

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

1. In terms of transparency, the Benazir Income Support Program (BISP) is one of the most extensively documented and evaluated programs in the public sector in Pakistan. It has been subject to process evaluations and data spot checks, as well as frequent improvements in systems and delivery mechanisms. The BISP has pioneered the use of targeting techniques, introduced electronic case management and grievance redress systems, and mainstreamed the use of virtual banking techniques. It is a very effective way of universally targeting the poor (with low exclusion and inclusion errors). It has national coverage and a strong gender orientation, and provides resources to the very poor that can effectively help reduce the depth of poverty.

2. **Country risk.** Risk of corruption is considered significant in Pakistan. Pakistan is listed 139th on Transparency International's 2012 Corruption Perception Index. Historical government instability, a high degree of influence of the military, a pervasive culture of corruption among the police force and judiciary, and ongoing violence and insurgency within the country have all been contributing factors.

3. **Institutional risks.** The BISP is an autonomous government enterprise headed by an external chairperson and supervised by an externally sourced high-level management board. The board comprises members from the government, academia, and development practitioners. The BISP is financed through the federal budget through a single line item; allocations have continuously increased since 2008 to about 2% of the federal government's expenditure bill. Overall, BISP operations are fairly transparent. Updates regarding implementation of the different initiatives are available on its website along with a contact system for complaints (phone and web based). All government expenditures including the BISP are subject to audit by the Auditor General of Pakistan.

4. **Fiscal risks.** Inflation poses major risks to the relevance of the current cash transfer system. With high annual inflation of 12%–13% over the last 3 years, the purchasing power of cash benefits to the poor have quickly eroded; nominal updates to the amounts paid by the cash transfer program are needed. Coverage needs to be expanded to 2.4 million eligible poor beneficiaries who are not currently covered. The new government committed to increase the monthly cash transfer from PRs1,000 to PRs1,200 from September 2013 onward. This and the components for primary education (supported by the World Bank and the Department for International Development [DFID] of the United Kingdom), skills training, and health insurance (both proposed for Asian Development Bank [ADB] financing) will increase the annual financial needs that need to be reflected in the federal budget. The government has agreed to address this issue in a timely manner.

5. The government has to date demonstrated strong political commitment to the BISP.<sup>1</sup> However, substantial investment in social protection in the short term can be difficult in countries such as Pakistan where balance of payment difficulties and exchange rate policy choices constrain the size of fiscal deficits and impose fiscal consolidation urgencies. In addition, for political reasons, rebalancing government expenditure priorities to free up resources from alternative budget heads is not always easy. However, support for the BISP in Pakistan is significant. This is a key part of the ongoing policy dialogue between the government, the International Monetary Fund, and other development partners (ADB, DFID and World Bank).<sup>2</sup>

6. **Financial management risk.** The ADB financial management assessment rates the financial management risk as substantial and identifies a number of weaknesses in BISP's

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<sup>1</sup> Budget commitments to the BISP have nearly doubled from \$425 million in 2008 to \$730 million in fiscal year 2012/13. The government finances 89% from its own revenues and the World Bank and DFID contribute 11%.

<sup>2</sup> See Financial Analysis (linked document 6).

financial management system. The following concerns were found to be of direct relevance for the project: (i) weak processes for reconciliation with the Pakistan Post and no regular reconciliation of beneficiary payments made through the banking system, (ii) absence of annual financial statements for the program, (iii) absence of audited financial statements, (iv) weak institutional capacity (including weak financial reporting and internal audit), and (v) delays in releases from the federal government. An additional risk is the outstanding issues arising from the audit of the project financial statements of the Accelerating Economic Transformation Program Subprogram 2 (AETP SP2).<sup>3</sup> Given the concerns about financial management and reporting, the corruption risk also is rated substantial.

7. Progress in addressing financial management and fiduciary risks is a very important pillar in ADB support.<sup>4</sup> During project preparation, ADB prepared a financial management assessment of the BISP,<sup>5</sup> which benefited significantly from extensive consultations with the DFID and World Bank financial management teams. In May 2012, DFID had a fiduciary risk assessment prepared on the BISP,<sup>6</sup> and in December 2012 the World Bank had a performance audit completed on the BISP.<sup>7</sup>

8. In consultation with DFID and the World Bank, gaps were identified in the BISP financial management systems that need to be addressed. ADB's financial management assessment lists risk mitigation actions to be implemented before and during project implementation. Ongoing ADB and World Bank technical assistance is helping to resolve the reconciliation-related issues. The project will provide technical support to strengthen financial management and internal audit. Loan effectiveness conditions require the resolution of two key fiduciary risks: (i) the preparation of annual financial statements, and (ii) the audit of the BISP financial statements. The resolution of the audit finding under the AETP SP2 is a covenant with a specified timeframe, to be achieved by 30 September 2016.

9. **Project risk.** Two types of vulnerabilities exist for the project: macro risks and project risks common to cash transfer programs. Macro or country risks identified are (i) maintenance of political and financial commitment to social protection reform, (ii) the government's uncertain revenue position, and (iii) weaknesses in the supply side of health and vocational education provision. Project risks common to cash transfer programs include (i) targeting and selection risks; (ii) payment and transfer risks given the high volume of funds; and (iii) implementation capacity risks typical for projects with multiple national and subnational government stakeholders, and numerous project locations in remote and inaccessible areas.

10. The project will support the improvement of the health insurance program and the skills development program in a phased manner. The project includes technical support to improve the design of the health insurance program, awareness raising and cash payment for transport to increase utilization, and development of a web-based information technology platform to allow standardization of the program. The project design includes measures to improve the impact of skills training through market-based analysis, standardization of curriculum, and variation of delivery structure.

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<sup>3</sup> The audit opinion states that "PRs2,049.703 million was paid to 683,235 ineligible beneficiaries who did not possess a computerized national identity card (CNIC) or a valid CNIC."

<sup>4</sup> ADB. 2009. *Country Partnership Strategy: Pakistan, 2009–2013*. Manila.

<sup>5</sup> ADB. 2013. *Report and Recommendation of the President: Proposed Loan to the Islamic Republic of Pakistan for the Social Protection Development Project*. Manila (Linked Document 4, Project Administration Manual, Appendix 1.)

<sup>6</sup> DFID. 2012. *Fiduciary Risk Assessment of Benazir Income Support Program* (prepared by Ernst & Young, Ford, Rhodes, Sidat, Hyder). Islamabad.

<sup>7</sup> World Bank. 2012. *Performance Audit of Benazir Income Support Program*. Islamabad.

Risks	Assessment without Mitigation	Management Plan or Measures
<b>Institutional</b> Fiscal deficit targets constrain government expenditures	Medium	The government can undertake significant expenditure switching, from untargeted subsidies to targeted cash transfers. Most project resources will be allocated to cash transfers and will enable a temporary easing of the financial burden to the government.
<b>Public Financial Management</b> Specific weaknesses in financial management include (i) lack of regular reconciliation in the cash-transfer program; (ii) delays in releases from the federal government, (iii) weak institutional capacity, and (iv) absence of audited annual financial statements	High	While the financial management risk of the project is substantial, ongoing support from ADB and the World Bank mitigates specific risks, and key issues (e.g., reconciliations) are being addressed. ADB, DFID and the World Bank, jointly prepared a financial management road map. The BISP will establish an efficient and effective controls environment, with less dependency on development partner-funded financial management consultants. The BISP will also introduce modern tools (information technology) and practices for budget preparation, cash forecasting, and financial reporting. ADB will provide significant consultancy support to help install new systems and ensure BISP staff can effectively operate, use, and audit their use.
<b>Procurement</b> Many key project will be contracted out; the project will recruit 13 firms	Medium	The general environment for procurement in the BISP is satisfactory, and to a large extent harmonized with internationally accepted practices and procedures. The BISP procurement unit is now familiar with World Bank guidelines for the use of consultants, which are similar to ADB guidelines. Given the large volume of firms to be hired, the project will recruit a procurement specialist in the project management unit to ensure due diligence, verification, and critical review of financial information.
<b>Corruption</b> Potential opportunities for corruption in the selection of service providers and new staff. Leading to poor delivery of required services	High	Effective monitoring and evaluation systems are designed to ensure transparency of the programs supported under the project. An external monitoring and evaluation firm will be engaged under the skills development program to monitor compliance with guidelines and contract specifications. Regular audit will be undertaken.  The BISP has engaged Transparency International as an autonomous monitor of international standards and compliance with rules of the Government of Pakistan regarding BISP procurement.
<b>Overall</b>	<b>High</b>	

ADB = Asian Development Bank, BISP = Benazir Income Support Program, DFID = Department for International Development of the United Kingdom.

Source: Asian Development Bank.