



December 2014

Revised Staff Guidance for Implementing the Second Governance and Anticorruption Action Plan (GACAP II)

Assessing and Managing Governance Risks in ADB Operations

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
COBP	–	country operations business plan
CPA	–	Country Performance Assessment
CPAR	–	Country Procurement Assessment Report
CPRM	–	country portfolio review mission
CPS	–	country partnership strategy
CSO	–	civil society organization
DAC	–	Development Assistance Committee
DMC	–	developing member country
DMF	–	design and monitoring framework
FMA	–	financial management assessment
GACAP II	–	Second Governance and Anticorruption Action Plan
GRA	–	governance risk assessment
GRMF	–	governance risk management framework
KRA	–	key result area
MAPS	–	Methodology for Assessing Procurement Systems
OAI	–	Office of Anticorruption and Integrity
OECD	–	Organization for Economic Co-operation and Development
OSFMD	–	Operations Services and Financial Management Department
PAM	–	project administration manual
PEFA	–	Public Expenditure and Financial Accountability
PFM	–	public financial management
PRA	–	project procurement risk assessment
PSM	–	public sector management
PSOD	–	Private Sector Operations Department
RRP	–	report and recommendation of the President
RSDD	–	Regional and Sustainable Development Department
TA	–	technical assistance
TOR	–	terms of reference

NOTE

In this report, "\$" refers to US dollars.

Vice-President	B. Lohani, Knowledge Management and Sustainable Development
Director General	M. Locsin, Regional and Sustainable Development Department (RSDD)
Director	B. Édes, RSDD
Team leader	W. Turner, Senior Public Management Specialist, RSDD
Team members	C. Buentjen, Principal Public Management Specialist, RSDD B. Reid, Principal Financial Management Specialist, Operations Services and Financial Management Department M. Senapaty, Lead Planning and Policy Specialist, Strategy and Policy Department

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
I. INTRODUCTION	1
II. SECOND GOVERNANCE AND ANTICORRUPTION ACTION PLAN	2
A. GACAP II Purpose	2
B. Organizational Oversight of GACAP II Implementation	2
III. GOVERNANCE RISK MANAGEMENT FRAMEWORK	3
IV. PLANNING THE GOVERNANCE RISK ASSESSMENT	6
V. PREPARING THE GOVERNANCE RISK ASSESSEMENT	9
A. Country-Level Risk Assessment	10
B. Priority Sector Risk Assessment	11
C. Use of Country Systems	13
VI. PREPARING THE RISK MANAGEMENT PLAN	16
A. Determining High Risks	16
B. Formulating Risk Mitigation Actions	18
VII. LINKING GOVERNANCE RISK ASSESSMENT TO PROGRAMS AND PROJECTS	20
VIII. MONITORING GOVERNANCE RISKS AND MITIGATION MEASURES	21
 <u>APPENDIXES</u>	
1. Indicative Terms of Reference for Preparing Country Governance Risk Assessment	22
2. Indicative Terms of Reference for Preparing Sector Governance Risk Assessment	26
3. Standard Report Format for Country Governance Risk Assessment	30
4. Standard Report Format for Sector Governance Risk Assessment	36
5. List of Secondary Source Information	41

I. INTRODUCTION

1. The Second Governance and Anticorruption Action Plan (GACAP II) was approved in July 2006.¹ This guidance is for the staff of the Asian Development Bank (ADB) to implement GACAP II. It updates and replaces previous guidelines issued in 2011.²

2. The revised staff guidance incorporates findings of the GACAP II implementation review completed in 2013 that aim to strengthen implementation of GACAP II in ADB's country programming and operations.³ The guidance also responds to the Strategy 2020 Midterm Review, which called for governance risks assessments (GRAs)—GACAP II's chief operational instrument—to be streamlined, their quality enhanced, and their implementation systematically monitored so that governance issues are more firmly anchored in ADB operations, including in sector assessments and road maps.⁴

3. In accordance with the Governance Operations Manual, it is mandatory that ADB's country partnership strategies (CPSs) and operations in priority sectors are informed by GRAs, and implemented through risk management plans.⁵ The guidance describes the requirements and processes for preparing GRAs, including for assessing country systems for public financial management (PFM) and procurement to enable ADB's shift towards use of country systems. Standard procedures and reporting formats are provided to assist staff. In some situations it may be necessary to adapt GRA content and format to fit the specific circumstances of developing member countries (DMCs). Regional departments can therefore undertake broader-based governance assessments, if the country context is deemed to warrant this, and adjust the report format accordingly.

4. Supplementary guidance for assessing procurement risks is available.⁶ It provides the processes and tools for conducting procurement risk assessments to inform the procurement aspects of the overall GRAs at country and sector levels, and to inform procurement risks and related risk management plans at the project level.

5. The guidance is structured as follows. Section II briefly outlines GACAP II and organizational oversight of implementation. Section III describes the governance risk management framework (GRMF) for implementing GACAP II in ADB operations. Section IV considers the factors involved in planning GRAs, while sections V and VI detail how to prepare GRAs, including how to assess the use of country systems. Section VII describes the process for linking country- and sector-level GRAs to programs and projects. The monitoring of governance risks and risk mitigation measures is discussed in section VIII.

¹ ADB. 2006. *Second Governance and Anticorruption Action Plan*. Manila.

² ADB 2011. *Revised Guidelines for Implementing ADB's Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

³ ADB. 2013. *Implementation Review: Second Governance and Anticorruption Action Plan (GACAP II)*. Manila; the review made six recommendations: (i) streamline and simplify GACAP II's implementation approach; (ii) strengthen integration of governance risks in ADB operations; (iii) strengthen ADB's organizational oversight arrangements; (iv) prioritize resources for GACAP II implementation; (v) increase developing member country ownership; and (vi) strengthen staff skills, training, and incentives.

⁴ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

⁵ ADB. 2010. *Governance. Operations Manual*. OM C4/OP. Manila.

⁶ ADB. 2014. *Guide on Assessing Procurement Risks and Determining Project Procurement Classification*. Manila.

II. SECOND GOVERNANCE AND ANTICORRUPTION ACTION PLAN

A. GACAP II Purpose

6. ADB's Strategy 2020 puts good governance, alongside capacity development, deeper into the mainstream of ADB operations by prioritizing it as a driver of change.⁷ It recognizes the interrelated dimensions of governance and capacity, including the use of country systems in promoting institutional development and sustainable development outcomes. By supporting DMCs to strengthen governance and lift public sector capacities, ADB strives to be a catalyst for cost-effective delivery of public goods and services.

7. The purpose of GACAP II is to improve ADB's performance in the implementation of its governance and anticorruption policies in the sectors and sub-sectors where ADB is active, and to design and deliver better quality programs and projects.⁸ GACAP II promotes the need for partnership between ADB and its DMCs to (i) agree solutions for strengthening governance and institutions in DMCs, and (ii) reduce vulnerability to corruption in ADB investments. GACAP II provides an opportunity for ADB and its DMCs to work together to identify intervention points for strengthening country systems and thereby reducing risks of using country systems.

8. GACAP II has four key result areas (KRAs) that reflect a medium- to long-term approach required to achieve sustainable results in governance and anticorruption:

- (i) KRA 1: Improve identification and management of governance, institutional, and corruption risks in CPSs and annual country portfolio review missions (CPRMs);
- (ii) KRA 2: Strengthen governance and anticorruption components in program and project design;
- (iii) KRA 3: Strengthen program and project administration and portfolio management; and;
- (iv) KRA 4: Improve organizational structure, human resources, and access to expertise.

B. Organizational Oversight of GACAP II Implementation

9. The regional departments and resident missions are primarily responsible for implementing GACAP II. Regional departments should assign managerial and staff responsibilities for strengthening coordination and monitoring of GACAP II implementation at department level. GRAs should be included in the annual work plans, outlining targets, persons responsible, and resources required.

10. The Regional and Sustainable Development Department (RSDD) provides guidance and assistance with GACAP II implementation, and has overall responsibility for coordinating and monitoring ADB's governance-related activities. RSDD reviews GRAs for quality assurance at country and sector levels. RSDD prepares an annual accomplishment report on the implementation of GACAP II and maintains a central repository of GRAs. RSDD, in collaboration with the Governance Thematic Group, is responsible for designing and conducting learning and development programs for ADB staff on GACAP II implementation.

⁷ ADB, 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2010*. Manila.

⁸ ADB. 1995. *Governance: Sound Development Management*. Manila; ADB. 1998. *Anticorruption Policy*. Manila.

11. The Operations Services and Financial Management Department (OSFMD) provides technical advice and guidance to regional departments on project financial management and project performance, and procurement risk assessment at country, sector, and project levels. OSFMD reviews risk assessments and risk management plans for quality control related to financial management and procurement.

12. The Office of Anticorruption and Integrity (OAI) provides advice and guidance on anticorruption, anti-money laundering, and counter terrorism of financing issues, assesses project-level integrity and corruption risks, and monitors the implementation of mitigating measures during project implementation. OAI also provides advice on country-specific fraud and corruption issues, identification of related risks, and development of prevention and mitigation measures to help regional departments minimize fraud and corruption in ADB projects.

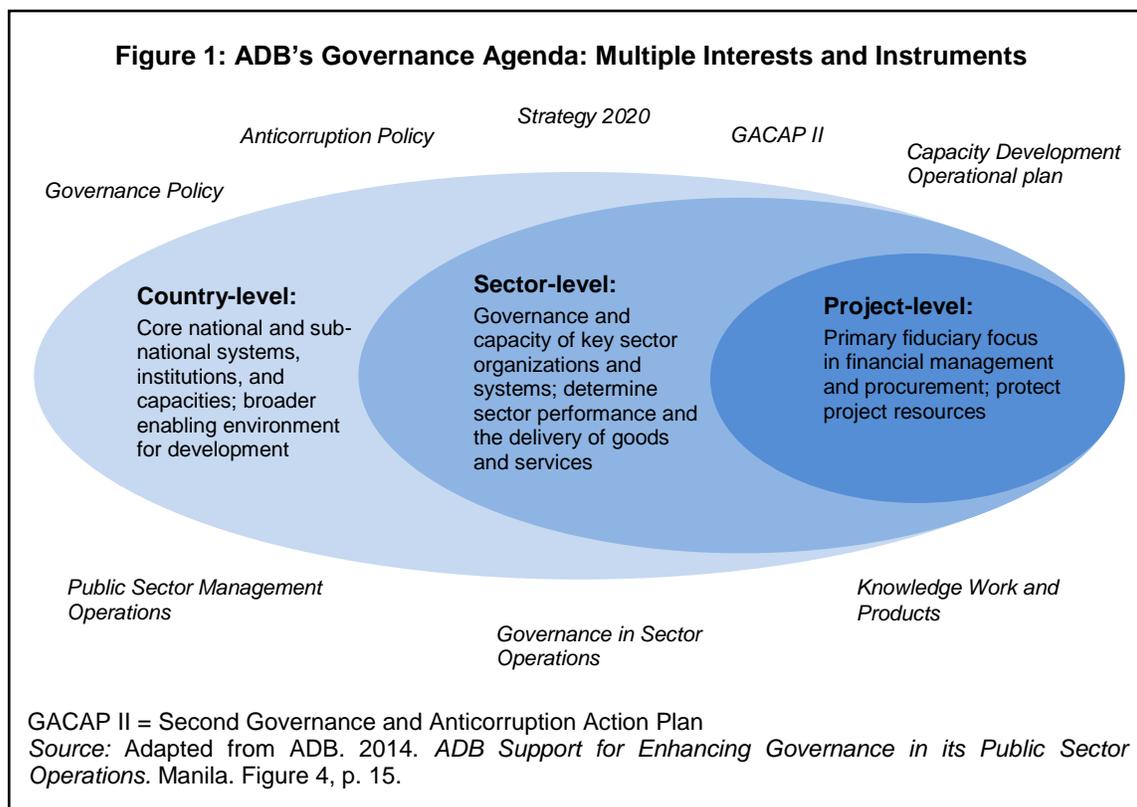
III. GOVERNANCE RISK MANAGEMENT FRAMEWORK

13. GACAP II applies a risk-based approach to mainstreaming governance and anticorruption in ADB operations. Poor governance, weak institutions, and systemic corruption pose significant risks to development outcomes. In the context of GACAP II, the risk is of reduced development effectiveness. Put another way, the risk is that achievement of development objectives of the DMC and ADB will be adversely affected by poor governance, weakly performing institutions, and/or vulnerabilities to corruption.

14. The governance context within which GACAP II is implemented consists of three levels that serve different operational purposes:

- (i) **Country-level:** This constitutes operations that aim to strengthen country governance systems in terms of policies, functions, institutions and capacities, with the broader aim of improving the enabling environment for effective implementation and broader development.
- (ii) **Sector-level:** The focus is on strengthening governance in the sectors and sub-sectors where ADB is most active, including the sector organizations or agencies, and systems responsible for goods and services.
- (iii) **Project-level:** This represents ADB's due diligence responsibilities and the fiduciary aspects so that resources are used for the intended purposes, properly accounted for, and used efficiently and effectively to achieve value-for-money.

15. ADB's interests at the three levels take their shape from and are influenced by policies (e.g., governance and anticorruption), operational plans (e.g., GACAP II and capacity development operational plan), and various operational instruments that support public sector management (PSM) and non-PSM operations as well as knowledge work. Figure 1 illustrates these multiple interests and instruments.

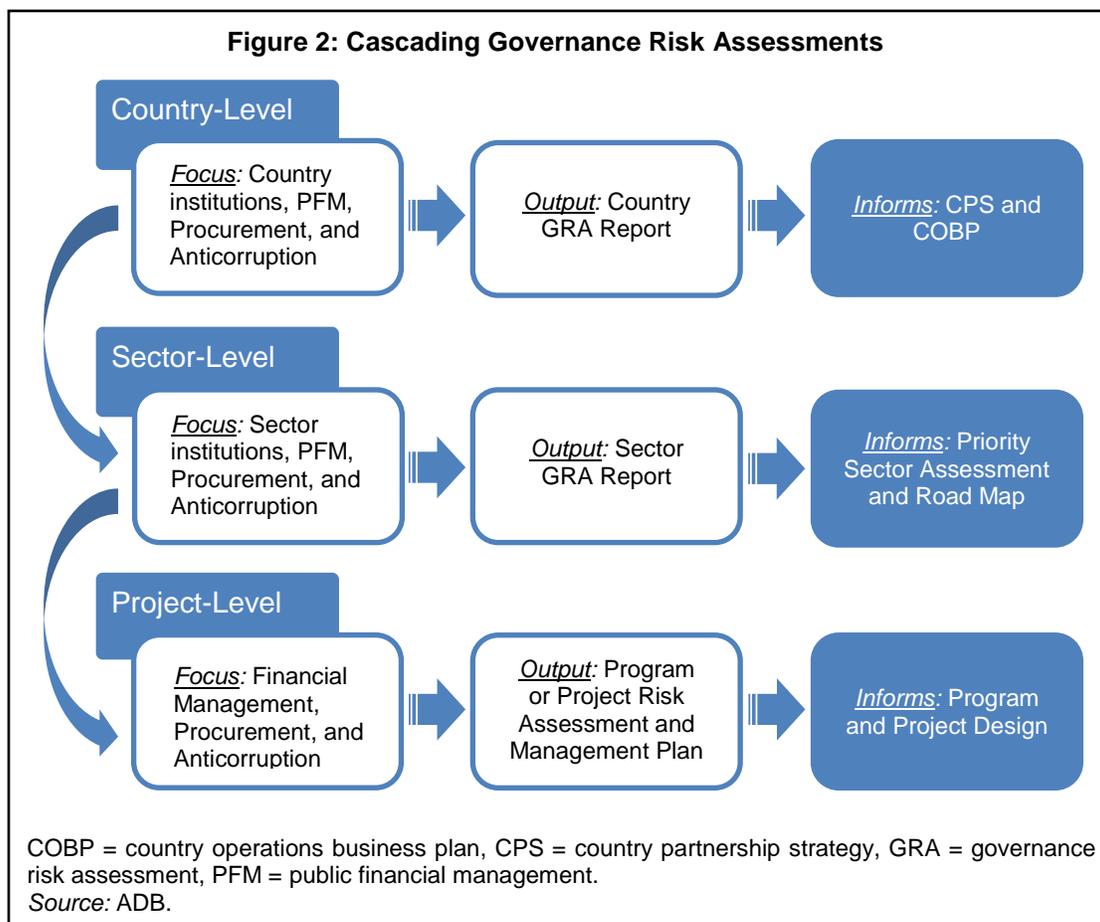


16. GACAP II is distinctive for its systematic process of identifying governance, institutional and corruption risks, and prioritizing those risks that require mitigation. Figure 2 presents the process under the GRMF for cascading GRAs from country-, to sector-, to project-level. The country- and sector-level GRAs inform CPS formulation, and in turn provide the context for designing programs and projects within the relevant sectors. By preparing GRAs within this framework, ADB staff will have up-to-date knowledge on the governance risks to the existing and future country portfolio.

17. The focus of GRAs varies among the three levels:

- (i) **Country-level:** Three governance thematic areas crucial to development effectiveness at the country-level—and relevant to a significant portion of ADB operations—are PFM, procurement, and combating corruption through preventive and enforcement measures. These themes form the basis of GACAP II and apply at the national and sub-national government levels.
- (ii) **Sector-level:** Sector operations are at the heart of ADB's work. It is recognized that assessing governance risks to development effectiveness requires analysis not only of PFM, procurement, and combating corruption, but also of the wider institutional and governance arrangements in the sector. This should include policy, legal and regulatory set-ups as well as organizational processes and systems specific to the sector including the main sector agencies.
- (iii) **Project-level:** Financial management, procurement, and anticorruption due diligence are the critical areas to assess at the project-level. Governance risks are informed by the institutional and governance context that is assessed in

country and priority sector GRAs. Typically, project-level GRAs are not required in addition to the due diligence assessments. Where no sector GRA has been prepared, other analytical work may need to be carried out to inform program and project design.



18. Across the three levels there is a focus on strengthening and using country systems for PFM and procurement. Global declarations on aid effectiveness (Paris, Accra, Busan, and Mexico) and other development effectiveness literature make a strong case for the use of country systems by providers of development finance.⁹ Use of country systems is expected to reduce delays in project implementation, rationalize transactions costs, improve country ownership, and develop capable institutions and effective systems for service delivery.

19. The actual use of country systems will depend on DMCs' institutional capacities at national and sub-national levels, as well as DMCs' preferences for using ADB's systems and procedures or their own systems. In situations where country systems are not currently used due to fiduciary concerns, how PFM and procurement systems can be strengthened and capacities of local institutions developed need to be considered.

⁹ *Paris Declaration on Aid Effectiveness 2005, Accra Agenda for Action 2008, Busan Partnership for Effective Development Cooperation 2011, Mexico High Level Meeting Communiqué 2014* available at <http://www.oecd.org/dac/effectiveness/>.

20. Key points to note in operationalizing the GRMF are:

- (i) GRAs are mandatory at the country and priority sector levels to inform CPS preparation, with the focus of GRAs varying between them.
- (ii) GRAs for country systems should inform GRAs for priority sectors which, in turn, should inform the design of ADB programs and projects.
- (iii) GRAs at the sector-level inform and complement broader-based sector assessments and sector road maps. The focus of sector GRAs should take into account the content of sector assessments to avoid duplication.¹⁰
- (iv) At the project level, risk management plans are informed by country- and sector-level GRAs, as well as the financial management and procurement due diligence assessments.
- (v) GRAs inform risk assessment and risk management plan summaries, which are mandatory linked documents to CPSs and the report and recommendation of the President (RRP) for programs and projects.
- (vi) GRAs inform the results frameworks of CPSs, and programs and projects, across the results chain: outcome, outputs, and inputs.
- (vii) GRAs should recommend whether or not ADB in the future should expand the use of country systems.
- (viii) GRAs define the minimum actions ADB intends to take to support governance and anticorruption in DMCs, and to strengthen country systems.
- (ix) GRAs are an important source of knowledge for country teams and should be included in knowledge management plans.
- (x) GRAs at the country- and sector-level are monitored during the CPRM, and through the country operations business plans (COBPs).
- (xi) Governance risks at the project-level are monitored during project monitoring and supervising missions, with the project administration manual (PAM) regularly updated on the status of risk mitigation measures.

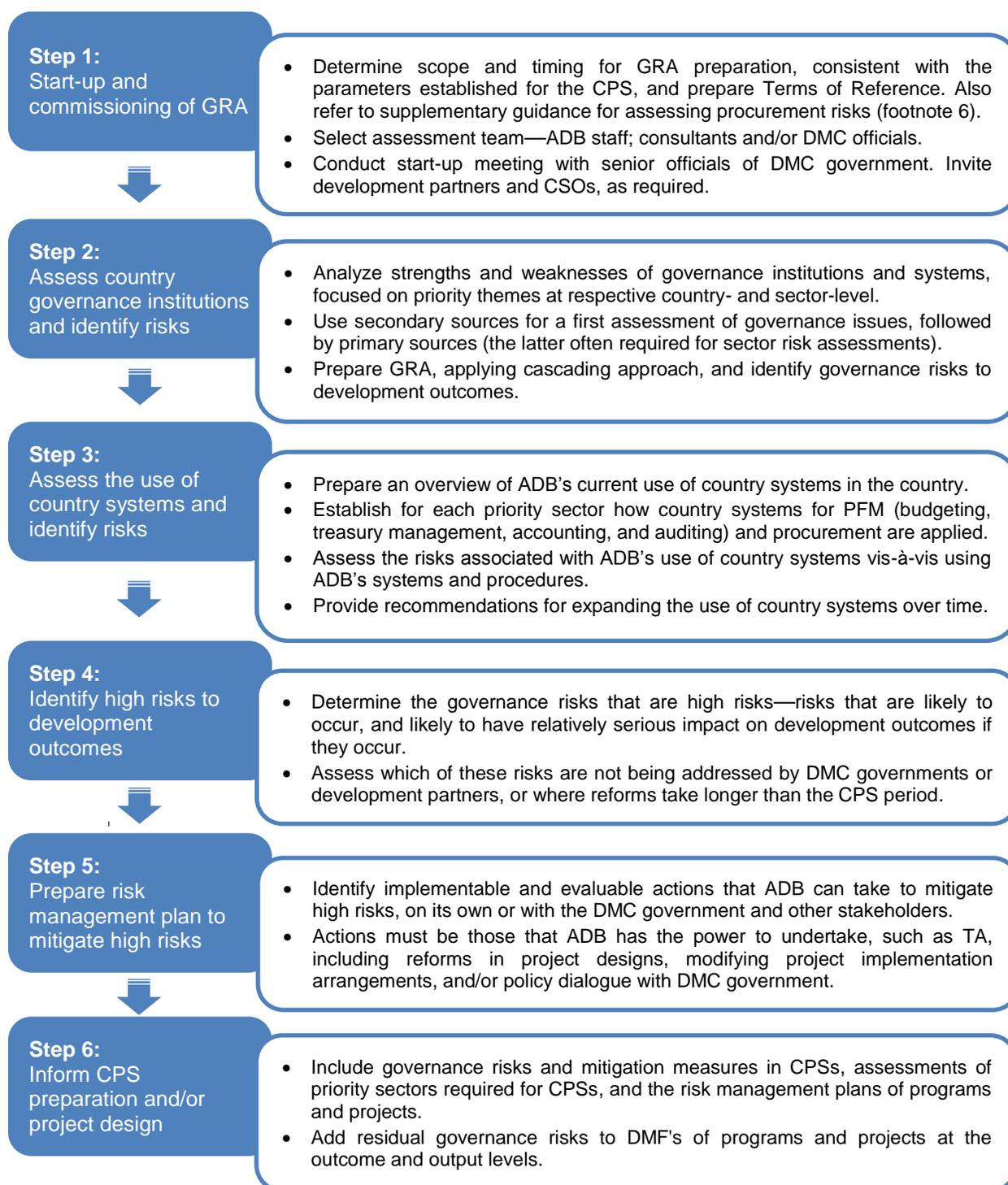
IV. PLANNING THE GOVERNANCE RISK ASSESSMENT

21. A step-by-step view of the process of preparing GRAs is provided in Figure 3. The preparation of GRAs is a constructive and forward-looking exercise that enables ADB to engage with government, development partners, civil society organizations (CSOs), and the private sector on governance issues. The preparation, implementation, and monitoring of GRAs are also an opportunity to increase DMC ownership of GACAP II implementation, and to develop the capacities of DMCs in this area.

22. Regional departments determine the appropriate timing for preparing and updating GRAs in line with CPS development. They also determine the priority sectors and sub-sectors to be covered, and whether sub-national assessments are required. The need to assess sectors, sub-sectors, and sub-national systems is determined by the parameters established for the CPS, and the ADB operations envisaged in the country. Country and priority sector GRAs can be conducted independently of the CPS preparatory process, and findings reflected in the CPS as long as such assessments are up to date. GACAP II activities should be included in the work plans of regional departments, resident missions, and ADB staff.

¹⁰ For example, the Southeast Asia Department applies its own framework for preparing sector assessments, strategies and road maps, which includes analysis of the institutional environment, capacity and governance, and political economy influences.

Figure 3: GRA Implementation Process: A Step-by-Step View



ADB = Asian Development Bank, CPS = country partnership strategy, CSO = civil society organizations, DMC = developing member country, DMF = design and monitoring framework, GRA = governance risk assessment, PFM = public financial management, TA = technical assistance.

Source: ADB.

23. **Consultations.** GRAs should be prepared in consultation with country counterparts. The country and sector GRAs are prepared as part of the CPS process. DMC officials can be invited to join assessment teams, and their active participation should be encouraged, but it is important to maintain objectivity of the assessment. Joint assessments with DMC governments and/or development partners can be undertaken as long as the assessments are consistent with the focus and process under the GRMF. CSOs and the private sector should be consulted when preparing GRAs. Their participation in the process can improve understanding of the governance situation in the DMC and strengthen GRA preparation and monitoring.

24. Regional departments should consult with the Private Sector Operations Department (PSOD) on GRAs to ensure governance risks and mitigation measures for private sector operations are captured and discussed. Mitigation measures could include DMC government efforts to create an enabling environment for private sector operations and improve corporate governance. The latter, although not a priority theme under GACAP II, has become an important element of ADB's development mission.¹¹

25. **Resources.** GRAs can be undertaken by ADB staff or consultants. While the use of consultants with requisite familiarity with the country and/or sector may be necessary, it is important that ADB leads the process of GRA preparation. Close supervision of consultants by responsible ADB staff is required so that work adheres to the terms of reference (TOR). Budgets for preparing GRAs should be allocated by regional departments. For GRAs that are prepared by consultants, budgets should include the provision of consultant resources. Where ADB staff undertake GRAs, staff time and travel budget are needed. Regional departments should also earmark resources for implementing the risk mitigation measures identified in GRAs such as technical assistance (TA), in line with overall country programming and operations.

26. Collaboration among governance and public management specialists, sector specialists, and consultants is essential. The knowledge and skills of all parties in a multidisciplinary approach—which bring different but complementary skill sets—are needed to produce high-quality GRAs. Governance and public management specialists, including with expertise in PFM and procurement, inform the overall governance and institutional context in the DMC. The in-depth knowledge of sector specialists and their policy dialogue with country counterparts helps to focus GRAs on the governance risks that impact sector performance and the delivery of goods and services.

27. Appendix 1 and 2 present indicative TOR for preparing the country- and sector-level GRA, respectively. TOR need to be adapted to the country or sector context, including for the level of complexity of the governance systems to be assessed, and the projected scope of ADB's operations to support governance in the DMC. The duration of the assessment, and the resources needed, depend on the country size, assessment scope and complexity, the openness of governance systems, and whether there are language and translation issues. The greater the governance challenge in a country, the longer it may take to assess due to particular sensitivities. Where a multidisciplinary approach is taken, TOR need to reflect the specialist expertise required. For procurement, the supplementary guidance for assessing procurement risks contains indicative TOR (footnote 6).

28. Regional departments can undertake more comprehensive governance assessments to strengthen the analysis underpinning GRAs if the country context warrants such an approach. This might for example be for DMCs facing fragile and conflict-affected situations or DMCs with

¹¹ Corporate governance refers to the structures and processes for the direction and control of companies.

persistent governance and corruption issues. A variety of tools, including political economy analysis, can be used. Separate guidance on the use of political economy analysis in ADB operations is available.¹²

29. **Outputs.** Appendix 3 and 4 provide standard formats for the country- and sector-level GRA reports, respectively. GRAs should be written up in reports with a main text that does not exceed 30 pages. They provide the analytical basis for the write-ups of governance risk in the main text of the CPS, and the risk assessment and risk management plan summary, which is a mandatory linked document to the CPS. They also inform the priority sector assessments required for the CPS preparation. Regional departments have the flexibility to combine country and sector GRAs in a single consolidated report.

30. The country- and sector-level GRAs should inform the write-up of program and project risk assessments and risk management plans, which is a mandatory linked document to the RRP. GRAs should also inform the risks listed in the design and monitoring framework (DMF) of the RRP, and the arrangements in the PAM for mitigating governance risks.

31. The decision to publish the full GRA report is made with regards to the sensitivity of the information that could result in the application of one or more of the exceptions to presumed public disclosure, as described in ADB's Public Communications Policy.¹³ In situations where the full GRA report will not be made publicly available, it will be stored in the electronic knowledge repository. However, the major findings of GRAs are summarized and included as a CPS linked document, which is made publicly available.

V. PREPARING THE GOVERNANCE RISK ASSESSEMENT

32. Assessing governance risks follows a similar approach at the country- and sector-level, even as the scope of the issues to be covered varies between them. GRAs must be evidence-based and anchored in reliable and timely information, with the analysis drawing on ADB's experience in the country and/or sector. They must also be tailored to the contextual realities in the DMC in order to guide the CPS, broader-based sector assessments and sector road maps, and ADB programs and projects.

33. The main steps involved in preparing GRAs are: (i) literature review of existing studies and other secondary sources of information; (ii) primary research mainly through consultations with stakeholders and site visits; (iii) conversion of governance weaknesses or problems into potential risks to development effectiveness; (iv) analysis of current and planned governance reforms in the DMC, with an assessment of the extent to which reforms are likely to affect governance risks during the CPS period; and (v) analysis of the use of country systems. Appendix 5 provides a list of secondary information sources that are commonly available.

34. Converting an identified governance weakness or problem into a potential risk is an exercise of sound, well-informed judgment. The weakness (vulnerability) and the resulting risk (potential negative impact) should be described separately so that it is clear how a weakness could impact on development effectiveness. There is no formulaic manner in which to translate weaknesses into risks. Instead it requires judgment based on experience with the technical areas being assessed and taking into account the country or sector context.

¹² ADB. 2013. *Guidance Note: Use of Political Economy Analysis for ADB Operations*. Manila. <http://www.adb.org/documents/guidance-note-use-political-economy-analysis-adb-operations>.

¹³ ADB. 2011. *Public Communications Policy 2011: Disclosure and Exchange of Information*. Manila.

35. GRAs focus on the risks to development outcomes due to governance weaknesses or other institutional problems. In particular, GRAs are to assess the following risks categories:

- (i) **Fiduciary risk:** risk that funds are not properly accounted for, not used for the intended purposes, or do not achieve value-for-money.
- (ii) **Corruption risk:** risk that corrupt, fraudulent, collusive, and/or coercive practices may result from vulnerabilities in governance.

A. Country-Level Risk Assessment

36. The country-level GRA is focused on two parts:

- (i) **Overview of country institutions:** This is an analysis framed within the historical, political and economic context of the country, and includes governance and institutional arrangements as well as country development strategies. It should discuss (i) policy and planning instruments; (ii) the existence and proper enforcement of legal and regulatory frameworks; (iii) structures and functions of the relevant branches of government and their interaction; and (iv) mechanisms intended to ensure integrity, accountability and transparency, and to curb corruption. As much as possible, it should seek to bring out relevant political economy dynamics, especially where they affect sectors of particular interest.
- (ii) **Assessment of country systems:** This is a specific analysis of PFM, procurement, and combating corruption at the national government level, and sub-national government if required. For each of the three thematic areas, the performance of the systems should be provided, and the governance risks to development effectiveness determined on the basis of the identified strengths and weaknesses. A description of ongoing or planned reforms, including the government's commitment to reforms, and an assessment of reform credibility must be provided together with an overview regarding development partner support.

37. **Sources of evidence.** Evidence for the country-level GRA comes mainly from ADB's existing analysis and secondary sources. Primary source research may be required to update and supplement existing information, and where secondary source material is not available. However, the GRA is not the vehicle to attempt a full diagnostic of PFM and procurement systems, and anticorruption institutions.

38. ADB's Country Performance Assessment (CPA) exercise provides an overview of the quality of the country's policy and institutional framework for governance and PSM. CPAs are prepared for DMCs with access to the Asian Development Fund. The assessments contain performance information on PFM, procurement, and anticorruption. Results-based PSM assessments using ADB's results-based PSM metric can be useful for understanding the performance of key government functions.¹⁴ Meanwhile, other surveys and data sets of comparative governance ratings can be helpful in setting the overall governance context of the country. Appendix 5 includes a list of relevant secondary sources.

¹⁴ ADB. 2012. *Results-Based Public Sector Management: A Rapid Assessment Guide*. Manila; the tool assesses the results features of planning, budgeting, implementation, monitoring, and evaluation functions, and has been used by the South Asia Department to prepare results-based PSM assessments in various jurisdictions.

39. For PFM, a PFM performance report using the Public Expenditure and Financial Accountability (PEFA) performance measurement framework exists for many countries.¹⁵ PEFA assessments are often prepared on a joint-donor basis, with a view to aligning development partner support to government-owned reforms. PEFA assesses national and sub-national PFM systems. If no PEFA assessment exists, other PFM material may be available from the DMC government or development partners such as public expenditure reviews or public expenditure tracking surveys. Comparative ratings also exist such as the International Budget Partnership's Open Budget Index, which is an aggregate measure of a country's budget transparency and accountability.¹⁶ In most instances, updating PFM performance information is required. This can typically be done by key informants directing assessors to changes in policies and practices since earlier studies.

40. For national procurement systems, the supplementary guidance for assessing procurement risks provides a list of information sources (footnote 6). The Country Procurement Assessment Report (CPAR) is the World Bank's main instrument for assessing procurement policies, organizations, and procedures. ADB and other development partners regularly participate in CPAR exercises. The Organization for Economic Co-operation and Development-Development Assistance Committee (OECD-DAC) Methodology for Assessing Procurement Systems (MAPS) provides a common tool for DMCs and development partners to assess the quality and effectiveness of procurement systems.¹⁷ MAPS reports may exist in addition to CPARs or be incorporated into CPARs.

41. Corruption risks and the effectiveness of national anticorruption arrangements are assessed in many countries by development partners, national and international CSOs, think tanks, and other agents. Reports cover a wide range of issues, including political and legislative systems, legal and judicial systems, law enforcement, civil service structures, state relations with civil society, the media, private sector, anticorruption agencies, and public accountability bodies such as the supreme audit institution. OECD's integrity scans help governments assess their legal, administrative and economic frameworks regarding integrity and combatting corruption.¹⁸ Transparency International's National Integrity Systems assessment provides a comprehensive report of the country's efforts to curb corruption, and its Corruption Perception Index and Global Corruption Barometer observe perceptions of corruption.¹⁹

B. Priority Sector Risk Assessment

42. The first step in preparing the priority sector risk assessment is to align it with ADB's specific areas of interest in the DMC. The focus may be the whole sector. However, a sub-sector focus or a sector in a specific sub-national jurisdiction may be relevant. In all cases, the decision on the level of focus is determined by the parameters established for the CPS, and the ADB operations envisaged in the country. In determining the scope of the GRA, it is important to consider how it will inform and complement the broader-based sector assessment and sector road map, either existing or planned.

¹⁵ PEFA Secretariat. 2011. *PEFA Public Financial Management Performance Measurement Framework: Revised January 2011*. Washington DC (PEFA assessment reports available at <http://www.pefa.org/>).

¹⁶ International Budget Partnership. <http://internationalbudget.org>.

¹⁷ OECD. 2010. *Methodology for Assessing Procurement Systems (MAPS)*. Paris.

¹⁸ OECD. <http://www.oecd.org/cleangovbiz/>.

¹⁹ Transparency International. <http://www.transparency.org/>.

43. Sector-level GRAs, like country-level GRAs, focus on two parts:
- (i) **Overview of sector institutions:** This analyzes the institutional and governance arrangements that affect sector performance, and form part of the enabling environment of the sector. It should briefly summarize the sector-relevant historical, political and economic context, and sector development strategies. It should discuss sector-specific governance and institutional arrangements. At a minimum this includes policy, legal and regulatory frameworks, and organizations and stakeholders operating within the sector including the main sector agencies.
 - (ii) **Assessment of sector systems:** This covers PFM, procurement, and anticorruption issues of relevance to the sector. For each area this should describe the performance of the systems, including strengths and weaknesses, and the governance risks to development effectiveness determined on that basis. A description of ongoing or planned reforms, including the government's commitment to reforms, and an assessment of reform credibility should be provided together with an overview regarding development partner support.
44. Box 1 provides information about applying institutional analysis in the sector context. Through institutional analysis, the strengths and weaknesses of governance arrangements in the sector can be identified, and opportunities to strengthen national and sub-national systems better understood. This can provide a deeper appreciation of the time and resources needed to develop the capacity of country systems, improve and sustain organizational performance, and deliver development results.
45. **Sources of evidence.** Existing sector reporting by the DMC government and/or development partners and other secondary sources may not be publicly available, or are often not explicit on governance risks. The evidence for sector assessments will often come from primary research through key informant interviews and discussions with stakeholders, including government officials, development partners, CSOs, project staff, and contractors, with findings triangulated among informants at different levels and in different branches. Perception surveys can also be used to obtain an indication of the major areas of governance risk in sector operations.
46. ADB's CPRM reports and World Bank studies on investment climate and business/industry perceptions may have useful material on performance in some sectors. Reports of public accountability bodies such as the supreme audit institutions, and anticorruption and integrity offices can be useful in identifying governance risk 'hotspots' in the sector. The financial management and procurement assessments prepared for ADB projects will likely have relevant sector-level observations on PFM and procurement.
47. ADB's series of sector risk assessment guidance notes identify general areas vulnerable to governance risks in four priority sectors/subsectors—education, electricity, road transport, and urban water supply.²⁰ ADB's "Learning Lessons" series provides additional information for how ADB's operations can mitigate governance and non-governance risks in particular sectors.²¹ Since 2013, ADB's annual evaluation reviews have focused on sector-specific

²⁰ Guidance notes for education, electricity, road transport, and urban water supply were produced in 2009–2010. A guidance note on the irrigation subsector should be available in 2015.

²¹ Learning Lessons reports were produced by the Independent Evaluation Department and Regional and Sustainable Development Department for the education sector in 2013, and electricity and urban water supply sectors in 2011.

issues.²² Furthermore, OSFMD's guidance on assessing procurement-related risks should be used at the sector level (footnote 6).

Box 1: Applying Institutional Analysis at Sector-level

Institutional analysis aims to diagnose the institutional set-up and governance arrangements that shape and constrain the functioning and performance of systems and organizations, and the interaction between them. Typically, the formal and informal rules that affect the decisions, behaviors and incentives of stakeholders necessary to achieving development outcomes are considered. In the context of institutional reforms and changes, it is important to assess the gainers and losers, and whether reforms are likely to be supported, implemented, and sustained. As much as possible, institutional analysis should seek to bring out relevant political economy dynamics, especially where they affect sectors of particular interest.

Applied to the Second Governance and Anticorruption Action Plan, the core topics for institutional analysis are (i) policy and planning instruments and processes; (ii) existence and proper enforcement of legal and regulatory frameworks; (iii) structures and functions of the relevant branches of government and sector organizations or agencies, and their interaction; and (iv) mechanisms intended to ensure integrity, accountability and transparency, and to limit corruption. Within these topics, the focus is the governance and institutional factors that affect sector performance and the delivery of goods and services. This may include human resource issues, public financial management, and procurement systems.

The sector organizations or agencies to be assessed might include central ministries, sub-national governments, sector regulatory bodies, and state-owned enterprises with responsibilities to manage finance, procurement, and delivery of services. The potential risks in the organizations' relationships with suppliers, clients, and other agents should also be considered.

A sectoral value chain approach can be used to systematically map and assess inter-organizational linkages and supplier-client relationships. For example, an infrastructure sector such as transport or energy typically comprises the overall policy, legal and enabling environment; planning, budgeting and financing of projects; followed by project tendering and procurement; subsequent construction, operations and maintenance; and so on.

Source: ADB

C. Use of Country Systems

48. GACAP II promotes the need for ADB in its operations to strengthen partner country systems for PFM and procurement, and move towards using country systems over time. GRAs should provide a recommendation as to whether or not ADB in the future should expand the use of country systems. Such a recommendation is based on ADB's current use of country systems in the country or sector, and findings regarding the quality and performance of the PFM and procurement systems, and the risks arising from these.

49. While there are different approaches to and interpretations of using country systems, ADB focuses on the following system elements: budgeting, treasury operations, accounting, procurement, and external audit. Definitions for these five elements are provided in Box 2.

²² The Annual Evaluation Review, which is prepared by the Independent Evaluation Department, focused on sustainability issues for energy in 2014, and for transport in 2013. See, for example, <http://www.adb.org/documents/2014-annual-evaluation-review>.

Box 2: Use of Country Systems—Definitions

Element	Definition
Public Financial Management	
On Budget	External financing, including program and project financing, and its intended use reported in the DMC government's budget documentation.
On Treasury	External financing disbursed into the main revenue funds of the DMC government and managed through its regular disbursement systems.
On Accounting	External financing recorded and accounted for as well as reported using the DMC government's accounting system, in line with its own classification and financial reporting arrangements.
On Audit	External financing is audited by the DMC government's auditing system, without the imposition of additional or special requirements. ^a
Procurement	
On Procurement	Externally financed procurement is managed using the DMC government's own procurement procedures, without imposition of additional or special requirements.

DMC = developing member country

Notes:

^a The requirement for an audit assurance on financial covenant compliance is not considered a departure from use of country audit systems, as this approach is consistent with commercial banking practices. Nor is ADB's requirement for an audit assurance that funds have been used for the purposes intended.

Source: Adapted from the Collaborative African Budget Reform Initiative. <http://www.cabri-sbo.org/>.

50. Assessing how each of the five elements is used for different types of ADB operations will provide an overall country systems profile. It will be necessary to obtain information regarding ADB's current operations in the country or sector. If ADB's use of country systems varies between different operation types or modalities, then each should be described separately. The operation types or modalities include investment lending, policy-based lending, results-based lending, sector development programs, financing facilities, and TA. It should be established whether and how country systems for PFM and procurement are applied. For example, policy-based lending and results-based lending support generally accept the use of country systems. Box 3 provides generic examples for assessing whether country systems are used fully, partially, or not used.

51. There are no pre-defined conditions established that will render a country system component (budgeting, treasury, accounting, procurement, and audit) ready for use by ADB. The recommendation on whether or not to expand the use of the country systems is instead based on a professional judgment, with regard to the country context and the operation types or modalities to be used in DMCs. Risk assessments of using country systems should inform the dialogue with DMCs on the actual use of country systems in a sector or agency, and recorded in CPSs and RRP. If country systems are not to be used in a program or project even as the risks of using the systems are acceptable to ADB, the reasons should be documented.

52. GRAs should also take into account the governance risks that may arise from the use of ADB's systems and procedures. ADB procedures are often separate from the country systems channeling national budget resources. ADB procedures may reduce the risk of corruption. However, short-term project structures also create other incentives for abuse, especially where large funds are involved and/or new lines of accountability and patronage are created.

Box 3: Use of Country Systems—Examples

Element	Fully Used	Partially Used	Not Used
Public Financial Management			
On Budget	ADB project funding is included in the budget of the national government and the budgets of the sub-national governments.	ADB project funding is included in the budget of the national government, but not in the budgets of the sub-national governments.	ADB project funding is not included in the budgets of the DMC at any level.
On Treasury ^a	ADB funds are channeled into the main revenue fund of the government and managed through its regular disbursement system.	ADB funds are transferred to a special account under the government's consolidated fund and managed as agreed between ADB and the government.	ADB funds are transferred to an imprest account at a bank and managed as per ADB's Loan Disbursement Handbook, i.e. ADB does not use the treasury system.
On Accounting	Implementing Agencies maintain accounts using the government accounting system for foreign-financed projects, and reporting is based on existing formats.	Project accounting follows the DMC government's laws and regulations, and uses the existing accounts codes, but reporting is done using ADB report formats.	The accounting and reporting approach for ADB-funded projects does not apply the government's account codes, procedures or reporting templates.
On Audit	Project financial statements are audited by the SAI or an independent audit firm engaged by or on behalf of the SAI, and in accordance with its rules for foreign-funded projects.	Project financial statements are audited by an independent audit firm engaged by or on behalf of the SAI, but based on TORs approved by ADB.	ADB-funded projects are audited by private auditors hired by ADB or the contractor implementing the projects.
Procurement			
On Procurement	Both International Competitive Bidding (ICB) and National Competitive Bidding (NCB) is done using government rules.	Procurement financed under ADB projects use government procurement rules for NCB, but ADB guidelines for ICB.	All procurement financed under ADB projects is carried out in accordance with ADB procurement guidelines.

ADB = Asian Development Bank, DMC = developing member country, ICB = International Competitive Bidding, NBC = National Competitive Bidding, SAI = Supreme Audit Institution, TOR = terms of reference

Notes:

^a The use of direct payment procedures to contractors and consultants is considered use of country systems, as this approach is consistent with commercial banking practices.

Source: ADB.

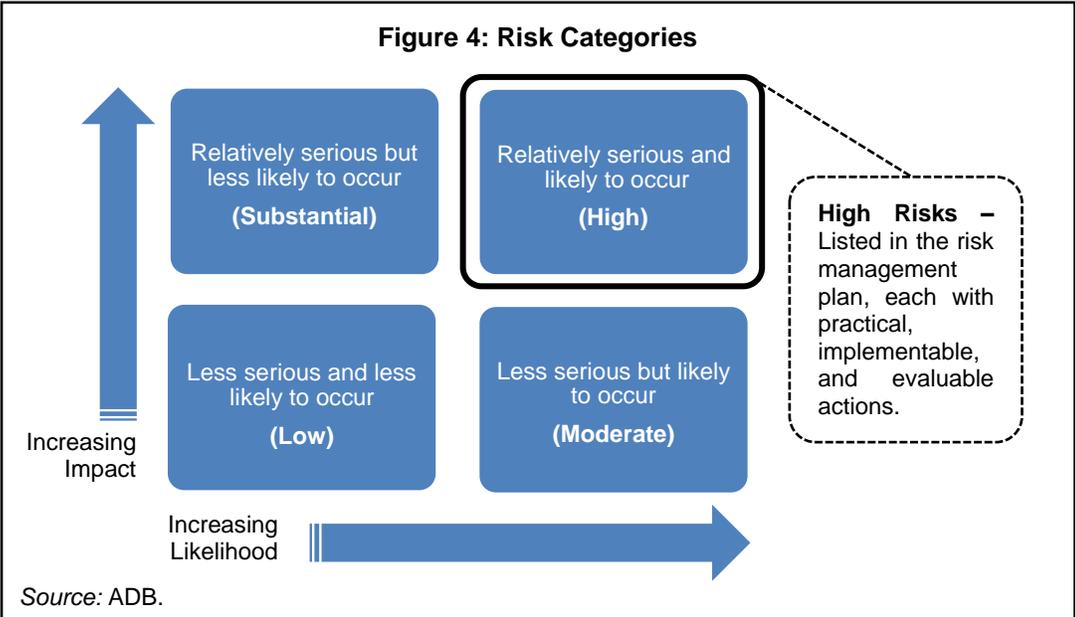
VI. PREPARING THE RISK MANAGEMENT PLAN

53. Once governance risks are identified in the governance thematic areas, the risk management plan is prepared to formulate a response. A risk management plan is required at the country- and sector-levels. Two steps are involved: (i) determining which identified governance risks are high risks; and (ii) formulating practical, implementable, and evaluable actions to mitigate the high risks.

A. Determining High Risks

54. Figure 4 summarizes the risk categories to be applied in rating governance risks.²³ Two dimensions are considered—likelihood and impact. The likelihood is the probability that a risk event will materialize, based on there being a vulnerability and a threat. The impact refers to the potential impact if the risk event was to occur. There is no formula for arriving at the risk rating. Rather, professional judgment needs to be exercised. The governance risks can be categorized per the following four-point scale:

- (i) **High:** risk likely to occur, and likely to have relatively serious impact if occurs.
- (ii) **Substantial:** risk unlikely to occur, but likely to have relatively serious impact if occurs.
- (iii) **Moderate:** risk likely to occur, but unlikely to have serious impact if occurs.
- (iv) **Low:** not likely to occur, and not likely to have serious impact if occurs.



55. Governance risks are identified and mapped to see whether the DMC government, with or without development partner support, is addressing them and whether such actions are sufficient to mitigate risks during the CPS period. Risks that are not being addressed or where ongoing reforms take longer than the CPS period are the residual risks. The residual risks that are likely to occur and likely to have relatively serious impact on development outcomes are the

²³ Presented is a simple model for rating risks as low, moderate, substantial, and high. If, in the professional judgment of staff, a more nuanced model is appropriate, GACAP II and this guidance do not prohibit use of such a model.

high risks, which must be addressed in the risk management plan and presented in the CPS and RRP, and in DMFs.

56. Box 4 provides examples of converting governance weaknesses into potential risks, and mapping the governance risks using the risk matrix format required in the GRA report.

Box 4: Governance Risk Matrix—Examples					
Governance Weakness	Risk Identified	Likely to Occur	Relatively Serious	Not Mitigated Over CPS Period	High Risk
Public Financial Management					
<u>Budgeting:</u> Different classification applied for budgeting and accounting makes tracking of spending against the budget very difficult.	Different systems against the budget reduces transparency and jeopardizes the country's budget accountability for major programs supported by ADB.	✓	✓	✓	✓
<u>Treasury:</u> The applied system does not have commitment ceilings, which reduces the predictability in the availability of funds.	Delayed funds release may adversely affect project implementation, and hence result in fiduciary risks in the form of funds not achieving value-for-money.	✓	✓	✓	✓
<u>Accounting:</u> Weak accounting systems and record-keeping practices hamper provision of accurate information on revenues, expenditures, and arrears.	Data inaccuracies carries a risk that funds may not be used for the intended purposes and/or funds are not being properly accounted for.	✓	✓	✓	✓
<u>Auditing:</u> External audit is hampered by low staff capacity, limitations in coverage, and weak quality assurance procedures.	Weaknesses in external audit mean that shortcomings in the robustness of and compliance with control requirements may not be detected, which creates fiduciary risks.	✓	✓	✓	✓
Procurement					
<u>Procurement:</u> Manuscript copyrights for textbook production that are not separated from printing, may provide publishers that initially developed and printed manuscripts to monopolize subsequent reprinting contracts.	The lack of separating manuscript copyrights from printing may lead to inflated costs, i.e. low value-for-money.	✓	✓	✓	✓
ADB = Asian Development Bank Source: ADB.					

B. Formulating Risk Mitigation Actions

57. Following the risk determination and rating exercise, the risk management plan must identify practical, implementable, and evaluable actions for ADB to take to mitigate the high risks, either on its own or in conjunction with the DMC government and other stakeholders. Each action should have defined indicators. Actions should be classified in terms of short-, medium-, and long-term measures, depending on the nature of the governance risk being addressed and the anticipated duration of mitigation measures that will be required.

58. The proposals for ADB actions must be measures that ADB has the power to take, such as adding TA to the pipeline; adding institutional reforms and capacity outputs to project designs; modifying project management, procurement, and implementation arrangements; and including topics for dialogue with DMC governments and other stakeholders. If ADB actions concern pipeline projects or project components, the risk management plan needs to include an indicative budget and timetable.

59. The risk management plan must be evaluable. The risk mitigation actions must apply indicators that are specific, measurable, achievable, relevant, and time bound.²⁴ An action must be clear on what is to be done, who is responsible for the action, and it must be possible to determine, *ex-post*, if it was done.

60. Examples of risk mitigation actions at the country- and sector-level are:

- (i) **Country-level.** For governance risks arising from country systems (PFM, procurement, and anticorruption), ADB actions will typically be new or continued support to government-owned reform programs, often in partnership with other development partners. Modalities of support could include TA, knowledge work, results-based lending, policy-based lending, and sector development programs. Investment projects may be appropriate where a high risk arises from a lack of basic infrastructure in priority sectors and organizations (e.g. information technology systems for PFM and procurement), and government agencies with an oversight function in combating corruption. TA can be used to address risks arising from institutional capacity shortcomings. Policy dialogue with DMC government decision-makers is crucial to support sustainable change over the long-term.
- (ii) **Sector-level.** For priority sectors, mitigation actions should: (i) help strengthen sector systems, including national government systems operating at the sector-level; and/or, (ii) address sector risks arising from the use of ADB systems and procedures. Support for specific sector reforms can be included in programs and projects. If the capacity to implement reforms is a high risk, linked TA may be appropriate. If a government-owned, sector-wide program or programmatic approach exists, the government's priorities in terms of sequencing of reforms and any assistance from development partners should be considered in formulating actionable items. In doing so, DMC ownership of the content and application of the risk management plan is more likely to be strengthened.

²⁴ ADB. 2007. *Guidelines for Preparing a Design and Monitoring Framework*. Manila; these guidelines are expected to be updated in 2015.

61. Box 5 provides examples of formulating risk mitigation actions and assigning appropriate indicators in the risk management plan.

Box 5: Risk Management Plan—Examples			
Governance Weakness	High Risks	Risk Mitigation Actions	Indicators
Public Financial Management			
<u>Budgeting:</u> Different classification systems applied for budgeting and accounting makes tracking of spending against the budget very difficult.	Lack of expenditure tracking against the budget reduces transparency and jeopardizes the country's budget accountability for major programs supported by ADB.	ADB to support the policy dialogue on PFM reform, and provide targeted TA to the finance ministry in aligning the budget and accounts classifications.	ADB's participation in regular consultations between the finance ministry and development partners. Gradual achievement of objectives agreed under the PFM reform TA supported by ADB.
<u>Treasury:</u> The applied system does not have commitment ceilings, which reduces the predictability in the availability of funds.	Delayed funds release may adversely affect project implementation, and hence result in fiduciary risks in the form of funds not achieving value-for-money.	ADB to provide TA for developing a commitment control module for the accounting system.	Conceptual design prepared that outlines processes, regulations and systems for commitment control. Implementation plan agreed and adopted by the government.
<u>Accounting:</u> Weak accounting and record-keeping practices hamper provision of accurate information on revenues, expenditures, and arrears.	Data inaccuracies carries a risk that funds may not be used for the intended purposes and/or funds are not being properly accounted for.	ADB to support the finance ministry in revising the existing accounting manual and undertaking staff training.	Inter-agency task force established by the finance ministry. Revised accounting manual approved. Training delivered.
<u>Auditing:</u> External audit is hampered by low staff capacity, limitations in coverage and poorly developed quality assurance procedures.	Weaknesses in external audit means that shortcomings in the robustness of and compliance with control requirements may not be detected, which creates fiduciary risks.	ADB to provide TA resources to facilitate dialogue between the finance ministry and SAI on the funding of an audit capacity assessment.	TOR prepared for the TA and agreed with the government. Capacity assessment of SAI prepared.
Procurement			
<u>Procurement:</u> Manuscript copyrights for textbook production that are not separated from printing, may provide publishers that initially developed and printed manuscripts to monopolize subsequent reprinting contracts.	The lack of separating manuscript copyrights from printing may lead to inflated costs, i.e. low value-for-money.	ADB to co-chair a government-development partner working group to review the current textbook development and production procedures, and prepare a reform action plan.	Working group established and TOR agreed. Reform action plan drafted and tabled in the government-development partner forum.
ADB = Asian Development Bank, PFM = public financial management, SAI = Supreme Audit Institution, TA = technical assistance, TOR = terms of reference Source: ADB.			

VII. LINKING GOVERNANCE RISK ASSESSMENT TO PROGRAMS AND PROJECTS

62. Financial management, procurement, and anticorruption due diligence are the critical areas to assess at the project-level. ADB's project preparatory activities involve preparing a financial management assessment (FMA) to assess the capacities of executing and implementing agencies, and their systems for planning and budgeting, accounting, internal controls, reporting, and auditing. The objective is to ensure that agencies are technically, managerially and financially capable of efficiently and effectively implementing ADB programs and projects.²⁵

63. ADB's project preparation also requires the assessment of the capacity of executing and implementing agencies to procure goods, works, and consulting services. OSFMD provides specific guidance on undertaking project procurement risk assessments (PRAs).²⁶ The purpose of the PRA is to identify situations or events that could hamper the efficient and effective implementation of ADB projects, and to inform the framing of project-level procurement plans. Project Procurement-Related Reviews conducted by OAI identify project vulnerabilities to fraud and corruption, recommend mitigating measures to better safeguard project resources and provide useful information on the risks and challenges encountered in ADB projects.

64. With financial and procurement due diligence concerned primarily with fiduciary risk, risk management plans for programs and projects are expected to draw heavily on the broader governance assessment provided by country- and sector-level GRAs. Typically, a project-level GRA is not required in addition to existing due diligence assessments. Where no GRA has been prepared for a particular sector, other analytical work may need to be carried out to inform the design of programs and projects operating in that sector.

65. Project concept papers should provide a preliminary assessment of financial management, procurement and corruption issues, and use of country systems based on GRA findings, which is further developed with the preparation of the RRP. Based on the preliminary assessment, project design parameters should consider how to mitigate and manage the identified risks. After concept approval, a more detailed financial management and procurement risk assessment is done to inform project design.

66. The RRP for a program or project should specify: (i) specific measures taken in project design to mitigate risks; (ii) actions to be taken by the borrower to mitigate risks during project implementation; and (iii) measures to be taken by ADB during project implementation. The high risks and risk mitigation measures can be addressed in the following sections of the RRP, as appropriate: outcome, due diligence, economic and financial, governance, risks and mitigating measures, implementation arrangements, assurances, and DMF.

67. ADB actions to mitigate governance risks at the project-level need to be consistent with the financial and procurement performance indicators in the RRP. The actions are to be formulated on the basis of policies pertaining to the sector, the project, and executing and/or implementing agencies, as well as ADB's requirements for financial viability and sustainability. The risk mitigation actions and their expected outcomes should be represented in the DMF.

²⁵ FMAs are prepared based on ADB. 2014. *Financial Management, Cost Estimates, Financial Analysis, and Financial Performance Indicators. Operations Manual*. OM G2/BP. Manila; ADB. 2005. *Guidelines on the Financial Management and Analysis of Projects*. Manila; and, ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila.

²⁶ PRAs are prepared based on ADB. 2014. *Guide on Assessing Procurement Risks and Determining Project Procurement Classification*. Manila.

VIII. MONITORING GOVERNANCE RISKS AND MITIGATION MEASURES

68. Regular monitoring of GRAs is required to assess changes in governance, institutional, and corruption risks during the CPS period, and to evaluate progress in implementing risk mitigation measures. The continued appropriateness of risk management plans and the extent to which the proposals for risk mitigation are being actioned by ADB and the relevant authorities in DMCs must also be assessed.

69. The involvement of DMC governments can increase local ownership of GACAP II implementation. Through in-country workshops and seminars, DMC officials should be familiarized with the preparation and application of GRAs and the risk management plans. Resident missions, with support from regional departments, RSDD, OSFMD, and OAI should take the lead in increasing awareness and understanding of GACAP II, including the roles and responsibilities of country counterparts in the implementation of risk mitigation measures. Close consultation with country counterparts, including executing agencies will help to strengthen implementation of mitigation actions.

70. At the country- and sector-levels, GRAs are monitored through the COBP and CPRM. It is important that relevant measures to mitigate governance risks are included in the COBP as they relate to lending and non-lending scenarios. The focus of CPRM reporting should be the implementation of risk management plans, and updating country and priority sector risk profiles, as required.

71. Governance risks at the project-level are to be monitored during regular project monitoring and supervising missions. As risk mitigation measures might need to be adjusted, actions should be discussed with the DMC government, and reported in the *Aide Memoire* and project performance reporting, in accordance with ADBs project performance management system.²⁷ Progress can also be captured in back-to-office reports. The PAM needs to be regularly updated on the status of mitigation measures.

²⁷ ADB. 2011. Project Performance Management System. *Operations Manual*. OM J1/OP. Manila.

INDICATIVE TERMS OF REFERENCE FOR PREPARING COUNTRY GOVERNANCE RISK ASSESSMENT

PREPARATION OF THE GOVERNANCE RISK ASSESSMENT FOR {COUNTRY} TERMS OF REFERENCE

A. Background

1. The Asian Development Bank's (ADB) Second Governance and Anticorruption Action Plan (GACAP II) applies a risk-based approach to mainstreaming governance in ADB operations. Poor governance, weak institutions, and systemic corruption pose significant risks to development outcomes. In the context of GACAP II, the risk is reduced development effectiveness. GACAP II stresses the need for partnership between ADB and its developing member countries (DMC) to: (i) agree solutions for strengthening governance and institutions in DMCs; and (ii) reduce vulnerability to corruption in ADB investments.

2. It is mandatory that country partnership strategies (CPS) and ADB operations in priority sectors are informed by a governance risk assessment (GRA), which is GACAP II's chief operational instrument. The preparation of the GRA is a collaborative and forward looking exercise with the DMC government, and other stakeholders on governance issues. It provides an opportunity for ADB and its DMCs to work together to identify intervention points for strengthening country systems and thereby reducing risks of using country systems.

B. Objective

3. The objective of the assignment is to prepare the GRA for {Country}, in accordance with the requirements, processes, and standard reporting formats contained in the staff guidance for implementing GACAP II (attached).¹

4. The GRA identifies the governance, institutional, and corruption risks in the country. Three governance thematic areas are crucial to development effectiveness at the country-level: public financial management (PFM), procurement, and combating corruption.

C. Scope of Work

5. To inform CPS preparation, the GRA for {Country} is to be undertaken at the national government level, {and sub-national government in} {sub-national jurisdiction/s}.

6. Through the GRA exercise, the governance, institutional, and corruption risks to development effectiveness are determined; and practical, implementable, and evaluable actions are formulated to mitigate the high risks. The GRA is an exercise of sound, well-informed judgment to guide the CPS, and ADB programs and projects.

7. The institutional set-up and governance arrangements that shape and constrain the functioning and performance of systems and organizations are to be assessed within the governance thematic areas of PFM, procurement, and anticorruption. The core topics are: (i) policy and planning instruments and processes; (ii) existence and proper enforcement of legal and regulatory frameworks; (iii) structures and functions of the relevant branches of government,

¹ ADB. 2014. *Revised Staff Guidance for Implementing the Second Governance and Anticorruption Action Plan (GACAP II): Assessing and Managing Governance Risks in ADB Operations*. Manila.

and their interaction; and (iv) mechanisms intended to ensure integrity, accountability and transparency, and to limit corruption.

8. Evidence for the GRA comes mainly from ADB's existing analyses and secondary sources. Primary source research is required to update, and supplement existing information, and when secondary source material is not available.

D. Detailed Tasks

9. In consultation with the nominated DMC government counterpart, and other relevant stakeholders {insert key consultations such as kick-off and wrap-up meetings}, the following tasks are to be completed.

10. **Assessment of governance risks.** The assessment must be evidence-based and anchored in reliable and timely information, and tailored to the contextual realities in the DMC. The main steps involved in preparing the GRA are:

- (i) **Literature review of existing studies and other secondary sources of information.** For overall institutional and governance aspects, international and national governance surveys should be consulted and existing assessments be reviewed to establish the historical, political and economic context, governance and institutional arrangements, and country development strategies. Also, studies on investment climate may be relevant to review country performance. For PFM, the key diagnostic is the PFM performance report using the Public Expenditure and Financial Accountability (PEFA) performance measurement framework. For national procurement, a Country Procurement Assessment Report (CPAR) is a useful instrument, which typically applies the Methodology for Assessing Procurement Systems (MAPS) of the Organization for Economic Co-operation and Development–Development Assistance Committee (OECD-DAC). Reporting on the effectiveness of national anticorruption arrangements is wide-ranging {insert known country-specific sources}.
- (ii) **Updating and triangulation through consultations with stakeholders and site visits.** Updating PFM, procurement, and anticorruption performance information is required. This can be done by key informants directing assessors to major changes in policies and practices since earlier studies were completed. Stakeholders include DMC government officials, development partners, academia, civil society organizations, and the private sector. Findings must be triangulated among informants at different levels and in different branches. Site visits can include government departments, provinces and districts, development partners, and projects, as required.
- (iii) **Conversion of governance weaknesses or problems into potential risks.** Converting an identified governance weakness or problem into a potential risk is an exercise of sound, well-informed judgment. The weakness (vulnerability) and the resulting risk (potential negative impact) should be described separately so that it is clear how a weakness could impact on development effectiveness.
- (iv) **Analysis of current and planned governance reforms in the DMC.** The reform plans and actions of the DMC government are to be mapped and an

assessment made of the extent to which reforms are likely to affect governance risks over the life of the CPS.

- (v) **Analysis of the use of country systems.** The use of country systems—for budgeting, treasury operations, accounting, procurement, and external audit—in ADB operations are to be described. Recommendations should be made on the possibilities in future to expand the use of country systems based on their current quality and taking into account credible reform plans.

11. **Preparation of the risk management plan.** Two steps are involved: (i) determining which identified governance risks are high risks; and (ii) formulating practical, implementable, and evaluable actions to mitigate the high risks.

- (i) **Determining the high risks.** Governance risks are mapped to see whether the DMC government, with or without development partner support, is addressing them and whether such actions are sufficient to mitigate risks during the CPS period. Risks that are not being addressed or where ongoing reforms take longer than the CPS period are the residual risks. The residual risks that are likely to occur and likely to have relatively serious impact on development outcomes are the high risks to be identified in the risk management plan.
- (ii) **Formulating Risk Mitigation Actions.** Practical, implementable, and evaluable actions for ADB to take, either on its own or in conjunction with the DMC government and other stakeholders, must be identified. Each action should have defined indicators. Actions should be classified in terms of short-, medium-, and long-term measures, depending on the nature of the governance risk being addressed and the anticipated duration of mitigation measure that is required.

E. Qualifications

12. The Consultant shall **{edit qualifications, as required}**:

- (i) A postgraduate degree or equivalent/higher professional qualifications in public policy or administration, governance, development, or related field;
- (ii) At least 10 years of relevant experience in designing and/or undertaking governance and public management diagnostics in developing economies;
- (iii) Strong understanding of international approaches and practices in governance and public management, including PFM, procurement, and principles of aid effectiveness;
- (iv) Strong analytical ability and interpersonal skills suitable for a multicultural professional environment; with previous experience working with a multilateral development bank preferred; and
- (v) Excellent written and oral communication skills in English.

F. Reporting

13. The Consultant shall be guided and supervised by **{Name/Designation}**. S/he will work on a day-to-day basis with **{Name/Designation}**. S/he will also be guided by the nominated Public Management Specialist in the Regional and Sustainable Development Department

(RSDD) on matters related to GACAP II, the approach to preparing the GRA report, and the report's content.

G. Timetable, Inputs and Outputs

14. The assignment will be for a total of {insert number} working days in {insert period of assignment}.
15. The Consultant will prepare the GRA report applying the standard reporting format contained in the staff guidance for implementing GACAP II (footnote 1).
16. The expected milestones are {insert milestones/dates}.

INDICATIVE TERMS OF REFERENCE FOR PREPARING SECTOR GOVERNANCE RISK ASSESSMENT

PREPARATION OF THE GOVERNANCE RISK ASSESSMENT FOR {SECTOR/SUB-SECTOR} IN {COUNTRY} TERMS OF REFERENCE

A. Background

1. The Asian Development Bank's (ADB) Second Governance and Anticorruption Action Plan (GACAP II) applies a risk-based approach to mainstreaming governance in ADB operations. Poor governance, weak institutions, and systemic corruption pose significant risks to development outcomes. In the context of GACAP II, the risk is reduced development effectiveness. GACAP II stresses the need for partnership between ADB and its developing member countries (DMC) to: (i) agree solutions for strengthening governance and institutions in DMCs; and, (ii) reduce vulnerability to corruption in ADB investments.

2. It is mandatory that country partnership strategies (CPS) and ADB operations in priority sectors are informed by a governance risk assessment (GRA), which is GACAP II's chief operational instrument. The preparation of the GRA is a collaborative and forward looking exercise with the DMC government, and other stakeholders on governance issues. It provides an opportunity for ADB and its DMCs to work together to identify intervention points for strengthening country systems and thereby reducing risks of using country systems.

B. Objective

3. The objective of the assignment is to prepare the GRA for {Sector/Sub-sector} in {Country}, in accordance with the requirements, processes and standard reporting formats contained in the staff guidance for implementing GACAP II (attached).¹

4. The GRA identifies the governance, institutional, and corruption risks in the sector. It covers the governance thematic priorities of Public Financial Management (PFM), procurement, and combating anticorruption. It also analyzes the institutional and governance arrangements that affect sector performance, and form part of the enabling environment of the sector.

C. Scope of Work

5. To inform the CPS, broader-based sector assessment and sector road map, the GRA for {Sector/Sub-sector} in {Country} is to be undertaken at the national government level, {and sub-national government in} {Sub-national jurisdiction/s}.

6. Through the GRA exercise, the governance, institutional, and corruption risks to development effectiveness are determined; and practical, implementable, and evaluable actions are formulated to mitigate the high risks. The GRA is an exercise of sound, well-informed judgment to guide the CPS, and ADB programs and projects.

7. The institutional set-up and governance arrangements that shape and constrain the functioning and performance of systems and organizations in the sector are to be assessed. The core topics are: (i) policy and planning instruments and processes; (ii) existence and proper

¹ ADB. 2014. *Revised Staff Guidance for Implementing the Second Governance and Anticorruption Action Plan (GACAP II): Assessing and Managing Governance Risks in ADB Operations*. Manila.

enforcement of legal and regulatory frameworks; (iii) structures and functions of the relevant branches of government and sector organizations or agencies, and their interaction; and (iv) mechanisms intended to ensure integrity, accountability and transparency, and to limit corruption. Within these topics, the focus is the governance and institutional factors that affect sector performance and the delivery of goods and services.

8. Evidence for the GRA comes from ADB's existing analyses and secondary sources. This includes the GRA prepared at the country-level, which focuses on PFM, procurement, and anticorruption. Primary source research is required to update, and supplement existing information, and when secondary source material is not available.

D. Detailed Tasks

9. In consultation with the nominated DMC government counterpart, and other relevant stakeholders {insert key consultations such as kick-off and wrap-up meetings}, the following tasks are to be completed.

10. **Assessment of governance risks.** The assessment must be evidence-based and anchored in reliable and timely information, and tailored to the contextual realities in the DMC. The main steps involved in preparing the GRA are:

- (i) **Literature review of existing studies and other secondary sources of information.** For sector institutional and governance aspects, governance surveys should be consulted and existing assessments reviewed to establish the historical and political context, governance and institutional arrangements, and sector development strategies. However, published material on these issues may well be limited for the sector. Studies on investment climate and business/industry perceptions may have relevant material on sector performance. Reports of public accountability bodies can be useful in identifying governance risks in the sector {insert known sector-specific sources}. For PFM, the key diagnostic is the PFM performance report using the Public Expenditure and Financial Accountability (PEFA) performance measurement framework. For procurement, a Country Procurement Assessment Report (CPAR) is a useful instrument, which typically applies the Methodology for Assessing Procurement Systems (MAPS) of the Organization for Economic Co-operation and Development–Development Assistance Committee (OECD-DAC). Reporting on the effectiveness of anticorruption arrangements is wide-ranging {insert known country-specific sources}.
- (ii) **Updating and triangulation through consultations with stakeholders and site visits.** Primary research through key informant interviews and discussions with stakeholders is required. The sector organizations or agencies to be assessed may include the government ministries, sub-national governments, sector regulatory bodies, and state-owned enterprises with responsibilities to manage the finance, procurement, and delivery of services. The potential risks in the organizations' relationships with suppliers, clients, and other public bodies should be addressed. A sectoral value chain approach can be used to systematically map and assess inter-organizational linkages and supplier-client relationships. Findings must be triangulated among informants at different levels and in different branches. Site visits can include government departments, provinces and districts, development partners, and projects, as required.

- (iii) **Conversion of governance weaknesses or problems into potential risks.** Converting an identified governance weakness or problem into a potential risk is an exercise of sound, well-informed judgment. The weakness (vulnerability) and the resulting risk (potential negative impact) should be described separately so that it is clear how a weakness could impact on development effectiveness.
- (iv) **Analysis of current and planned governance reforms in the sector.** The reform plans and actions of sector organizations or agencies are to be mapped and an assessment made of the extent to which reforms are likely to affect governance risks over the life of the CPS.
- (v) **Analysis of the use of country systems in the sector.** The use of country systems—for budgeting, treasury operations, accounting, procurement, and external audit—in ADB sector operations are to be described. Recommendations should be made on the possibilities in future to expand the use of country systems in the sector based on their current quality and taking into account credible reform plans.

11. **Preparation of the risk management plan.** Two steps are involved: (i) determining which identified governance risks are high risks; and (ii) formulating practical, implementable, and evaluable actions to mitigate the high risks.

- (i) **Determining the high risks.** Governance risks are mapped to see whether the DMC government, with or without development partner support, is addressing them and whether such actions are sufficient to mitigate risks during the CPS period. Risks that are not being addressed or where ongoing reforms take longer than the CPS period are the residual risks. The residual risks that are likely to occur and likely to have relatively serious impact on development outcomes are the high risks to be identified in the risk management plan.
- (ii) **Formulating Risk Mitigation Actions.** Practical, implementable, and evaluable actions for ADB to take, either on its own or in conjunction with the DMC government and other stakeholders, must be identified. Each action should have defined indicators. Actions should be classified in terms of short-, medium-, and long-term measures, depending on the nature of the governance risk being addressed and the anticipated duration of mitigation measure that is required.

E. Qualifications

12. The Consultant shall **{edit qualifications, as required}**:

- (i) A postgraduate degree or equivalent/higher professional qualifications in public policy or administration, governance, development, or related field;
- (ii) At least 10 years of relevant experience in designing and/or undertaking governance and public management diagnostics in developing economies;
- (iii) Strong understanding of international approaches and practices in governance and public management, including PFM, procurement, and principles of aid effectiveness;

- (iv) Strong analytical ability and interpersonal skills suitable for a multicultural professional environment; with previous experience working with a multilateral development bank preferred; and
- (v) Excellent written and oral communication skills in English.

F. Reporting

13. The Consultant shall be guided and supervised by {Name/Designation}. S/he will work on a day-to-day basis with {Name/Designation}. S/he will also be guided by the nominated Public Management Specialist in the Regional and Sustainable Development Department (RSDD) on matters related to GACAP II, the approach to preparing the GRA report, and the report's content.

G. Timetable, Inputs and Outputs

14. The assignment will be for a total of {insert number} working days in {insert period of assignment}.
15. The Consultant will prepare the GRA report applying the standard reporting format contained in the staff guidance for implementing GACAP II (footnote 1).
16. The expected milestones are {insert milestones/dates}.

STANDARD REPORT FORMAT FOR COUNTRY GOVERNANCE RISK ASSESSMENT



Final Report

{Month Year}

Country Governance Risk Assessment

{Country Name}

Asian Development Bank

{Please read and delete the following instructions:

- (i) This template is designed in accordance with the requirements and processes contained in the staff guidance for implementing the Second Governance and Anticorruption Action Plan (GACAP II).¹
- (ii) The template is indicative and certain modifications may be required in actual document preparation to reflect changes in ADB-wide policies and business processes, as well as the country context.
- (iii) **Page limit:** The main text should not exceed 30 pages.}

EXECUTIVE SUMMARY

{Provide the overall assessment of the governance, institutional, and corruption risks in the developing member country (DMC). Include a summary of the high risks identified within the three governance thematic areas: public financial management (PFM), procurement, and combating corruption. Include a summary of the mitigation actions to be adopted by ADB and included in the country partnership strategy (CPS). Make recommendation as to whether or not ADB in the future should expand the use of country systems.}

I. INTRODUCTION

1. {Briefly describe the purpose, scope and methodology of the governance risk assessment (GRA), and include acknowledgments.}

II. COUNTRY OVERVIEW

A. Historical, Political and Economic Context

2. {Describe and assess the overall historical and political context of the country within which national and sub-national governance and public management institutions operate.

3. Describe and assess the overall economic context of the country at the national level. Include brief information about the government's macro-economic policy, recent macro-economic developments (economic growth, monetary policy, fiscal policy, balance of payments and debt), and the macro-economic outlook.}

B. Governance and Institutional Arrangements

4. {Provide the overall institutional set-up and governance arrangements that shape the functioning and performance of relevant systems and organizations. The core topics are (i) policy and planning instruments and processes; (ii) existence and proper enforcement of legal and regulatory frameworks; and (iii) structures and functions of the relevant branches of government, and their interaction.

5. ADB's Country Performance Assessments (CPAs) provide an overview of the quality of policy and institutional framework for governance and public sector management. Include comparative governance ratings that help set the overall country governance context.

6. As much as possible, seek to bring out relevant political economy dynamics, especially where they affect sectors of particular interest.}

¹ ADB. 2014. *Revised Staff Guidance for Implementing the Second Governance and Anticorruption Action Plan (GACAP II): Assessing and Managing Governance Risks in ADB Operations*. Manila.

C. Country Development Strategies

7. {Describe and assess the government's development strategies, including the government's commitment to reforms. Include an assessment of the credibility of the reforms, and probable timetable for implementation. Map development partner support for the relevant reforms, current or planned.}

III. ASSESSMENT OF COUNTRY SYSTEMS

A. Public Financial Management

8. {Describe the performance of the country's PFM system. Include the strengths and weaknesses. The main topics are: (i) legal and policy framework; (ii) budget formulation; (iii) budget execution including treasury operations; (iv) accounting and reporting; and (v) external audit and oversight.}

9. Performance information can be largely drawn from the Public Expenditure and Financial Accountability (PEFA) diagnostic, and other relevant assessments.

10. Based on the shortcomings in the PFM system, determine the governance risks to development effectiveness.

11. Describe the context for PFM reform, including the government's commitment to reforms. Include an assessment of the credibility of the reforms, and probable timetable for implementation. Map development partner support for the relevant reforms, current or planned.}

B. Procurement

12. {Describe the performance of the country's procurement systems. Include the strengths and weaknesses. The main topics are: (i) legal and regulatory framework; (ii) institutional framework and management capacity; (iii) procurement operations and market practices; and (iv) integrity and transparency of the public procurement system. These topics are described in more detail in the supplementary guidance for assessing procurement risks.²}

13. For national procurement systems, a Country Procurement Assessment Report (CPAR) is a useful instrument for assessing procurement policies, organizations, and procedures. An assessment using the Methodology for Assessing Procurement Systems (MAPS) may exist in addition to the CPAR or be incorporated into the CPAR.

14. Based on the shortcomings in the procurement system, determine the governance risks to development effectiveness.

15. Describe the context for procurement reform, including the government's commitment to reforms. Include an assessment of the credibility of the reforms, and probable timetable for implementation. Map development partner support for the relevant reforms, current or planned.}

C. Vulnerability to Corruption

16. {Describe the performance of the country's mechanisms intended to ensure integrity, accountability and transparency, and to curb corruption. The main topics are: (i) legislative and

² ADB. 2014. *Guide on Assessing Procurement Risks and Determining Project Procurement Classification*. Manila.

policy framework; (ii) integrity institutions and systems; (iii) legal and judicial systems; and (iv) voice and accountability, including state relations with civil society.

17. Based on the shortcomings in the integrity mechanisms, determine the governance risks to development effectiveness.

18. Describe the context for anticorruption reform, including the government's commitment to reforms. Include an assessment of the credibility of the reforms, and probable timetable for implementation. Map development partner support for the relevant reforms, current or planned.}

IV. USE OF COUNTRY SYSTEMS

19. {Determine the specific governance risks arising from the use of ADB systems and procedures. Then describe whether and how ADB operations use partner country systems for budgeting, treasury operations, accounting, procurement, and external audit.

20. Make recommendation as to whether or not ADB in the future should expand the use of country systems. Such a recommendation is based on ADB's current use of country systems in the country, and findings regarding the quality and performance of the PFM and procurement systems, and the risks arising from these.}

V. SUMMARY OF GOVERNANCE RISKS

21. {Rate the governance risks and assess whether the DMC government, with or without development partner support, is addressing them, and if such actions are sufficient to mitigate risks during the CPS period. Risks that are not being addressed or where ongoing reforms take longer than the CPS period are the residual risks to be addressed. The residual risks that are likely to occur and likely to have relatively serious impact on development outcomes are the high risks to be addressed in the risk management plan. There is no formula for arriving at the risk ratings, so professional judgment needs to be exercised.

22. Complete the summary governance risk matrix using the format below.}

Summary Governance Risk Matrix				
{For Section V of report format; row headings may be subdivided as required.}				
Risk Identified	Likely {Tick}	Relatively Serious {Tick}	Not Mitigated Over CPS Period {Tick}	High Risk {All three columns ticked}
PUBLIC FINANCIAL MANAGEMENT				
Legal and Policy Framework				
{Insert risks}				
Budgeting				
{Insert risks}				
Treasury Operations				
{Insert risks}				

Accounting and Reporting				
{Insert risks}				
External Audit				
{Insert risks}				
PROCUREMENT				
{Insert risks}				
CORRUPTION				
{Insert risks}				

VI. RISK MANAGEMENT PLAN

23. {Formulate risk mitigation actions. Practical, implementable, and evaluable actions for ADB to take, either on its own or in conjunction with the DMC government and other stakeholders, must be identified. Each action should have defined indicators. Actions should be classified in terms of short-, medium-, and long-term measures, depending on the nature of the governance risk being addressed and the anticipated duration of the mitigation measure that will be required.

24. Complete the risk management plan using the format below.}

Risk Management Plan		
{For Section VI of report format; high risks are carried forward from Section V; this table corresponds to the CPS linked document on summary risk assessment and risk management plan.}		
High Risks	Risk Mitigation Actions	Indicators
PUBLIC FINANCIAL MANAGEMENT		
Legal and Policy Framework		
{Insert risks}	{Insert actions}	{Insert indicators}
Budgeting		
{Insert risks}	{Insert actions}	{Insert indicators}
Treasury Operations		
{Insert risks}	{Insert actions}	{Insert indicators}
Accounting and Reporting		
{Insert risks}	{Insert actions}	{Insert indicators}
External Audit		
{Insert risks}	{Insert actions}	{Insert indicators}
PROCUREMENT		

{Insert risks}	{Insert actions}	{Insert indicators}
CORRUPTION		
{Insert risks}	{Insert actions}	{Insert indicators}

STANDARD REPORT FORMAT FOR SECTOR GOVERNANCE RISK ASSESSMENT



Final Report

{Month Year}

Sector Governance Risk Assessment

{Sector Name} in {Country Name}

Asian Development Bank

{Please read and delete the following instructions:

- (i) This template is designed in accordance with the requirements and processes contained in the staff guidance for implementing the Second Governance and Anticorruption Action Plan (GACAP II).¹
- (ii) The template is indicative and certain modifications may be required in actual document preparation to reflect changes in ADB-wide policies and business processes, as well as the country context.
- (iii) **Page limit:** The main text should not exceed 30 pages.}

EXECUTIVE SUMMARY

{Provide the overall assessment of the governance, institutional, and corruption risks in the sector/sub-sector in the developing member country (DMC). Include a summary of the high risks identified within public financial management (PFM), procurement, combating corruption, and other sector-specific institutions. Include a summary of the mitigation actions to be adopted by the ADB and included in the country partnership strategy (CPS), broader-based sector assessment and sector road map. Make recommendation as to whether or not ADB in the future should expand the use of country systems.}

I. INTRODUCTION

1. {Briefly describe the purpose, scope and methodology of the governance risk assessment (GRA), and include acknowledgments.}

II. SECTOR OVERVIEW

A. Governance and Institutional Arrangements

2. {Briefly describe and assess the overall historical, political and social context relevant for the sector/sub-sector within which national and sub-national governance and public management institutions operate.

3. Provide the sector institutional set-up and governance arrangements, and how this shapes the functioning and performance of relevant systems and organizations in the sector/sub-sector. The core topics are (i) policy and planning instruments and processes; (ii) existence and proper enforcement of legal and regulatory frameworks; and (iii) structures and functions of the relevant branches of government, including the main sector agencies and their interaction. Within these topics, the focus is the governance and institutional factors that affect sector/sub-sector performance and the delivery of goods and services.

4. As much as possible, seek to bring out relevant political economy dynamics where they affect the sector/sub-sector.

5. Based on the shortcomings in the governance and institutional context, determine the governance risks to development effectiveness in the sector/sub-sector. For the purpose of the GRA, these risks are the sector-specific risks. Issues and risks specific to PFM, procurement, and corruption can be detailed in the succeeding sections.}

¹ ADB. 2014. *Revised Staff Guidance for Implementing the Second Governance and Anticorruption Action Plan (GACAP II): Assessing and Managing Governance Risks in ADB Operations*. Manila.

B. Sector Development Strategies

6. {Describe the context for governance and public management reform in the sector/sub-sector, including the government's commitment to the reforms. Include an assessment of the credibility of the reforms, and probable timetable for implementation. Map development partner support for the relevant reforms, current or planned.}

III. ASSESSMENT OF COUNTRY SYSTEMS

A. Public Financial Management

7. {Describe the performance of the country's PFM system operating in the sector/sub-sector. Include the strengths and weaknesses. The main topics are: (i) legal and policy framework; (ii) budget formulation; (iii) budget execution including treasury operations; (iv) accounting and reporting; and (v) external audit and oversight.

8. Based on the shortcomings in the PFM system operating in the sector/sub-sector, determine the governance risks to development effectiveness in the sector/sub-sector.}

B. Procurement

9. {Describe the performance of the country's procurement systems in the sector/sub-sector. Include the strengths and weaknesses. The main topics are: (i) legal and regulatory framework; (ii) institutional framework and management capacity; (iii) procurement operations and market practices; and (iv) integrity and transparency of the public procurement system. These topics are described in more detail in the supplementary guidance for assessing procurement risks.²

10. Based on the shortcomings in the procurement system operating in the sector/sub-sector, determine the governance risks to development effectiveness in the sector/sub-sector.}

C. Vulnerability to Corruption

11. {Describe the performance of the country's mechanisms intended to ensure integrity, accountability and transparency, and to curb corruption in the sector/sub-sector. The main topics are: (i) legislative and policy framework; (ii) integrity institutions and systems; (iii) legal and judicial systems; and (iv) voice and accountability, including state relations with civil society.

12. Based on the shortcomings in the integrity mechanisms operating in the sector/sub-sector, determine the governance risks to development effectiveness in the sector/sub-sector.}

IV. USE OF COUNTRY SYSTEMS

13. {Determine the specific governance risks arising from the use of ADB systems and procedures in the sector. Then describe whether and how ADB operations use partner country systems for budgeting, treasury operations, accounting, procurement, and external audit.}

14. Make recommendation as to whether or not ADB in the future should expand the use of country systems in the sector. Such a recommendation is based on ADB's current use of

² ADB. 2014. *Guide on Assessing Procurement Risks and Determining Project Procurement Classification*. Manila.

country systems in the sector, and findings regarding the quality and performance of the PFM and procurement systems, and the risks arising from these.}

V. SUMMARY OF GOVERNANCE RISKS

15. {Map the governance risks in the sector/sub-sector, and determine the high risks. Governance risks are to be mapped to see whether the DMC government, with or without development partner support, is addressing them, and if such actions are sufficient to mitigate risks during the CPS period. Risks that are not being addressed or where ongoing reforms take longer than the CPS period are the residual risks to be addressed. There is no formula for arriving at the risk ratings, so professional judgment needs to be exercised. Taking into account the quality and performance of partner country systems, recommendations should be made as to the possibilities of expanding the use of country systems.

16. Complete the summary governance risk matrix using the format below.}

Summary Governance Risk Matrix {For Section V of report format; row headings may be subdivided as required.}				
Risk Identified	Likely {Tick}	Relatively Serious {Tick}	Not Mitigated Over CPS Period {Tick}	High Risk {All three columns ticked}
SECTOR-SPECIFIC INSTITUTIONS				
{Insert risks}				
PUBLIC FINANCIAL MANAGEMENT				
Legal and Policy Framework				
{Insert risks}				
Budgeting				
{Insert risks}				
Treasury Operations				
{Insert risks}				
Accounting and Reporting				
{Insert risks}				
External Audit				
{Insert risks}				
PROCUREMENT				
{Insert risks}				
CORRUPTION				

{Insert risks}				
----------------	--	--	--	--

VI. RISK MANAGEMENT PLAN

17. {Formulate risk mitigation actions in the sector/sub-sector. Practical, implementable, and evaluable actions for ADB to take, either on its own or in conjunction with the DMC government and other stakeholders, must be identified. Each action should have defined indicators. Actions should be classified in terms of short-, medium-, and long-term measures, depending on the nature of the governance risk being addressed and the anticipated duration of mitigation measure that will be required.

18. Complete the risk management plan using the format below.}

Risk Management Plan		
{For Section V of report format; high risks are carried forward from Section IV; informs the broader-based sector assessment and sector road map.}		
High Risks	Risk Mitigation Actions	Indicators
SECTOR-SPECIFIC INSTITUTIONS		
{Insert risks}	{Insert actions}	{Insert indicators}
PUBLIC FINANCIAL MANAGEMENT		
Legal and Policy Framework		
{Insert risks}	{Insert actions}	{Insert indicators}
Budgeting		
{Insert risks}	{Insert actions}	{Insert indicators}
Treasury Operations		
{Insert risks}	{Insert actions}	{Insert indicators}
Accounting and Reporting		
{Insert risks}	{Insert actions}	{Insert indicators}
External Audit		
{Insert risks}	{Insert actions}	{Insert indicators}
PROCUREMENT		
{Insert risks}	{Insert actions}	{Insert indicators}
CORRUPTION		
{Insert risks}	{Insert actions}	{Insert indicators}

LIST OF SECONDARY SOURCE INFORMATION

A. Governance and Institutions:

- (i) Actionable Governance Indicators Data Portal, World Bank; <http://www.agidata.org/>
- (ii) Worldwide Governance Indicators, World Bank;
<http://info.worldbank.org/governance/wgi/index.aspx#home>
- (iii) Global Integrity Index; <http://globalintegrity.org/>
- (iv) Economic Freedom of the World Report, Fraser Institute; <http://www.freetheworld.com/>
- (v) Index of Economic Freedom, Heritage Foundation; <http://www.heritage.org/index/>
- (vi) Freedom of the World, Freedom House; <http://www.freedomhouse.org/>
- (vii) Index of Democracy, Economist Intelligence Unit; <http://www.eiu.com/>
- (viii) Transformation Index, Bertelsmann; <http://www.bti-project.org/index/>
- (ix) Failed States Index, Fund for peace and Foreign Policy; <http://ffp.statesindex.org/>
- (x) World Press Freedom Index, Reporters Without Borders; <http://en.rsf.org/>
- (xi) Rule of Law Index, World Justice Project; <http://worldjusticeproject.org/rule-of-law-index>

B. Public Financial Management:

- (i) Doing Business Economy Rankings—Paying Taxes, International Finance Corporation/World Bank; <http://www.doingbusiness.org/>
- (ii) Open Budget Index, International Budget Partnership; <http://internationalbudget.org/>
- (iii) Public Expenditure and Financial Accountability (PEFA) Assessments;
<http://www.pefa.org/>
- (iv) Report on the Observance of Standards and Codes-Fiscal Transparency, International Monetary Fund; <http://www.imf.org/external/NP/rosc/rosc.aspx>
- (v) World Development Indicators-Tax Policies, World Bank; <http://data.worldbank.org/>

C. Procurement:

- (i) Country Procurement Assessment Reports (CPARs), World Bank;
<http://www.worldbank.org/>
- (ii) Methodology for Assessing Procurement Systems (MAPS), Economic Co-operation and Development-Development Assistance Committee; <http://www.oecd.org/>

D. Corruption:

- (i) Integrity Scans, OECD; <http://www.oecd.org/cleangovbiz/>
- (ii) Corruption Perception Index, Transparency International; <http://www.transparency.org>
- (iii) Global Corruption Barometer, Transparency International; <http://www.transparency.org>
- (iv) National Integrity Systems Assessments, Transparency International;
<http://www.transparency.org>

E. Private Sector and Doing Business:

- (i) Doing Business, World Bank; <http://www.doingbusiness.org/>
- (ii) Global Competitiveness Index, World Economic Forum
<http://www.weforum.org/issues/global-competitiveness>
- (iii) Country Private Sector Assessments, ADB; <http://www.adb.org/>

F. Other:

- (i) Women, Business and the Law, World Bank; <http://wbl.worldbank.org/>
- (ii) Public Accountability Mechanism, World Bank;
<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPUBLICSECTORANDGOVERNANCE/0,,contentMDK:23352107~pagePK:148956~piPK:216618~theSitePK:286305,0.html>