced as a result of limited access to information at the local level and lack of access to credit	Medium	The GPPB will support implementation of a strategic communication program designed to change private sector behavior and attitudes.
Prosecution of procurement cases is ineffective due to a complex cooperation arrangement among several anticorruption bodies.	High	The GPPB will support a review of the roles of various bodies currently involved in enforcement. A special training program for investigators, prosecutors, and auditors will be developed on procurement contract fraud detection, evidence gathering, and prosecution techniques.
Procurement operations at the local level are not mainstreamed into the public sector management system	High	DBM will integrate local procurement with the logistics procedures and business standards on processing and release of payments in the Financial Manual.
Procurement monitoring and collection of data to	Medium	ADB will review processes of CSO engagement in procurement monitoring and provide support capacity development for CSOs in the road sector to ensure

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evaluate performance is not yet fully in place		implementation of accountability provisions under the procurement law.
Corruption		
Inefficient coordination mechanisms and lack of investigation, prosecution, and enforcement capacity. The organizational capacity of the Office of the Ombudsman to efficiently perform its investigative and prosecutorial functions is limited, and an overall justice sector policy is lacking.	High	The Cabinet Cluster on Governance is in the process of developing a comprehensive and results-based anticorruption action plan, drawing on a review of the National Anti-Corruption Plan of Action and existing bodies. Initiatives are underway 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 to perform their investigative and prosecutorial functions.
Political Economy		
Parliamentary consideration and approval of ad hoc LGC reform proposals not consulted with other stakeholders.	High	The review of the LGC will incorporate representatives from the Senate and the House of Representatives from the outset to ensure their ownership of the process.
Lack of coordination among government agencies in decentralization reforms.	Low	To resolve possible issues and to ensure continued progress, the CCD has been organized to address issues in intergovernmental coordination regarding the LGU issues. The CCD has been accepted by oversight agencies and LGU leagues as a forum for openly discussing conflicting positions.
Overall	High	This is a high-risk environment, but credible measures are being taken by government, with the support of development partners, to address the risks.

ADB = Asian Development Bank, AusAID = Australian Agency for International Development, CPAR = country procurement assessment report, CSO = civil society organization, DBM = Department of Budget and Management, GACAP = Governance and Anticorruption Action Plan, GPPB = Government Procurement Policy Board, PFM = public financial management, USAID = United States Agency for International Development.