

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
<b>Procurement Risks</b>		
<p>Delayed selection of project preparation consultant firms due to (i) novelty of the panel approach for the MPWH, and (ii) first-time use of the SPSE for consultant selection under an ADB-funded project</p>	<p>High</p>	<ul style="list-style-type: none"> <li>• Advance capacity building of MPWH staff and tender committees on (i) selection of the panels of firms, and (ii) selection of firms from the panels. This advance capacity building will be delivered through the Technical Assistance Cluster Management Facility (Subproject 1) under the Cluster Technical Assistance on Sustainable Infrastructure Assistance Program and the Technical Assistance on Aligning Asian Development Bank and Country Systems for Improved Project Performance. <sup>a</sup></li> <li>• During implementation, capacity building and advisory assistance to each directorate general of the MPWH will be provided through the PMC firms that will be engaged under the ESP to support the DGH, DGHS, and DGWR of the MPWH with ESP implementation.</li> <li>• Procurement quality assurance and strengthening support will be also provided through one international and one national project implementation consultant provided on a full-time basis to the OSG of the MPWH through Technical Assistance Cluster Management Facility (Subproject 1) (footnote a).</li> <li>• The SPSE will be adjusted to accommodate the structure of the panel approach, i.e., selection and retirement of firms for 3 years, and selection of firms from the panels for call-down assignments. The SPSE adjustment work has been done based on an assessment of the SPSE by an ADB-recruited e-procurement consultant under close guidance and in coordination with LKPP and the MPWH's Center for Data and Information Technology.</li> <li>• During ESP implementation, all issues related to the SPSE (including related to newer versions of the SPSE) will be addressed with support from the PMC firms that will be engaged to support the DGH, DGHS, and DGWR with ESP implementation.</li> <li>• The ADB project team will closely coordinate with LKPP on SPSE upgrades to help provide a seamless transition without interruptions to the consultant selection process.</li> <li>• Consultations and awareness raising with the country's consultant community on the ESP's consultant selection mechanism was conducted by the ADB team during ESP preparation. This will continue during implementation by regular interaction and consultation meetings at the empanelment and call-down stages. The PMCs will facilitate this interaction with the country's consulting industry and empanelled firms.</li> <li>• In-country support from the ADB project team leader and senior procurement officer located within the Indonesia Resident Mission.</li> <li>• Close coordination with the procurement specialist of ADB's Operations Services and Financial Management Department, who will be a project implementation team member and will join review missions.</li> </ul>
<p>Insufficient experience of the PMOs and PIUs with administration of large consultant (lump-sum) contracts</p>	<p>Low</p>	<ul style="list-style-type: none"> <li>• Capacity building and advisory assistance of PMO and PIU staff in contract administration. The PMC firms that will be engaged under the ESP will provide this assistance to their concerned directorate generals.</li> <li>• Contract administration support will be also provided through one international and one national project implementation consultant provided to the OSG of the MPWH through Technical Assistance Cluster Management Facility (Subproject 1) (footnote a).</li> <li>• Close administration support from the ADB project team leader,</li> </ul>

		senior procurement officer, and PAU head within the Indonesia Resident Mission
Limited interest of national and international consulting firms in the ESP due to apprehension of working under government contracts	Low	<ul style="list-style-type: none"> <li>• Consultations with the country's consultant community and improvement of the ESP's consultant selection mechanism during implementation. The PMC firms will facilitate interaction with the country's consulting industry in general and with the empanelled firms in particular.</li> <li>• Application of ADB's Guidelines on the Use of Consultants (2013, as amended from time to time), a clear statement in the terms of reference on the review role of ADB in the procurement process and direct payment by ADB to the consultants, and use of sizable (lump-sum) contracts with clear timelines for government action are expected to address the apprehensions of the consultant firms.</li> </ul>
<b>Public Financial Management Risks</b>		
Delayed payment to consulting firms due to insufficient experience of the PMO and PIUs with financial management arrangements under ADB-funded projects, including the direct payment method	Low	<ul style="list-style-type: none"> <li>• Capacity building and advisory assistance of PMO and PIU staff in the application of ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time). The PMC firms that will be engaged under the ESP to assist their concerned directorates general will engage full-time financial management specialists to help the PMO and PIUs comply with all financial management requirements and process all payments to consultants in a timely manner.</li> <li>• Contract administration support, including on financial management, will be also provided through one international and one national project implementation consultant provided to the OSG through Technical Assistance Cluster Management Facility (Subproject 1) (footnote a).</li> <li>• Close administration support from the project team leader, senior finance officer, and PAU head within the Indonesia Resident Mission.</li> </ul>
Weak internal controls and internal audit capabilities and reconciliations	Low	<ul style="list-style-type: none"> <li>• The PMCs will facilitate coordination with the Inspectorate General of the MPWH to address internal control issues specific to the ESP.</li> <li>• The financial management consultants of the PMC firms will help the DGH, DGHS, and DGWR of the MPWH improve project staff capacity in internal control and audit.</li> </ul>
Inadequate segregation of duties in bank reconciliations	Low	<ul style="list-style-type: none"> <li>• Clear organizational structure of the PMOs will be established in the PAM and the MPWH decrees on PMO and PIU establishment.</li> <li>• Proper division of duties will be reflected in the terms of reference of financial management consultants of the PMCs.</li> </ul>
<b>Corruption Risks</b>		
Low value for money due to invitation of limited number of firms to call-down assignments and/or consultant contract awards to preferred consultant firms	Low	<ul style="list-style-type: none"> <li>• Clear and transparent principles and procedures for defining the number of firms to which RFPs are sent at the call-down stage are provided in the PAM.</li> <li>• RFPs and the list of firms at the call-down stage will be on prior review (no objection basis) by ADB</li> <li>• SPSE will be used for the issuance of RFPs and submission of proposals by consultants, limiting discretionary decisions at the call-down stage. ADB will have special access to SPSE to review the process at all stages and all stakeholders' actions.</li> <li>• The international and national project implementation consultants provided to the OSG of the MPWH through Technical Assistance Cluster Management Facility (Subproject 1) (footnote a) will submit operation memoranda to ADB at each milestone of each call-down selection. These consultants will be granted full access to the consultant selection process and documents.</li> <li>• Close administration from the project team leader, senior procurement officer, and PAU head located within the Indonesia Resident Mission.</li> </ul>

Insufficient accountability for misuse of resources or noncompliance with agreed procurement procedures	Low	<ul style="list-style-type: none"> <li>Enforce application of the MPWH's code of conduct and procurement ethics by tender committees, PMOs, and PIUs of the DGH, DGHS, and DGWR of the MPWH.</li> <li>Coordination with the MPWH Gratification Control Unit set up in 2016 to implement anticorruption measures (MPWH Regulation no. 14/PRT/M/2016).</li> <li>Conduct annual audit of the ESP, and closely monitor follow-up actions during ADB's supervision of the ESP.</li> </ul>
<b>Country Risks</b>		
Delayed implementation of viable ESP-prepared projects due to slow action by local governments (e.g., location determination, land acquisition, environmental clearance), reduction of MPWH's capital budget, or natural calamities or external shocks that would result in divergence of government budget to address their impact	High	<ul style="list-style-type: none"> <li>Project preparation consultants will help PIUs comply with documentation requirements of local governments and closely monitor timelines of actions by local governments. Additionally, facilitation and de-bottlenecking support will be also available through the PMC firms.</li> <li>PMOs, with support of the PMC firms, will help align the project preparation schedules with the budgeting process and regularly report to the ESP steering committee by the Project Coordination Office at the OSG of the MPWH.</li> <li>The consultants provided to the OSG of the MPWH through Technical Assistance Cluster Management Facility (Subproject 1) (footnote a) will help the OSG and ADB monitor status of project preparation of every ESP-supported project, and support timely preparation of required budget request documents (for budget-funded projects) or inclusion in the list of foreign loan funded projects of the National Development Planning Agency.</li> </ul>
<b>Other Risks</b>		
Change in MPWH structure and inadequate coordination between the PMOs, PIUs, and project units at local offices of the MPWH	Low	<ul style="list-style-type: none"> <li>Establishment of the ESP's steering committee comprising director general-level staff of the OSG and directorates general. This committee will support (i) regular coordination to quickly address emerging issues, and (ii) proper interim and transition arrangements in case of changes to the MPWH organization structure.</li> <li>The PMCs and the consultants provided to the OSG through Technical Assistance Cluster Management Facility (Subproject 1) (footnote a) will facilitate coordination and interaction between the PMO, PIUs, and project units at local offices of the MPWH.</li> </ul>
Resistance to change due to vested interests or lack of capacity	Low	<ul style="list-style-type: none"> <li>Strong commitment to the ESP by top leadership at the MPWH and the National Development Planning Agency.</li> <li>ADB performs close monitoring during ESP implementation and communicates issues related to vested interests to the ESP steering committee and MPWH leadership.</li> <li>Comprehensive capacity building through PMC firms and technical assistance consultants to MPWH units involved in the ESP.</li> </ul>
<b>Overall</b>	<b>Medium</b>	

ADB = Asian Development Bank, DGH = Directorate General of Highways, DGHS = Directorate General of Human Settlements, DGWR = Directorate General of Water Resources, ESP = Accelerating Infrastructure Delivery through Better Engineering Services Project, LKPP = Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah (National Public Procurement Agency), MPWH = Ministry of Public Works and Housing, OSG = Office of the Secretary General, PAM = project administration manual, PAU = project administration unit, PMC = project management consultant, PMO = project management office, PIU = project implementation unit, RFP = request for proposal, SPSE = Sistem Pengadaan Secara Elektronik (government e-procurement platform).

<sup>a</sup> ADB. 2013. *Technical Assistance to the Republic of Indonesia for Aligning Asian Development Bank and Country Systems for Improved Project Performance*. Manila; ADB. 2013. *Sustainable Infrastructure Assistance Program - Technical Assistance Cluster Management Facility (Subproject 1)*. Manila.

Source: ADB staff.