

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 highlights the reforms that the Government of the Philippines has successfully started with the Good Governance and Anti-Corruption Cabinet Cluster, notably in public financial management (PFM), results-based budgeting, improved leadership of accountability institutions, and the transparency of government transactions to combat graft and corruption.²

2. Despite the progress, the overall governance risk remains high. ADB-supported risk mitigation measures focus on (i) results-based budgeting, in particular the 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) establishing a treasury single account and civil society organization (CSO) initiatives related to mitigating procurement risks in local governments; (iii) piloting innovations introduced under the PFM reform map in ADB-supported loans (e.g., CSOs monitoring road construction and procurement); and (iv) analyzing procurement work, such as leading the country procurement assessment report and reviewing the engagement of CSOs in procurement.

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
Public Financial Management		
Limited budget credibility	Medium	Mitigation measures are included in the PFM reform map. ADB will closely monitor the development through participation in the Philippine Development Forum sub-working group on PFM.
Weak controls for payrolls and nonsalary expenditures, and ineffectiveness of the government's internal audit	High	A number of measures are being implemented under the PFM reform map. This includes a new internal control and audit system currently being piloted in line agencies.
Low quality of and delays in budget reports and annual financial statements	Low	Assistance will be 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 with which ADB cooperates).
Lack of capacity of CSOs 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 in local governments through a technical assistance project implemented from June 2013 to May 2014.
Procurement		
Weakness in effectiveness and efficiency of procurement operations at the level of individual procurement entity and the absence of a functional and normative 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 record-keeping guidelines. The contract review function will be removed from the GPPB.

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.

² This assessment draws on World Bank. 2010. *Public Expenditure and Financial Accountability (PEFA)*. Report No. 54584-PH, Manila; 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. Government of the Philippines, the World Bank, the Asian Development Bank, Japan International Cooperation Agency. 2013. *Philippines. Country Procurement Assessment Report*. Manila.

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Absence of contract administration and dispute resolution systems	Medium	ADB will monitor the progress of dispute resolution cases and support the strengthening of contract implementation monitoring by CSOs, in particular in the road sector.
The existing monitoring systems in the technical secretariat of the GPPB are inadequate to monitor the implementation of procurement-related laws and to collect and disseminate procurement information.	High	Recommendations from the country procurement assessment report and other studies relating to strengthening the Technical Support Office of the GPPB are currently under review by the DBM. ADB is willing to support, if requested by government.
General absence of an effective control and audit system at the local level	High	The 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.
There is no independent and autonomous complaint review body to resolve complaints, and there is no efficient appeals mechanism	Medium	The GPPB will review international practice and set up an autonomous complaint review body and develop its rules and procedures.
Prosecution of procurement cases is ineffective due to a complex cooperation arrangement between several anticorruption bodies. There are few cases where the laws on corrupt practices have been enforced and many cases that have not been acted on.	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	The DBM will integrate local procurement with the logistics procedures and business standards on the processing and releasing of payments in the Philippine Government Financial Manual.
Procurement monitoring and collection of data to evaluate performance not yet fully in place	Medium	ADB reviewed processes of CSO engagement in procurement monitoring by July 2013
Corruption		
Inefficient coordination mechanisms and lack of investigation, prosecution, and enforcement capacity. The organizational capacity of the government's Office of the Ombudsman to efficiently perform its investigative and prosecutorial functions is limited, and an overall justice sector policy is lacking.	High	The Good Governance and Anti-Corruption Cabinet Cluster of the Philippines 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. Initiatives are under way 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.

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Political Economy		
Weak coordination between national agencies and stakeholders. This may undermine effective implementation of pilot programs.	Medium	<p>JobStart program—DOLE has entered into MOAs with the mayor of each local government unit that participates in the pilot project. The MOAs set out the responsibilities and functions of each partner in the pilot program. DOLE has demonstrated very strong leadership in coordinating with the local government units and employer groups. Currently, DOLE is preparing a concept note for rolling out the project nationally.</p> <p>RIA program—NEDA is the key government office that will pilot the RIA learning center to oversee advocacy and capacity building for RIAs. NEDA has established a new division, Governance Staff, which will oversee RIAs in government. NEDA is preparing the legal basis for mandating RIA in the national government under the post-program partnership framework.</p>
The program includes several complex reforms. Capacity of agencies to implement reforms may be constrained by changes in resource allocations resources and other emerging priorities.	Medium	The program reduces this risk by focusing on the policy triggers that constitute high-priority policy reforms supported by substantial capacity development assistance in JobStart, tourism industry skills development program, PPP in infrastructure, and RIAs. In addition, the monitoring and evaluation framework and the impact evaluation reports will provide lessons for strengthening the programs prior to upscaling.
The reform agenda relies heavily on ownership, which remains sensitive to political stability.	Medium	The program focuses on supporting the government's own initiatives and reforms in areas where there is strong political will and commitment, as demonstrated by NEDA, DOT, and DOLE in pilot project implementation.
Others		
Global macroeconomic instability. Slowdown in global economic growth and persistent risks to global financial markets may limit fiscal space to fund the program commitments in the medium to long term.	Medium	The program does not directly address macroeconomic risks. The ADB team continues to monitor the economy on a regular basis and carry out dialogue with the government on macroeconomic issues.
Overall	High	High-risk environment, but the government, with the support of development partners, is taking credible measures to manage the risks.

ADB = Asian Development Bank, CSO = civil society organization, DBM = Department of Budget and Management, DOLE = Department of Labor and Employment, DOT = Department of Tourism, GPPB = Government Procurement Policy Board, MOA = memorandum of understanding, NEDA = National Economic and Development Authority, PFM = public financial management, PPP = public-private partnership, RIA = regulatory impact assessment.
Source: Asian Development Bank.