

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

1. Program risks under the Skills for Employment Investment Program are considered medium to low after mitigation. The government’s commitment to reforms under the leadership of the finance division under the Ministry of Finance, combined with targeted mitigation measures to establish a robust system to manage the program, demonstrates short-term and long-term strategies to mitigate identified risks. This will help provide a credible mechanism to scale up skills training and skills upgrading for a large number of people entering the labor market every year as well as those already in the market but still seeking employment. This will particularly benefit the country’s youth and will contribute to achieving a high rate of economic growth. The major risk involves capacity in the short period before planned improvements of institutional arrangements are in place, particularly those intended to finance a scaling up of private sector training. However, strong leadership has been demonstrated by the finance division in assigning a senior and experienced official to head the proposed skills development coordination and monitoring unit (SDCMU) with staff to be recruited from the market, and in addressing specific measures to ensure project readiness. This reduces the risks that have been identified to a manageable level. The finance division’s willingness to pre-finance the training activities and to be reimbursed subsequently by the Asian Development Bank (ADB), as well as to provide quarterly advances to private sector associations and other implementing agencies, ensures a smooth flow of funds. Additional safeguards are provided by associated measures to streamline unit costs and cash flow; improve accounting and reporting procedures across implementing agencies; strengthen internal audit functions; ensure rigorous external audit for both private sector associations and government agencies; closely monitor support for validation and verification; and report regularly on progress, using agreed formats. Payments through the banking system will be maximized whenever feasible.

2. ADB proposes to mitigate risks in several ways. The program will emphasize the establishment before any training program begins of solid baseline information, a tracking system to track trainees and the performance of institutions, and the use of performance-based contracts and agreements. This will help to ensure effective targeting and use of resources. A carefully designed, strong monitoring and evaluation mechanism will link resources with key outputs and outcomes. The use of a website to update progress on key achievements will ensure transparency and encourage key stakeholders to track and report on this progress. The proposal to establish a well-resourced SDCMU in managing procurement and financial management, combined with technical oversight of the implementing agencies in close partnership with related agencies, will likely ensure effective program management. Finally, a structured approach to quarterly and annual fiduciary reviews included in the program will help mitigate the identified risks. This approach will include the strengthening of the stakeholders’ oversight mechanisms and capacity, rigorous tracking of trainees and training institutions, and capacity development.

Risk Description	Risk Assessment	Mitigation Measures or Risk Management
Country Risks		
Public Financial Management Major risks arise from (i) weak budget preparation capacity and the separation of development and non-development budgets, (ii) large off-budget fiscal activities, (iii) little effort to mobilize	Medium	Along with other development partners, ADB has supported the improvement of public financial management through loans and TA. It has helped improve auditing and accounting and transparency in procurement through strict adherence to ADB procurement guidelines. It has helped the government reform governance by (i) reconstituting and making operational the ACC, (ii) approving a comprehensive

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<p>revenues, (iv) limited performance reporting, (v) weak capacity in internal audit, and (vi) government accounting and auditing processes that do not entirely meet international standards and thus require that updated standards be introduced and enforced.</p>	High	<p>national integrity strategy with a road map and action plan to address corruption and poor governance, (iii) separating the judiciary from the executive branch of the state, (iv) enacting laws on money laundering and the right to information, and (v) ratifying the United Nations Convention against Corruption.</p> <p>ADB is supporting digitization of land records and the e-filing of tax returns. Several TA projects were provided to build capacity in the ACC, improve civil service management, and reform the judiciary. Information on fiscal and resource management is now more accurate. Auditing capacity has been strengthened and performance auditing introduced.</p>
<p>Procurement Public procurement is the major source of corruption. Inconsistently applied rules and the lack of standards have created opportunities to violate rules and resort to illegal, unethical, and anti-competitive procurement practices. Major risks are a rising incidence of collusion and cartel behavior; limited capacity to implement new rules; and amendments to the Public Procurement Act, 2006 and 2008 regulations that are inconsistent with good procurement practices.</p>	High	<p>Major procurement reforms were undertaken under the Public Procurement Rules, 2003 and 2008 and the Public Procurement Act, 2006. Procedures have been streamlined and a complaints mechanism established, staff is better equipped to handle public procurement, procedures have become transparent, and audit procedures are in place. The Public Procurement Rules, 2008 include a number of innovations, such as providing a framework and concession contracts, procedures for procuring commodities, and emergency procurement approved by the government. Transparency in public procurement has also improved with the development of ICT and the requirement that all ministries post all procurement details on their respective websites. The government has initiated e-procurement, which has been rolled out for four agencies since 2012.</p>
<p>Project Specific Risks Outcomes</p>		
<p>Slow progress in addressing legal issues and binding capacity constraints may stifle the pace of NSDP implementation.</p>	Medium	<p>The policy matrix carved out from the approved NSDP provides a set of key reforms directly associated with the SEIP. High-quality technical assistance embedded in the design, along with close coordination between the finance division of the Ministry of Finance, the NSDC, and other key agencies, will help address the risk.</p>
<p>If there is any change in government during program implementation, it may delay implementation of critical reforms.</p>	Medium	<p>This is expected to be of short duration. Consultation with key stakeholders confirms that the scaling of skills training and skills enhancement to strengthen the country's work force is a priority of all stakeholders and regarded as a strategic pillar for accelerating inclusive economic growth and opportunities. Strong leadership by the finance division and contractual staff in the SDCMU will reduce the impact of change in government.</p>
<p>Outputs Meeting the high job placement target may be difficult for several training institutions.</p>	High	<p>The focus on a high level of job placement success is critical to changing the mind-set of institutions from a supply-driven to a demand-driven approach to training programs. The prospect for achieving employment targets will be improved by the involvement of high-level officials from public and private institutions and operational support for social marketing and job placement, with market-responsive improvements targeted in partnership with enterprises.</p>
<p>Weak capacity to implement SEIP and weak partnerships between industry, regulatory bodies and training providers may slow implementation.</p>	Medium	<p>The early establishment of a strong SDCMU with active involvement of participating institutions through business plans, management training, and targeted technical assistance to support on-the-job training provides a natural platform for synergy and partnerships.</p>
<p>Slow process in establishing</p>	High	<p>A conducive environment for institutional, financial, and</p>

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unified financing, coordination, and sustainable financing may lead to continued fragmentation and inadequate financing.		operational reforms will be provided by the strong leadership of the Ministry of Finance, the agreed commitment of key agencies to establish the National Human Resource Development Fund by 2015, and the agreement to pilot sustainable financing schemes.
Lack of timely policy decisions may delay program implementation.	Medium	Priority policies most critical to program implementation have been prepared and agreed with the government and key stakeholders. Technical assistance to support the targeted key reforms will ensure delivery of results (outputs and outcomes).
Weak monitoring and lack of incentives may limit the impetus to reform.	Medium	Prior to starting any training, the finance division has agreed to (i) establish a tracking system to track trainees and training institutions, and (ii) delegate powers to public institutions to enhance accountability with incentives.
Fiduciary Risks		
Lack of staff dedicated to accounting and financial management could raise the fiduciary risks.	Medium	Prior to commencement of training programs, the finance division has agreed to the following: (i) the SDCMU will have dedicated staff with required qualification; (ii) the SDCMU will organize orientation training to all the concerned specialists; (iii) the SDCMU will ensure consistency in maintaining books of accounts (common accounting software with some standardization in the interim for budget variation analysis, bank reconciliation); (iv) the SDCMU will use common chart of accounts for common monthly reporting and in facilitating annual auditing; (v) the SDCMU will ensure common coordinating units in each agency involved in skills training; (vi) the SDCMU will use performance-based contracts and/or agreements; and (vii) the SDCMU will ensure standard costs and verification procedures and regular progress reporting on agreed formats.
Lack of internal audit functions in sector associations and government agencies may raise risks.	High	A financial management specialist and audit specialist will be recruited for the SDCMU to support and undertake the internal audit function.
Lack of clarity in annual audit arrangements may compromise on audit requirements.	High	FAPAD will audit public institutions and SDCMU expenditures, while external auditors acceptable to the government and ADB will be engaged to audit accounts of the associations and PKSF.
Lack of rolling business plans may undermine systematic monitoring and improvements.	Medium	Each agency will prepare a rolling business plan, along with an annual work plan and budget that will be refined based on a set of common parameters.
Lack of standard procedures for financial management and procurement may lead to noncompliance on PFR issues.	Medium	SDCMU will prepare and implement an operations manual, as well as manuals for procurement and financial management.
Lack of uniform reporting formats for training providers may undermine effective reporting.	Medium	The annual work plan and budget and expenditure reporting will be based on agreed formats for monthly, quarterly, and annual monitoring.
Overall	High	

ADB = Asian Development Bank, ACC = anti corruption commission, ICT = information and communication technology, NSDC = National Skill Development Council, NSDP = national skill development policy, SDCMU = skill development coordination and monitoring unit, SEIP = skills for employment investment program.

Sources: Detailed Financial Management Report; Asian Development Bank