

RISK ASSESSMENT AND RISK MANAGEMENT PLAN (SUMMARY)¹

1. On 31 July 2006, the Asian Development Bank (ADB) approved its second governance and anticorruption action plan (GACAP II), which aims to improve ADB's performance in implementing governance and anticorruption policies.² GACAP II requires the preparation of governance risk assessment and management plans as an integral part of country partnership strategies, programs, and projects. These plans focus on specific thematic issues—public financial management, procurement, and combating corruption—at the country level, in priority sectors where ADB is active, and for programs and projects.

2. This summary provides an overview assessment of the main governance-related risks, with emphasis on the GACAP II themes of public financial management, procurement, and combating corruption. In addition, governance risk assessment and management plans were prepared for ADB's two priority sectors in Papua New Guinea—transport and energy—in May 2010.³

Major Risks	ADB Actions	Indicators
Public Financial Management		
<p>1. Weak country-level public financial management arrangements, particularly regarding budget execution</p>	<p>ADB has been working together with AusAID and the World Bank, to develop strategies for enhancement of the Governments fiscal practices. Development partners will be targeting public financial management support for the action areas identified in the framework for fiscal enhancement. During 2010–2012 ADB will support stronger oversight of statutory authorities, better project evaluation and prioritization, and enhanced monitoring of sub-national service delivery.</p> <p>The ADB Charter requires ADB to ensure that the proceeds of any loan made, guaranteed or participated in by ADB are “used only for the purposes for which the loan was approved with due attention to consideration of economy and efficiency.”^a As PNG is a high-risk environment, ADB is not able to fully use country systems, but will continue to work to strengthen these systems to acceptable levels through policy dialogue and interventions such as those indicated above.</p> <p>ADB will ensure project implementation units engage accounting support to achieve, among other things, timely and rigorous reconciliations, orderly record keeping, and strict adherence to financial management policies and internal controls; and to ensure an orderly and timely year-end process for the preparation and audit of annual project accounts. Disbursement arrangements will be carefully considered. Direct payment procedures will predominate; imprest accounts will be used only where necessary, and the reimbursement procedure for eligible expenditures will apply with full supporting documentation</p>	<p>TA 7427-PNG: Supporting Public Financial Management implemented during 2010–2012</p> <p>Project design and implementation ensures project implementation units follow sound financial management practice</p> <p>Disbursement arrangements designed to ensure risks are managed</p>

¹ This summary is based on ADB. 2010. *Government of Papua New Guinea. Governance Risk Assessment and Management Plan*. Manila. Available on request.

² ADB. 2006. *Second Governance and Anticorruption Action Plan*. Manila.

³ ADB. 2010. *Papua New Guinea: Sector Level Risk Assessment and Risk Management Plan to Assess Public Financial Management, Procurement and Corruption Risks in the Transport Sector and the Energy Sector*. Consultant's report. Manila. Document is listed in Appendix 2 of the Papua New Guinea country partnership strategy, 2011–2015.

Major Risks	ADB Actions	Indicators
2. Shortage of skills and capacity in general management, financial management, and financial analysis	TA 7427-PNG: Supporting Public Financial Management will support the Treasury Department and the Department of National Planning and Monitoring in improving skills and capacity in financial management and financial analysis.	TA 7427-PNG: Supporting Public Financial Management implemented during 2010–2012
3. Weak capacity and impact of accountability oversight institutions	At the regional level, ADB is working with AusAID, the Pacific Islands Forum Secretariat, and Pacific Auditors-General, including the PNG Auditor-General, to implement the Pacific Regional Audit Initiative to strengthen the capacity of audit offices in the Pacific.	TA 6499-REG: Strengthening Governance and Accountability in Pacific Island Countries (Phase 2) implemented
Procurement		
1. Capacity of Central Supply and Tenders Board to manage procurement	TA 7427-PNG: Supporting Public Financial Management includes support to the Central Supply and Tenders Board. ADB's COSO will continue to convene workshops on procurement (including workshops in PNG).	TA 7427-PNG: Supporting Public Financial Management implemented during 2010–2012
2. Long procurement time frames	A procurement assessment is being undertaken in PNG in accordance with the methodology of the Development Assistance Committee of the Organisation for Economic Co-operation and Development. TA 7427-PNG: Supporting Public Financial Management provides consulting support to assist with the implementation of the findings from this assessment.	TA 7427-PNG: Supporting Public Financial Management implemented during 2010–2012
3. Weaknesses in procurement controls that threaten probity, transparency, or effectiveness	At the project level, ADB will ensure appropriate mechanisms are put in place to address weaknesses in procurement controls, for example (i) executing agencies' websites will provide and disclose updated and detailed information on project implementation; (ii) timely disclosure of information on selection of consultants and contractors will be disclosed in a timely manner through local newspapers and on the website; (iii) the quantity, quality and cost of works will be independently verified; and (iv) information to the public will be provided through, for instance, publicizing expected service levels from performance-based contracts.	Project design and implementation in accordance with sound procurement practice
Corruption		
1. Weak capacity and impact of accountability oversight institutions	At the regional level, ADB is working with AusAID, the Pacific Islands Forum Secretariat, and Pacific Auditors-General, including the PNG Auditor-General, to implement the Pacific Regional Audit Initiative to strengthen the capacity of audit offices in the Pacific.	TA 6499-REG: Strengthening Governance and Accountability in Pacific Island Countries (Phase 2) implemented
2. Manipulation of processes for personal gain	At the project level, ADB will put in place mechanisms to mitigate the risk of the manipulation of processes for personal gain. Possible actions will include the following: (i) international supervision consultants will monitor construction and operational activities; (ii) ADB and other involved development partners will monitor and review construction and operational activities; (iii) contracts financed from ADB funds will include provisions specifying the right of ADB to audit and examine the records and accounts of all contractors, suppliers, consultants, and other service providers; (iv) contracts, project accounts, and financial statements will be independently audited; and (v) forensic audits will be conducted of suspected corruption cases.	Project design and implementation mitigates the risk of the manipulation of processes for personal gain.

Major Risks	ADB Actions	Indicators
3. Lack of transparency in policy processes and decision making	In the past, ADB has supported the development of medium-term frameworks (such as the medium-term fiscal strategy and the medium-term debt strategy) to ensure that decision making is made within agreed policy parameters. Through policy dialogue, ADB will continue to encourage the use of these frameworks.	Participate in development partner discussions with the Government on the framework for fiscal enhancement

ADB = Asian Development Bank, AusAID = Australian Agency of International Development, COSO = Central Operations Services Office, GACAP = Governance and Anticorruption Action Plan, Government = Government of Papua New Guinea, PNG = Papua New Guinea, REG = Regional, TA = Technical Assistance, World Bank = World Bank Group.

^a ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

Source(s): ADB. 2010. *Government of Papua New Guinea. Governance Risk Assessment and Management Plan*. Manila.