

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

1. On 31 July 2006, the Asian Development Bank (ADB) approved its second Governance and Anticorruption Action Plan (GACAP II), which aims to improve ADB's performance in implementing governance and anticorruption policies in sectors where ADB is active.¹ The GACAP II requires the preparation of governance risk assessment and management plans as an integral part of country partnership strategies, programs, and projects. Governance risk assessment and management plans focus on specific thematic issues—public financial management, procurement, and anticorruption—at the country level, in priority sectors where ADB is active, and for programs and projects.

2. In 2008, a sector risk assessment² was carried out for Mongolia for national systems as well as the education and urban transport sectors in the areas of public financial management, procurement, and anticorruption. This assessment found that Mongolia's legal, policy, and institutional frameworks remain generally inadequate to mitigate or obviate risk in national and sectoral systems. Significant vulnerabilities and risks in public finance management stem from the government's limited capacity to implement development policies and reform; and to ensure that all elements—notably budget formulation, allocation, and execution—are consistent with policy priorities. There is also evidence that interventionist central planning and political interference introduce additional vulnerability and risk that must be mitigated. Procurement risks include a lack of capacity, knowledge, and adequate training to equip professional procurement officers to dispatch their duties and responsibilities fairly and transparently. Political interference, conflicts of interest, and corruption are manifest within national and sectoral procurement systems. Corruption is pervasive, and additional support to the Government of Mongolia and to the Independent Authority against Corruption is required to strengthen institutional capacity and effectiveness.

3. A health sector risk assessment was not carried out. A project procurement-related audit for the Second Health Sector Development Project³ and a limited compliance review for the Third Health Sector Development Project⁴ provide basic information for assessing potential risks related to implementation of the project for procurement and financial management. The financial management assessment outlines the related risks.

Risks	Assessment without Mitigation	Management Plan	Assessment with Mitigation
A. Public Financial Management (and Financial Management)			
Budget credibility at the sector level is weakened by the lack of medium-term action plans to guide medium-term resource allocation. Local authorities are not widely consulted in setting sectoral budgets although they are responsible for service delivery. There is	Medium	The PIU is responsible for ensuring that government counterpart funds are included in MOH budget appropriations. A grant covenant makes provision for adequate counterpart funding. Project activities support the development of adequate budgets for blood safety, medical waste	Low

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

² The risk assessment was carried out following the 2008 guidelines of the GACAP II.

³ ADB, Office of the Auditor General. 2008. *Project Procurement Related Audit Report - Loan 1998-MON: Second Health Sector Development Project*. Manila.

⁴ ADB, Office of Anticorruption and Integrity. 2009. *Limited Compliance Review*. Manila.

Risks	Assessment without Mitigation	Management Plan	Assessment with Mitigation
a risk that government (counterpart) funds to finance recurrent costs generated by project investments and activities are not available on time.		management, and IPC—reducing the risk that inadequate recurrent budget implications are not incorporated in the MOH budget. Separate accounting records are maintained for the project in parallel with the government accounting system.	
Absence of internal control mechanisms	Medium	The external auditor's opinion on the use of the imprest account and statement of expenditures will be part of the audit reports. The annual audited financial statements and audited project accounts will be submitted to ADB no later than 6 months after the end of the fiscal year during project implementation. Provide training in ADB financial management procedures to key staff of MOH, the executing agency. Clearly delineate responsibility of the PIU and key staff of MOH.	Low
Irregularities in fund flow management	Medium	ADB funds will be preferably channeled through direct payment and secondarily through an imprest account.	Low
High inflation and appreciating local currency (MNT) caused by the booming economy result in escalating project costs	Medium	Plan for sufficient contingency funding. A loan covenant makes provision for the government to pay any shortfall.	
B. Procurement			
The implementing agencies have insufficient capacity and no recent procurement experience for tendering procurement packages.	Medium	MOH will carry out all procurement and the PIU will coordinate, providing assistance in contract, bid documentation, bidding and evaluation procedures, and appointment of contractors. MOH has more than 10 years of procurement experience following ADB policies and guidelines.	Low
Risk of fraud and corruption in the procurement process	Medium	Provide regular training on procurement processes, supervision, and monitoring for staff involved in procurement. Ensure participation of the MOF representative in all procurement evaluation procedures; MOH should attach all reviews and/or comments of MOF for procurement contracts	Low

Risks	Assessment without Mitigation	Management Plan	Assessment with Mitigation
		<p>under the project (whenever such review is mandated under the Mongolian Procurement Law, 2011) to each of its submissions to ADB.</p> <p>Ensure all contract awards are made public by posting on the project website and at www.e-procurement.mn; a printed screenshot of such posting will be attached to all copies of contracts forwarded to ADB^a</p>	
C. Corruption			
Corrupt practices affect project design, procurement, and implementation—leading to poor quality projects.	Medium	<p>Continue implementation of external monitoring of civil works started under the Third Health Sector Development Project.</p> <p>Implement spot reviews of procurement and financial procedures.</p>	Low
Failure to enforce anticorruption measures	Medium	<p>Assist the MOH and the PIU and implementing agencies to ensure good governance, accountability, and transparency in project operations.</p> <p>Encourage MOF to strengthen audit systems.</p>	Low
D. Operational			
Delayed establishment of the new national transfusiology center resulting from lack of government investment, late assignment of staff, and insufficient allocation of recurrent funds	Medium	ADB and PIU will monitor inclusion of and continue intensive dialogue with the government on adequate investment and recurrent funding in the MOH budget, 2013–2014. A loan covenant makes provision on the government's timely establishment of the new national transfusiology center.	
Overall	Medium		Low

ADB = Asian Development Bank, IPC = infection prevention and control, MOF = Ministry of Finance, MOH = Ministry of Health, PIU = project implementation unit.

^a ADB has the right to declare a misprocurement if it subsequently determines that the applicable procurement regulations and processes have not been complied with.

Source: ADB.