

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

1. This risk assessment and risk management plan for the Sindh Secondary Education Improvement Project summarizes the risks and key mitigation measures identified during project due diligence. The project was categorized *low risk* during concept development, given that the loan amount is less than \$200 million and none of the safeguards is category A. While the executing agency does not have recent experience in implementing Asian Development Bank (ADB) projects, it has implemented previous ADB projects and has extensive experience in implementing education sector projects from other development partners such as the European Union, the United States Agency for International Development, and the World Bank.

2. **Public financial management.** Several assessments have been conducted of government project implementation capacity, and in particular of financial management and fiduciary risks: (i) ADB undertook a governance risk assessment during the preparation of ADB's country partnership strategy for Pakistan, 2015–2019;<sup>1</sup> (ii) the Government of Pakistan conducted a public expenditure and financial accountability-based public financial management (PFM) assessment in 2012;<sup>2</sup> and (iii) the Government of Sindh undertook a public expenditure and financial accountability-based PFM assessment in 2013.<sup>3</sup> Generally, Pakistan has an adequate legal framework for PFM and well-functioning federal and provincial budget processes. However, the assessments highlight weaknesses in the PFM system in Pakistan and Sindh Province. These relate to budget credibility, tax administration and cash flow management, internal audit, and the capacity of government entities. The Economic Reforms Unit of the Finance Department of the Government of Sindh is implementing a PFM reform strategy with World Bank support. This was operationalized through the government's PFM Reform Action Plan, prepared with the support of the European Union, which covers fiscal year (FY) 2016–FY2025.<sup>4</sup>

3. **Procurement.** Pakistan has separate regulatory frameworks for federal and provincial procurement agencies. The federal government initiated procurement reforms through the establishment of a public procurement regulatory authority (PPRA) in 2002. This was followed by the notification of public procurement rules in 2004 and procurement of consultancy services regulations in 2010. These rules and regulations are largely based on international best practices. All federal ministries, public sector enterprises, and semiautonomous bodies must follow these rules, except where specifically exempted. Public procurement rules allow the procurement agencies to follow development partners' procurement guidelines where the government has signed a loan agreement. All four provinces have promulgated public procurement laws and established PPRA, generally by adopting federal rules with minor differences. The Sindh PPRA has developed its own standard bidding documents for civil works and request proposals for the selection of consultants, as well as standard bidding documents and rules for public–private partnership procurement. Despite progress, weaknesses remain: procurement human resources and procurement information are lacking, monitoring of procurement processes and enforcement of anticorruption measures are weak, and internal controls are inadequate.

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<sup>1</sup> Asian Development Bank. 2015. *Pakistan, Governance Risk Assessment and Management Plan – Federal and Provincial*. Islamabad.

<sup>2</sup> Government of Pakistan and Development Partners. 2012. *Pakistan Federal Government Public Financial Management and Accountability Assessment*. Report No. 69185-PK. Islamabad.

<sup>3</sup> Government of Sindh and Development Partners. 2013. *Pakistan Sindh Province – Public Financial Management and Accountability Assessment*. Report No. 84169-PK. Karachi.

<sup>4</sup> Government of Sindh, Finance Department. 2015. *Public Financial Management Reform Action Plan*. Karachi.

### Risks and Mitigation Measures

Risk Description	Rating	Mitigation Measures	Responsibility
<b>I. Technical</b>			
Government education strategy changes due to revisions in priorities in the new Sindh Education Sector Plan, 2019–2023.	Low	Government is preparing the new Sindh Education Sector Plan, 2019–2023 and is expected to continue the general direction of reforms.	SELD
The cost of materials increases beyond projections.	Moderate	Realistic cost projections and contingencies are made, and achievement of output targets, especially school construction, is timely.	SELD, PIU
<b>II. Economic and Financial</b>			
Government commitment to prioritizing education spending and to private sector involvement in education weakens.	Low	Highlight benefits of education investment and fact that the recurrent costs arising from the project are small relative to the GOS budget.	Finance Department, SELD
<b>III. Governance</b>			
Weaknesses in revenue mobilization, budget execution, treasury management, and financial reporting expose the PFM system to fiduciary risk.	High	Provide technical support and undertake policy-level initiatives to address systemic PFM issues to strengthen the GOS's PFM system and procedures.	Finance Department, ADB
SELD staff lack experience with ADB's financial management, accounting, and internal control procedures and requirements.	Moderate	Establish a dedicated PIU within the SELD's reforms support unit, with qualified financial management staff. Staff will be trained in ADB procedures and will be provided with ADB's Project Financial Management Manual for Pakistan.	SELD, PIU, ADB
The SELD lacks an internal audit function.	High	SELD completes the process of establishing an internal audit unit covering PIU and project activities.	SELD, ADB
Despite the existence of a well-functioning and regularly updated financial management information system, transactions are also captured in project-specific spreadsheets, which increases processing time and risk of error.	Moderate	ADB and SELD will consider whether dedicated accounting software should be purchased for project implementation.	SELD, ADB

<b>Risk Description</b>	<b>Rating</b>	<b>Mitigation Measures</b>	<b>Responsibility</b>
AGP does not make audit reports of project financial statements public, which is counter to ADB's Access to Information Policy.	Moderate	Project financial statements and the opinion of the auditors on the financial statements (but not the management letter) will be posted on ADB's external website.	AGP, ADB
Weaknesses in procurement system include a lack of a SELD procurement unit with qualified staff, lack of procurement documentation, limited use of electronic procurement systems, lack of contract management system, inadequate record-keeping, and weak enforcement of anticorruption laws.	High	Establish a project procurement unit with qualified staff and appropriate systems within the PIU. Request SPPRA to make SELD a priority agency to address longer-term procurement issues.	SELD, PIU, SPPRA
Inadequate capacity of procurement staff in SELD and frequent transfer of procurement staff cause delays in procurement, reduced efficiency, and lack of credibility of the procurement process.	High	A project start-up consultant and ADB staff will provide training in procurement and consultant recruitment for PIU and SELD staff. Procurement professionals are available locally.	SELD, ADB
Absence of a streamlined procurement process, adequate internal controls, and effective grievance redress mechanisms lead to delays in procurement, as well as time and cost overruns.	High	Establish efficient and functional procurement process as part of project implementation, including strengthened internal controls and grievance redress mechanism.	SELD, PIU
Limited capacity to prepare, revise, and update cost estimates for civil works, including use of outdated construction schedule of rates, results in cost overruns.	Moderate	A project start-up consultant and ADB staff will provide training in procurement of civil works for PIU and SELD staff. Capacity exists locally. Establish a procurement unit within the PIU and engage qualified staff.	SELD, PIU
<b>IV. Poverty, Social, and Gender</b>			
Cultural barriers and lack of formal job opportunities limit girls' interest in completing secondary school.	Low	Community mobilization will be used to influence families' decisions regarding the education of girls, and improved gender-sensitive facilities will help to overcome parents' apprehension about girls' education.	PIU
<b>V. Safeguards</b>			
Overall	Moderate to Substantial	No risks were identified.	

ADB = Asian Development Bank, AGP = Auditor General of Pakistan, GOS = Government of Sindh, PFM = public financial management, PIU = project implementation unit, SPPRA = Sindh Public Procurement Regulatory Authority.

Source: Asian Development Bank.