

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures or Risk Management Plan	Responsibility
Country Risk			
<p>Macroeconomic risks PNG's shortage of foreign currency reserves, limited access to international credit markets, and heavy reliance on commodity prices suggest a significant macroeconomic country risk.</p>	High	Continuous monitoring by ADB of macroeconomic conditions; assessment of impacts of external shocks, particularly with respect to commodity prices; coordination with other development partners; and potentially other forms of assistance	Government
<p>Governance The government has procurement, anticorruption, and financial management frameworks in place, yet capacity and governance issues continue to pose a risk to successful project implementation.</p>	Substantial	Program policy actions strengthen the national financial management and procurement frameworks. Governance risks are also systematically addressed through the risk assessment and management plan under ADB's PNG CPS, 2016–2020, and also through regional capacity development TA: Building Project Implementation Capacity in the Pacific to strengthen the governance capacity of the Government of PNG.	Government
Sector Policies, Institutions, and Governance			
<p>Insufficient financing for subproject health facility maintenance and operations The government, through DOT and DOF, has been unable since 2016 to transfer health function grants for facility operations on time or in full. Gradual improvements in the fiscal situation should increase subnational health funding flows; however, health funding risks remain.</p>	Substantial	The EA has committed to prioritizing and safeguarding resources for the health sector and improving sustainability of financing under the MTFS as part of the policy matrix. Policy actions will also seek to improve the flow of health function grants for facility operations and minor maintenance, while program actions and project activities will contribute to allocative and technical efficiency improvements that will help free up and prioritize resources for operations and maintenance. The EA will send a yearly performance and assessment report for the monitoring of progress on these commitments.	DOT
<p>Fraud and corruption The government has an established system of internal controls and anticorruption mechanisms. However, corruption and collusion in procurement still pose a significant risk.</p>	Substantial	ADB's Anticorruption Policy (1998, as amended to date) was explained in detail, and the provisions on fraud and corruption in the procurement guidelines were highlighted during loan processing. Consultants hired for the PMU will assist DOH and the PHAs with procurement activities and ensure that evaluation	PMU

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		committee members and executives adhere to the required standard of ethics. Government pharmaceutical procurement reforms will be supported under the policy matrix.	
Intersector coordination capacity The EA is new to the modality, and the ability for cross-department management is limited. Learning how to communicate clearly and understanding the roles and responsibilities of each department will be a new task for the EA	Moderate	The EA will be supported by ADB as secretariat to establish a program steering committee and technical working group; these will work across departments at different levels and will provide guidance and support to strengthen cross-department communication and understanding.	DOT
Institutional capacity and governance The IA has considerable experience in implementing ADB-financed health projects. However, both the EA and IA have limited familiarity with sector development programs and the requirements agreed to in the policy matrix.	Moderate	The EA will set up a technical working group to monitor progress toward the policy actions. A program steering committee will be established by the EA to coordinate alignment between policy actions and project investments with senior government membership. The PAM details the implementation processes and governance structures. The project will contract consultants to support achievement of policy actions where necessary and align with other development partner support.	DOT, DOH
Project-Specific Risks			
Counterpart fund availability The government might not be able to provide counterpart funding because negative macroeconomic developments result in lower than expected government revenues and cause budget constraints.	Substantial	Annual loan administration missions by ADB. Quarterly progress reporting by the EA. Additionally, the investment project requires a lower level of counterpart funding than was the case in previous development projects of a similar nature, given the expected impact of lower commodity prices and unfavorable macroeconomic conditions on the government's budget.	DOT
Implementation capacity – IA Construction and maintenance works to national health standards are technically straightforward and the IA has sufficient	Moderate	The project will finance project management and other types of consultants who will advise and provide training on new approaches to the implementation of works.	PMU

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implementation experience, but the investment project may introduce new approaches to maintenance planning and contracting			
Health managers Staff capacity for health governance and management is limited, and frequent staff turnover and weak performance management systems are aggravating the risk.	Moderate	The project will develop an integrated suite of action-learning development programs. A series of evaluations at specific points of implementation and completion will assess the effectiveness of these action-learning programs in achieving sustainable change to the health system. A skills transfer to DOH staff and to a local training institution by the end of the project will also promote sustainability.	
Governance – (i) Public Financial Management			
1. Weak PFM systems and capacity undermine quality and timeliness of accounting, financial reporting, and monitoring, both subnationally in the health sector and across the entire government.	Substantial	The project strengthens PFM in PHAs through a systematic, threefold approach: (i) establishing standard processes through the development of a model PHA manual in line with the amended PFM Act; (ii) building capacity through an integrated suite of training programs, including in-depth courses on budget execution, provided through a combination of classroom teaching and periodic on-the-job support; and (iii) strengthening of PHAs' financial management information systems to establish better financial controls and facilitate PFM compliance. This is complemented by other development partner support aimed at strengthening the financial management of provincial and district administrations and finance offices.	PMU
2. Lack of internal audits of project accounts, and external audit observations not being acted on	Substantial	An internal audit of the trust account should be included in the annual audit plan of the project, and external audit reports and findings should be monitored to ensure that any issues identified are addressed immediately.	PMU
Governance – (ii) Procurement			
1. Insufficient capacity of the IA to manage procurement	Substantial	All project procurement will be done with support of the PMU, which will continuously build capacity in DOH, PHAs, and provincial tender boards. ADB has been and will continue convening training workshops on project management, procurement, and financial issues. An ADB procurement specialist will be based at the PNG Resident Mission during the first quarter.	DOH

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2. Procurement reform with unclear implementation arrangements	Substantial	ADB will engage with DOT and DOF in the early stages of the project to agree on responsibilities and procedures to ensure that project procurement activities do not stall or get delayed during the transition period after proposed new procurement legislation is enacted.	PMU
3. Long contracting time frames	Moderate	A procurement assessment was undertaken in PNG in accordance with the OECD-DAC methodology. In the absence of fundamental streamlining of procurement procedures and practices, contracting delays seem likely to continue.	PMU
4. Weaknesses in procurement controls that threaten probity, transparency, or effectiveness	Moderate	ADB will ensure that the right mechanisms are put in place to remedy weaknesses in procurement controls. IA websites and published notices will provide and disclose (i) updated and detailed information on project implementation; (ii) information on selection of consultants and contractors; (iii) independent verification of the quantity, quality, and cost of works; and (iv) expected service levels under performance-based contracts.	PMU
Governance – (iii) Corruption			
1. Vulnerabilities in construction and operations	Substantial	This risk will be mitigated by (i) international supervision consultants who monitor construction and operational activities; (ii) ADB and other involved donors who will monitor and review construction and operational activities; (iii) contract provisions specifying the right of ADB to audit and examine the records and accounts of all contractors, suppliers, consultants, and other service; (iv) independent external auditing of contracts, project accounts, and financial statements; and (v) forensic audits of suspected corruption cases.	PMU
2. Weaknesses in landowner compensation procedures and practices	Low	ADB will assist DOH in identifying affected landowners in the required manner, which will be the legal basis for compensation payments.	DOH
Overall	Substantial		

ADB = Asian Development Bank, DOH = Department of Health, DOT = Department of Treasury, DOF = Department of Finance, EA = executing agency, IA = implementing agency; MTFS = Medium-Term Fiscal Strategy, OECD = Organisation for Economic Co-operation and Development, OECD-DAC = OECD Development Assistance Committee, PAM = project administration manual; PHA = provincial health authority, PFM = public financial management, PMU = program management unit, PNG = Papua New Guinea.

Source: Asian Development Bank.