

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

1. This risk assessment follows the Asian Development Bank (ADB) Second Governance and Anticorruption Action Plan (GACAP II) and related guidance.¹ Since 2010, the Government of the Philippines has taken significant steps to improve the country's public financial management (PFM), procurement, and anti-corruption systems.² The policy and institutional framework for reforms is reflected in the government's 2012 good governance and anti-corruption action plan (updated in 2014), its 2011 PFM reform road map (updated in 2014), and other action programs. Country-level PFM system improvements have focused on comprehensiveness and transparency, policy-based budgeting, treasury functions and cash management, and accounting and reporting.
2. However, governance in the Philippines continues to be characterized by substantial technical risks, weak institutions, and inadequate accountability mechanisms.³ Overall PFM performance remains relatively weak, and the associated fiduciary risks are substantial. The framework for public procurement is well-developed, and the system generally functions well and with only moderate risks. Nonetheless, shortcomings remain in specific areas such as insufficient participation by civil society organizations in procurement monitoring. The basic anti-corruption legislative framework is in place, and the administration has made positive anti-corruption efforts, but an anti-corruption strategy is lacking. The Office of the Ombudsman, which promotes integrity and efficiency in public service, lacks capacity and sanctioned instruments.
3. Development partner activities in the area of governance are coordinated through the ADB-led Philippine Development Forum working group on governance and anti-corruption and three subgroups working on PFM, procurement, and good governance and anti-corruption. ADB support for governance reforms at the national and local government levels through analytical work and technical assistance (TA) is a priority area in the ADB's country partnership strategy for the Philippines for 2011–2016.⁴
4. The proposed additional financing for the Social Protection Support Project, which supports the Pantawid Pamilyang Pilipino conditional cash transfer (CCT) program, will continue to be implemented by the Department of Social Welfare and Development (DSWD).⁵ At the agency-level, the DSWD is perceived as a trusted government agency that is sincere in fighting corruption.⁶ It has strong and capable leadership and systems are in place to minimize corruption risks, including an objective household poverty targeting system and a functioning CCT grievance redress system. The additional financing will not require procurement of goods or services.
5. The 2011–2014 audit reports of the DSWD by the government's Commission on Audit (COA) note fairness in the presentation of financial statements, but a number of recurrent findings indicate systemic weaknesses in internal control. These findings include unclaimed and unpaid grants resulting in idle funds, duplicate entries in the payroll or beneficiaries not found in the

¹ ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila; ADB. 2011. *Revised Guidelines for Implementing ADB's Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

² ADB. Country Governance Risk Assessment, Philippines. Draft of April 2015. Unpublished.

³ ADB. 2013. *Country Operations Business Plan: Philippines, 2014–2016*. Manila. Appendix 5: Risk Assessment and Risk Management Plan.

⁴ ADB. 2011. *Country Partnership Strategy: Philippines, 2011–2016*. Manila, pp. 5–6.

⁵ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan, Technical Assistance Grant, and Administration of Technical Assistance Grant to the Republic of the Philippines for the Social Protection Support Project*. Manila.

⁶ Social Weather Stations. 2014. *The 2013 SWS Survey of Enterprises on Corruption: The fight against public sector corruption has mixed findings*. <http://www.sws.org.ph/pr20140115b.htm>, slides 33, 35, and 38.

national poverty targeting beneficiary database, and delayed liquidation of payroll transfers using the over-the-counter payout method. COA recommendations include that DSWD should (i) investigate the causes for unclaimed and unpaid grants and take appropriate action, (ii) validate the Pantawid payroll to ensure that the grant recipients are eligible beneficiaries, (iii) remove duplicate names, and (iv) cause its regional offices to intensify monitoring of liquidation reports by payment service providers. DSWD is implementing these recommendations and will develop a time-bound risk management action plan, with clearly defined deliverables and responsibilities.

6. In 2013, the DSWD carried out a governance and anti-corruption risk review of Pantawid. It identified and is addressing the following operational issues: (i) an erosion of the value of grants due to inflation; (ii) poor quality of social services and supply-side issues; (iii) unclear designation of responsibilities among the agencies involved in the program; (iv) exclusion or inclusion errors in targeting beneficiaries; (v) local political intervention; and (vi) payment delivery challenges, especially in geographically isolated locations. The benefit levels have not been adjusted since the program pilot in 2007 and are now equivalent to 7% of the average expenditures of a poor household. This is low compared with the level of grants provided by CCT programs in other developing countries.⁷ The lack of an adjustment for inflation has eroded the real value of cash benefits and threatens the achievement of income poverty reduction targets. DSWD recognizes this issue and is in discussions regarding when to increase benefits and by how much.

7. Pantawid is implemented in a partnership between the DSWD, the departments of health and education, and local government units. To ensure the availability and quality of public services, good coordination is crucial. This is being addressed through the Pantawid national advisory committee. To reduce inclusion and exclusion errors, DSWD revised the proxy means test model in 2014, in preparation for the new round of targeting in 2015. It has also strengthened its grievance redress system and processes special inclusion requests on an annual basis. DSWD aims to prevent the risk of local political intervention through public information campaigns.

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
Public financial management		
Weaknesses in internal control indicated by recurrent audit findings may increase fiduciary risk.	High	DSWD will develop and agree on a time-bound risk management action plan with clearly defined deliverables and responsibilities to address recurrent audit findings including duplicate entries in the payroll, unclaimed grants, and delays in payroll liquidation.
Corruption		
Program integrity and success could suffer from political capture or interference.	Medium	Beneficiary selection is based on an objective poverty targeting system with protocols for validation. Public information campaigns disseminate information, guidelines, entitlements, and GRS procedures. The DSWD has a good track record in mitigating the risk of political capture during elections.
Fraud or error may result in ineligible households receiving CCT grants.	Medium	Grants are transferred directly to the Land Bank of the Philippines beneficiary accounts. The beneficiary update system and the GRS delist ineligible households. The DSWD is piloting biometric systems for payouts.
Political economy		
Political and financial support for the program may not be maintained.	Medium	The additional financing for the SPSP is based on a multiyear financing plan and is included in the DSWD's medium-term expenditure plan. DSWD will continue to disseminate rigorous

⁷ DSWD. 2014. *Keeping Children Healthy and In School: Evaluating the Pantawid Pamilya Using Regression Discontinuity Design, Second Wave Impact Evaluation Results*. Manila.

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
		impact evaluation results.
Benefit levels may not be adjusted for inflation, eroding the value of the grants	Medium	Policy dialogue on the level and timing of an increase in benefit levels is under way. ADB TA will provide support.
Program		
Social services may be unavailable or of low quality.	Medium	Coordination and feedback mechanisms with the Department of Education and the Department of Health will be strengthened to ensure that quality services are available. ADB TA will support refinement of the Pantawid supply-side assessment as part of this feedback mechanism.
Transitory movements in and out of poverty may not be fully captured in the targeting system.	Medium	The national household targeting system to identify poor households is updated every 4 years and will also begin identifying near-poor households in 2015. TA will support the validation of inclusion requests via the GRS.
Payment windows may be far from beneficiaries' homes, and therefore either inaccessible or expensive to access.	Medium	Cash cards can now be used at nearly 10,000 ATMs nationwide in the Philippines. Other payment service providers (conduits) are used in rural and remote areas. Local government units are encouraged to support transport costs for remote beneficiaries. The GRS is fully operational, and regular spot checks include verification of whether payment systems are appropriate.
The targeting system may result in inclusion and exclusion errors.	Medium	A new proxy means test model reduces inclusion and exclusion errors. The national household targeting system includes public validation of draft lists of poor households. The DSWD processes inclusion requests via the GRS.
The limited scope of the COA audit opinion compared with ADB's reporting requirements may result in unmet loan covenants.	Medium	ADB will coordinate with DSWD and COA to ensure that ADB reporting requirements are incorporated in the audit reports. TA will support engagement of an independent audit firm to provide an opinion on the use of loan proceeds.
Implementation may be less efficient due to unclear roles of the agencies involved in the program.	Low	The government has issued joint memorandum circulars between the DSWD, other NGAs, and LGUs to define Pantawid implementation, monitoring and evaluation mechanisms between entities. Regular meetings of the NAC and regional advisory committees address coordination issues.
Overall	High	

ADB = Asian Development Bank, ATM = automated teller machine, COA = Commission on Audit, CSO = civil society organization, DOH = Department of Health, DSWD = Department of Social Welfare and Development, GRS = grievance redress system, LBP = Landbank of the Philippines, LGU = local government unit, NAC = National Advisory Committee, NGA = national government agency, PFM = public financial management, SPSP = Social Protection Support Program, TA = technical assistance.

Source: Asian Development Bank.