## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

| Major Risks | Assessment without Mitigation | Action to Mitigate Risk |
|---|---|---|
| **1. Public Financial Management** | | |
| Less transparency, integrity, and accountability of the public financial management system in terms of internal and external budget reporting | Medium | Internal budget reporting, especially for investments, is limited while the quality and timeliness of annual financial statements need strengthening. Proper budget allocation is followed up while implementing the program. The budget approvals for implementing specific policy reforms are confirmed by the Ministry of Economy and Finance, and by the executing and implementing agencies. |
| **2. Procurement** | | |
| Inefficiencies and irregularity in procurement | High | Further devolved capacity building is needed in line ministries to boost e-procurement and strengthen institutional settings and human resources. All new programs and projects are to consider opportunities for direct support to priority sector ministries for implementing the procurement reforms. Support for development of subnational public financial management systems. |
| **3. Corruption Risks** | | |
| Weak governance and perceived corruption in the sector | High | Backed by an active development community, the government is taking an increasingly tough stance against corruption, promulgating an anticorruption law and commencing its implementation in 2010. This was considered during the design of the third program, and initiatives to deter money laundering and the financing of terrorism were included. The institutional governance structure, accounting and financial standards, complementary legislation, regulatory updates and their enforcement, and supervision and surveillance of the finance sector are continuously being improved. |
| **4. Program Specific Risks** | | |
| External challenges to sustaining economic growth | Medium | The 2008 global economic downturn dampened Cambodia’s growth rate by reducing demand for Cambodia’s garments, suppressing tourist arrivals, and limiting foreign investment in large construction projects—three of the four main drivers of growth. Through fiscal and monetary measures introduced by the government, the finance sector remained resilient. Garments, tourism, construction, and a strong performance in agriculture contributed to 7.1% growth in 2011 despite severe flooding, and economic stability was maintained in 2012 and 2013 (7.3% and 7.2% growth). The government and the Asian Development Bank will continue to review macroeconomic and financial developments periodically throughout the Third Financial Sector Program to assess potential risks to the sector. |
| Weak execution and implementation of policy reforms | Medium | Some finance sector risks are associated with weak institutional and human capacity. To mitigate them, |

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| | | training programs have been initiated at various training institutions that were established during the first and second programs. Several technical assistance projects have been identified to help implement the third program and reduce the risks arising from weak capacity, especially for implementing prudential regulations and meeting new challenges that arise from the introduction of new products and services to the sector. |
| **Overall** | **Medium** | |