

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

1. This risk assessment and risk management plan for the additional financing to the Health System Enhancement Project summarizes the key risks and mitigation measures identified during due diligence in accordance with Asian Development Bank guidelines for implementing the second governance and anticorruption action plan.<sup>1</sup> Project-related risks were identified in the following areas: technical, governance as related to financial management and procurement, and safeguards. Risks are rated *high*, *substantial*, *moderate*, or *low*. The proposed mitigation measures were discussed and agreed with the government and built into the design of the project. The overall risk without mitigation is assessed to be *moderate*. The risks, ratings, mitigation measures, and responsible agencies are summarized in the table.

Risk Description	Rating	Mitigation Measures	Responsibility
<b>1. Technical</b>			
1a. The project hopes to support the shared care cluster reform of health service delivery. There is a likelihood that the reform may be deprioritized by MOH because of the ongoing COVID-19 pandemic, which might lead to the delay of project implementation.	M	Proactively, MOH needs to work on the management reforms that are necessary to carry out the reform related to clusters. Furthermore, the PMU and PIUs, under the guidance of MOH, need to communicate to all stakeholders on the reform related to clustering.	MOH, provincial departments of health services, and RDHSs
1b. Changes in health-seeking behavior which lead to increased utilization of primary and secondary care service, take time to effect beyond the project implementation period because of (i) the unprecedented COVID-19 pandemic and (ii) not being able to initiate the planned behavior change communication campaign during the implementation of ongoing project because of the reallocation of required funds to support the COVID-19 response in 2020.	L	A behavior change communication campaign targeting increased primary and secondary health care utilization will be implemented early in the additional financing. The strategy and format of the campaign will be adjusted to better accommodate the current COVID-19 pandemic.	MOH, HPB, provincial departments of health services, and PMU
<b>2. Governance (Financial Management, Procurement, and Anticorruption)</b>			
2a. <b>Country specific.</b> Overall, the government has adequate PFM systems in place. However, there is scope for improving compliance with the national systems and regulations as well as the financial management capacity at various levels. Also, an ADB report on the PFM systems of Sri Lanka identified risk related to timely availability of project funds.	S	ADB to closely monitor the ongoing PFM reforms and initiatives including the launch of the Integrated Treasury Management Information System.  Budgetary allocations, budget details, and progress of budget utilization were included in original project QPRs. Close monitoring of budgetary allocations and project activities to reduce country-specific risk in the project will also be performed for the additional financing.	MOF and ADB
2b. <b>Entity specific.</b> The involvement of multilayer (ministry and provinces) agencies complicates the overall project implementation process.	M	A high-level national project steering committee chaired by the secretary of MOH was formed for the original project; the same will monitor and oversee the additional financing.	MOH

<sup>1</sup> ADB. 2014. *Revised Staff Guidance for Implementing the Second Governance and Anticorruption Action Plan*. Manila.

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		The provincial project coordination committees chaired by the chief secretaries were formed at the respective province for the original project, and the same will monitor the additional financing.	
2c. <b>Staffing.</b> The extended scale of activities and financing may overstretch the capacity of the MOH PMU.	M	<p>The PMU and PIUs were formed for the original project, fully staffed, and have satisfactory financial management track record in complying with ADB's financial management and disbursement requirements.</p> <p>The capacity of the PMU will be further strengthened. Efficient coordination and flow of information between the different entities involved in project implementation must be ensured.</p> <p>An additional financial management staff member will be hired to support the PMU for the additional financing and RECOVER. Continuous trainings on ADB's financial management and disbursements processes and procedures will be provided.</p>	MOH, PMU
2d. <b>Fund flow.</b> The budget allocation for the additional financing has not been transferred to the MOH. Delays in allocation and release of budget may lead to inadequate project financing and implementation delays.	S	<p>A separate project budget head has been established with timely allocations of funds for the original project. The MOH has established separate advance accounts for loan and grant and the required subaccounts were opened for the original project.</p> <p>The MOF will provide a firm commitment that budget allocation is transferred to MOH by loan effectiveness. The MOF will also provide assurances that counterpart funds will be released in a timely manner. The availability of counterpart financing will be monitored regularly through QPRs.</p>	MOF
2e. <b>Accounting policies and procedures.</b> No separate accounting records for the project and noncompliance with prescribed accounting standards.	L	<p>The MOH currently maintains separate accounting records for the projects and adopts the Sri Lanka Accounting Standards which are consistent with international accounting standards.</p> <p>No mitigation measures are needed as the risk is low.</p>	MOH and PMU
2f. <b>Reporting.</b> Inadequate information in the financial reports may result in untimely detection and resolution of issues.	M	The QPRs for the original project included financial information details and were reported on time to ADB. Likewise, for the additional	MOH and PMU

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		<p>financing, comprehensive financial information will be part of the QPRs supplied in a format agreed with ADB within 45 days after the end of each quarter.</p> <p>The PMU is to prepare the project financial statements within 2 months after the end of the fiscal year to ensure auditors can start the audit process on time.</p>	
<p>2g. <b>Internal audit.</b> Noninclusion of the additional financing in the internal audit plan may result in weaknesses in internal controls not being detected.</p>	M	<p>The MOH currently has an internal audit unit. In addition, as part of the original project design, an internal audit staff member was specifically hired.</p> <p>The internal audit unit shall include the additional financing in the internal audit plan and evaluate the effectiveness of controls and processes for the project. The MOH and implementation agencies shall promptly act on the observations and recommendations of the internal audit unit as included in the internal audit report. All internal audit findings shall also be reported as part of QPRs.</p>	MOH, PMU, and four provincial governments
<p>2h. <b>External audit.</b> Delays in submission of audited project financial statements to ADB.</p>	M	<p>Similar to the original project, the PMU must liaise with the NAO to ensure the proposed project is part of NAO's annual audit plan and that the audit process is commenced in a timely manner. The audit observations are to be resolved in a timely manner. The status of audit observations is to be included in the QPRs.</p>	PMU and NAO
<p>2i. <b>Procurement.</b> Overall procurement delayed because of numerous COVID-19-related ad hoc procurement transactions in the health sector</p> <p>Delayed delivery of medical equipment because of global pandemic</p>	<p>M</p> <p>M</p>	<p>The project will engage with UNOPS and UNICEF to expedite procurement.</p> <p>The project will engage with UNOPS and UNICEF to expedite procurement.</p>	<p>PMU and MOH</p> <p>PMU and MOH</p>

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2j. <b>Anticorruption.</b> Possible integrity issues might be encountered during procurement, distribution, allocation, and administration of contracts during the project implementation.	M	<p>ADB's Anticorruption Policy and whistleblowing mechanisms will be introduced to MOH units, MSD, and PMU staff engaged under the project to ensure that they are equipped with sufficient knowledge and are aware of the policy from the very early stages of project implementation.</p> <p>The project national steering committee provides oversight and supervision for the project, and the NAO will conduct both financial and performance audits of the project on a regular basis.</p> <p>Under its technical assistance, ADB will conduct integrity knowledge management sessions for MOH, MSD, PMU, and other project stakeholders to increase the awareness of and compliance with ADB's Anticorruption Policy.</p>	<p>MOH, MSD, PMU, and ADB</p> <p>MOH, MSD, PMU, and ADB</p>
<b>3. Safeguards</b>			
3a. Civil works shall continue in the ongoing subprojects of the original project. Under the additional financing, nine base hospitals will be improved as apex hospitals, which shall include civil works. It shall also include renovation of selected ambulance stations.	<p>M (for civil works in hospitals)</p> <p>L (for renovation of ambulance stations)</p>	An IEE including an EMP has been developed based on the preliminary information available on the proposed activities. The EARF of the ongoing project has been updated to include information related to the additional financing. The EARF shall guide the PMU in screening and categorizing each subproject once detail designs are available. The IEE and EMP shall form part of the contract documents.	PMU and MOH
3b. All civil works under the ongoing project as well as under the additional financing shall be carried out within the hospital lands owned by the MOH. All ambulance stations identified for renovation are also located within government lands. Acquisition of private land leading to any involuntary resettlement impacts and impacts on indigenous peoples are not anticipated.	L	A screening checklist for involuntary resettlement impacts has been included in the updated EARF. Once the detail designs are completed in each subproject, the PMU shall undertake a screening to reconfirm the social safeguard categorization.	PMU and MOH

ADB = Asian Development Bank, APVAX = Asia Pacific Vaccine Access Facility, COVID-19 = coronavirus disease, EARF = environmental assessment and review framework, EMP = environmental management plans, H = high, HPB = health promotion bureau, IEE = initial environmental examination, L = low, M = moderate, MOF = Ministry of Finance, MOH = Ministry of Health, MSD = medical supply division, NAO = National Audit Office, PFM = public financial management, PFS = project financial statement, PIU = project implementation unit, PMU = project management unit, QPR = quarterly progress report, RDHS = regional director of health services, RECOVER = Sri Lanka: Responsive COVID-19 Vaccines for Recovery Project under the Asia Pacific Vaccine Access Facility, S = substantial, UNICEF = United Nations Children's Fund, UNOPS = United Nations Office for Project Services.

Sources: Financial Management Assessment, Procurement Capability Assessment, Environmental Assessment and Review Framework (accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President).