

RISK ASSESSMENT AND RISK MANAGEMENT PLAN (SUMMARY)

1. This plan summarizes the major risks and risk mitigation measures for the South Asia Subregional Economic Cooperation (SASEC) Trade Facilitation Program per country. In accordance with the Second Governance and Anticorruption Action Plan (GACAP II),¹ this assessment covers public financial management (PFM), procurement, and corruption risks.

A. Bangladesh

2. This governance risk assessment draws on the assessment carried out for the Bangladesh country partnership strategy, 2011–2015 in 2010,² and is updated with the recent developments in the country's governance environment. Table 1 specifies the major risks in each of the three GACAP II areas, their assessed severity, and proposed mitigating measures. It also indicates the reduced severity after mitigation measures are put in place.

Table 1: Bangladesh Risks and Risk Mitigation Plan

Major Risks	Severity (without mitigation)	Proposed Mitigating Measures	Severity (with mitigation)
a) Public Financial Management			
1. Low institutional capacity in line ministries and agencies	High to medium	(i) Executing and implementing agencies will deploy trained and experienced financial management staff in program implementation units (ii) ADB will coordinate with MOF to support capacity development of executing and implementing agencies	Medium to low
2. Program outputs unsustainable for lack of funds	High to medium	(i) The government to provide adequate resources to support the services developed under the program (ii) Engage the government to maintain budget and human resource provisions for post-project period	Medium to low
3. Accounting and auditing standards below international standards	High to medium	(i) Executing agencies will use experienced accounting staff for proper recording of funds (ii) ADB to follow up with PMU and OAG to ensure that audit observations are addressed	Medium to low
b) Procurement			
1. Regulatory changes inconsistent with good procurement	High	(i) Work with development partners to engage with the government to discuss the issues and amend reforms (ii) Assist the government to streamline number and nature of regulations to ensure rigorous procurement	Medium
2. Coercive and collusive practices in bidding process	High	(i) The government will enforce punitive measures against erring bidders and officials (ii) The government will introduce e-procurement	Medium
3. Absence of timely monitoring and reporting	Medium to high	(i) The program will specify time frame and structure of reporting (ii) Executing and implementing agencies to submit quarterly monitoring reports	Medium to low
c) Corruption			
1. Ineffective accountability institutions	High to medium	Development partners will continuously extend capacity development assistance to various accountability institutions	Medium to high
2. Noncompliance with financial and procurement rules	High to medium	(i) Supporting technical assistance will help executing and implementing agencies ensure compliance with financial rules (ii) PMU to continuously monitor and conduct review of program expenditures, if necessary	Medium to low

¹ ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

² ADB. 2010. *Bangladesh: Country Partnership Strategy, 2011–2015*. Manila.

Major Risks	Severity (without mitigation)	Proposed Mitigating Measures	Severity (with mitigation)
3. Weak internal controls in line agencies	High to medium	(i) The government will establish reporting mechanism on accountability for fund usage (ii) Independent auditing of the program	Medium
OVERALL	High		Medium

ADB = Asian Development Bank, MOF = Ministry of Finance, OAG = Office of the Auditor General, PMU = program management unit.

Source: Asian Development Bank.

B. Bhutan

3. As above, this assessment covers the major risks in the three GACAP II areas. Table 2 specifies the major risks, their assessed severity, and proposed mitigating measures. It also indicates the reduced severity after mitigation measures are put in place.

Table 2: Bhutan Risks and Risk Mitigation Plan

Major Risks	Severity (without mitigation)	Proposed Mitigating Measures Actions	Severity (with mitigation)
a) Public Financial Management			
1. Lack of skills in PFM	Medium	Support institutions such as RIM to provide training	Medium
2. Limited internal control and audit capability	Medium	(i) By mid-2013, RAA will have launched new Audit Resource Management System with ADB TA (ii) ADB in 4Q 2012 is providing training on internal audits through another TA	Medium to low
3. Lack of staff skilled in PFM in local bodies	Medium	(i) Work with the government and RIM to extend training to local officials (ii) Engage relevant agencies to help design practical training modules	Medium
b) Procurement			
1. Lack of skills at all levels and in sectors	Medium	Work with RIM and relevant agencies on capacity building plans	Medium
2. Collusion between engineers and contractors	Medium	(i) ADB is providing training to ACC on detection, investigation, and prosecution (ii) ADB is also providing TA to RAA on external audits	Low
3. Inadequate monitoring and quality assurance	Medium	(i) Provide training to agencies on quality assurance (ii) Work with other development partners to mainstream monitoring mechanisms in projects and programs	Medium to low
c) Corruption			
1. Inadequate capacity at ACC	Medium	(i) ADB is providing training to ACC on detection, investigation, and prosecution (ii) ADB is providing TA to ACC on institutional strengthening	Low
2. Weak internal control and audit capacity	Medium	(i) ADB is providing TA to RAA to strengthen its external audit capacity (ii) ADB is providing TA to MOF on internal audits	Low
3. Low capacity and awareness of staff and the public	Medium	ADB is providing TA to boost public awareness and acceptance of anti-corruption measures	Low
OVERALL	Medium		Low

ADB = Asian Development Bank, ACC = Anti-Corruption Commission, MOF = Ministry of Finance, PFM = public financial management, RAA = Royal Audit Authority, RIM = Royal Institute of Management, TA = technical assistance.

Source: Asian Development Bank.

C. Nepal

4. The following assessment draws on the governance risk assessment carried out for the Nepal country partnership strategy, 2010–2012 in 2009,³ and the ongoing country governance risk assessment. Table 3 specifies the major risks in the three GACAP II areas, their assessed severity, and proposed mitigating measures. It also indicates the reduced severity after mitigation measures are put in place.

Table 3: Nepal Risks and Risk Mitigation Plan

Major Risks	Severity (without mitigation)	Proposed Mitigating Measures	(with mitigation)
a) Public Financial Management			
1. Weak record keeping, accounting, reporting, and internal controls.	High to medium	(i) The implementing agencies will maintain separate records to identify goods and services financed by ADB (ii) PMU will ensure that audit observations are acknowledged and that remedial actions are taken	Medium to low
2. Limited capacity for financial management in implementing agencies	High to medium	FCGO to place experienced and trained accountants in PMU, enhance internal audit functions, and help reduce turnover of deputed accountants	Medium to low
3. Late approval and release of the budget	Medium to low	(i) Timely release of budget by MOF and FCGO, and release of one-third of program budget (even if the budget is not passed on time) (ii) FCGO not to release budget for capital expenses during last month of fiscal year to avoid hasty spending	Low
b) Procurement			
1. Weak institutional capacity at all levels	High	Train PMU staff in procurement-related issues, at least once per year	Medium
2. Weaknesses in procurement controls	High	(i) Prepare yearly procurement plan at the implementing agencies and impose punitive measures, if necessary, for noncompliance (ii) Regular review of procurement progress	Medium
3. Lack of contractor performance oversight, M&E by implementing agencies	High to medium	(i) Random and independent spot checks of the procurement process by PMU (ii) NVC to conduct technical audits for 3–4 random subprojects	Medium to low
c) Corruption			
1. Financial irregularities and misuse of funds	High	PMU to follow up and investigate outstanding audit observations and take relevant action.	High to medium
2. Noncompliance with set rules and laws	High to medium	(i) Financial management expert in PMU to review all financial reports stringently (ii) PMU to carry out post review of program expenditures, if necessary	Medium to low
d) Other Risks			
1. Instabilities in the coalition government may limit its life and thus stall reforms	High to medium	(i) Continuous engagement by ADB staff with the government (ii) ADB to encourage leadership of MOF to champion reforms, as it has done in the past	Medium to low
2. Frequent turnover in staff, and administrative indiscipline	Medium to low	(i) Engage with the government to stress the importance of continuity of staff (ii) Adopt pre-emptive strategy to obviate potential bottlenecks	Low to medium
OVERALL	High		Medium

ADB = Asian Development Bank, FCGO = Financial Comptroller General's Office, M&E = monitoring and evaluation, MOF = Ministry of Finance; NVC = National Vigilance Center; PMU = program management unit.
Source: Asian Development Bank.

³ ADB. 2009. *Nepal: Country Partnership Strategy 2010–2012*. Manila.