

RISK ASSESSMENT AND RISK MANAGEMENT PLAN¹

1. Overall, country risk of corruption is considered significant. Limited financial management capacity, slow procurement reforms, and weaknesses in the sanctions and redress systems are key issues that require robust systems for corruption prevention and redress.

2. A recent integrity development review² of the Department of Social Welfare and Development (DSWD) showed that DSWD has several control mechanisms in place to minimize corruption risks and that a majority of agency employees are aware of appropriate procedures and relevant laws, and follow good governance practices. Senior management is well regarded by staff as providing strong leadership to build integrity systems. Significant progress has been made in addressing gaps in accounting and auditing. However, the review identifies gaps in control mechanisms, policies, and procedures, which the agency needs to address to improve governance, mitigate risks, and minimize corruption, including improving risk assessment and mitigation measures; and addressing corruption risk management through partnership with anticorruption nongovernment organizations.

3. A project governance and risk assessment undertaken during project preparation indicates two types of vulnerabilities for the proposed Social Protection Support Project: (i) macro risks, and (ii) project risks common to conditional cash transfer programs. Macro or country risks identified are (i) whether political and financial commitment to social protection reform will be maintained; (ii) a deteriorating revenue position of the government, and (iii) weaknesses in the supply side of health and education provision. Project risks include (i) targeting and selection risks, given the large scope of close to 1 million beneficiaries; (ii) payment and transfer risks given the high volume of financial transactions; and (iii) implementation capacity risks typical for projects with multiple national and subnational government participants and numerous project locations in remote and inaccessible areas. Targeting risks include manipulation of the household master list, political interference in beneficiary selection, and errors in selection of beneficiaries. Payment risks include fiduciary issues of misallocation or loss of grant resources through falsification of identification cards or unauthorized withholding of identification cards and cash cards. Capacity risks pertain to insufficient capacity to cope with increased workload and transactions, ineffective procedures and systems for financial monitoring, incapacity or failure to validate identities, ineffective compliance verifications systems, or manipulation of conditionality compliance monitoring.

4. Several measures and mechanisms are in place to counter and mitigate these risks, including the consistently good reputation³ of DSWD as an anticorruption champion; inclusion of the program in the government's medium-term expenditure program; the very small amount of procurement in the project; and inclusion of several strong anticorruption mitigation measures in the project design, including: (i) an interagency governance structure ranging from national to municipal levels to coordinate supply-side and compliance monitoring; (ii) beneficiary targeting

¹ This analysis is in accordance with the Asian Development Bank (ADB) Governance and Anticorruption Action Plan II and draws on a review of available governance risk assessments of ADB and the World Bank, including ADB's country procurement and public financial management risk assessment, the road sector risk assessment, the 2009 Governance and Anticorruption Action Plan for the Social Welfare and Development Reform Program, and the 2009 integrity development review of DSWD (with Australian Agency for International Development financing). Further stakeholder consultations with project implementers and beneficiaries, as well as partner agencies and local officials informed the preparation of the assessment and the management plan.

² Financed by the Australian Agency for International Development and conducted in 2009.

³ DSWD is considered one of the cleanest agencies in the government in surveys conducted by the Social Weather Station and has consistently topped the list of "clean agencies" under the Presidential Commission Against Graft and Corruption.

based on objective, poverty-based criteria that mitigate against intervention and manipulation; (iii) channeling payments directly to beneficiaries; (iv) robust monitoring and audit systems, including rigorous spot checks and civil society oversight and monitoring; and (v) transparency and accountability through a strong focus on public information campaigns and a grievance redress system.

5. DSWD has a well-functioning financial management regime, with sufficient controls and systems for budget execution, monitoring, and accounting. The integrity development review positively assessed the agency's financial controls. In addition, the design features of the project militate against many of the risks. These are included in the risk assessment and risk management plan.

Risk Assessment and Risk Management Plan

Risks	Assessment without Mitigation	Management Plan	Assessment with Mitigation
Country			
Political and financial support for the 4Ps and social protection reform not maintained	medium	Revised medium-term expenditure plan and multiyear financing plan prepared for the program; 5-year commitment given to program beneficiaries; program features in economic agenda and platform of the new President.	medium
Insufficient financing due to small fiscal space	medium	Total program cost only 0.2% of GDP; policy advisory TA will help rationalize and focus social protection programs to minimize wastage and ensure allocative efficiency.	low
Poor quality and inadequate supply of services	medium	Supply assessments undertaken prior to project implementation in all target areas; national to municipal governance structures coordinate supply-side and compliance monitoring; MOU between DSWD and local governments.	low
Program			
Political interference	high	Strong public information campaign and orientation sessions to build support for targeting system; prohibition of collection of fees by LGUs; sanctions for abuse clearly identified; monitoring and spot checks; grievance redress system.	medium
Lack of institutional clarity between agencies	medium	National joint memorandum circular; MOU between DSWD and LGUs; multiagency advisory committees at all levels; partners' handbook describing the roles of all partners; regional focal persons and municipal links oversee the program locally.	low
Delays or corruption in procurement	medium	Minimal packages for procurement; only at central and regional levels; tracked through electronic procurement tracking system; ADB prior review.	low
Low financial management capacity; inadequate audit and accounting policies and procedures	medium	Training and deployment of additional financial management staff and roving bookkeepers; semiannual audits (covenanted); spot checks; separate books of accounts for the project required; capacity building of internal audit service through AusAID TA; submission of quarterly financial reports.	low
Interference in selection of target areas	high	Clear criteria for selection established; project areas selected on the basis of poverty ranking of the national statistics agency; all target areas selected prior to the election period to avoid political interference; need to update small area estimates and ensure objectivity of the selection of pockets of poverty.	medium
Errors or interference in the selection of beneficiary households	medium	Target households selected through objective poverty criteria; proxy means test verified and processed in a central databank that issues a centrally generated list of beneficiaries and payroll; public validation of beneficiaries; grievance redress system; close supervision of surveyors and enumerators; cross-checking and regular updating of databases; monitoring and spot-checks; nondisclosure of proxy means test model variables.	low

Risks	Assessment without Mitigation	Management Plan	Assessment with Mitigation
Errors in compliance verification	high	Simple forms established; significant TA for compliance verification system and MIS; well-staffed national and regional MIS units; increased staffing in high population LGUs; monitoring and spot-checks; project will finance only the education portion of grant until the compliance verification system is operating.	medium
Misappropriation of funds and cash card fraud	medium	Payments channeled directly to beneficiaries; higher staff to beneficiary ratio in highly populated areas to support monitoring and handle complaints; verification procedures prior to issuance of identification and cash cards; spot checks; monitoring of reports of lost or stolen cash cards; support on how to use ATM and discourage use of intermediaries; grievance redress system; semiannual audits.	low
Payment windows geographically inaccessible or result in additional expenditure for target households	medium	Discussions with Land Bank and rural banks will be continuously undertaken to increase number of outlets and ATMs for beneficiary use; collaboration with NGOs and LGUs on transport assistance.	medium
Limited transparency, accountability, and public oversight of the program	medium	Communication policy operating; monitoring and advisory committee at all levels; spot checks by independent parties; grievance redress system; social accountability through parent meetings and community assemblies.	low
Capacity of DSWD insufficient for the scaling up	medium	Additional national and field staff and cluster supervision arrangements supported by the project; integrity check of all new staff; training curriculum for staff and beneficiaries undergoing review for strengthening; dedicated management (including financial management) group established for the project; memorandum of agreement between DSWD and LGUs will be refined to ensure timely and adequate support from municipal staff; capacity development TA to address key gaps.	low
Weak and ineffective grievance redress processes	medium	Additional personnel and TA (including training and information materials) for grievance redress will be provided.	low
Overall risk category	high		medium

4Ps = Pantawid Pamilyang Pilipino Program (Building Bridges for the Filipino Family Program), ADB = Asian Development Bank, ATM = automated teller machine, AusAID = Australian Agency for International Development, DSWD = Department of Social Welfare and Development, GDP = gross domestic product, LGU = local government unit, MIS = management information system, MOU = memorandum of understanding, NGO = nongovernment organization, TA = technical assistance.

Source: Asian Development Bank.