

Governance Risk Assessment in ADB operations (GRA) - Asian Development Bank



Objective and features

1. Objective

GRA aims to improve ADB's performance in the implementation of its governance and anticorruption policies in the sectors and subsectors where ADB is active, and to design and deliver better quality programs and projects.

2. Institutional coverage

National and subnational governments, and sectors (for beneficiary countries).

3. Technical coverage

The focus areas of GRA are as follows:

1. Budgeting – External financing, including program and project financing, and its intended use reported in the developing member country (DMC) government's budget documentation.
2. Treasury operations – External financing disbursed into the main revenue funds of the DMC government and managed through its regular disbursement systems.
3. Accounting and reporting – External financing recorded and accounted for as well as reported using the DMC government's accounting system, in line with its own classification and financial reporting arrangements.
4. Procurement – Externally financed procurement is managed using the DMC government's own procurement procedures, without imposition of additional or special requirements.
5. External audit – External financing is audited by the DMC government's auditing system, without the imposition of additional or special requirements.

4. Application method

Custodian.

Methodology



5. Methodology

GRAs focus on the potential risks to expected development outcomes due to governance weaknesses or other institutional problems. GRAs particularly assess fiduciary risk and corruption risk. Country-level GRAs focus on overview and assessment of country systems. Sector-level GRAs focus on overview and assessment of sector institutions. Preparing GRAs involves the following:

1. Identifying the strengths and weaknesses in the country's PFM system. For an overall country systems profile, ADB determines whether budgeting, treasury operations, accounting, procurement, and external audit are fully used, partially used, or not used.
2. Identifying governance weaknesses based on the shortcomings identified in the PFM systems' functioning. After the risk determination, the risk management plan identifies practical, implementable, and evaluable actions for ADB to mitigate the high risks. Actions are classified as short-, medium-, and long-term measures.
3. After identifying the actions, risks are mitigated by implementing reforms within the agreed timelines.

6. Benchmarking system

The assessed elements are classified whether they are partially used, fully used, or not used. For the risk management plan, the governance risks can be categorized according to the following four-point scale: (1) High – risk likely to occur, and likely to have relatively serious impact if it occurs; (2) Substantial – risk unlikely to occur, but likely to have relatively serious impact if it occurs; (3) Moderate: risk likely to occur, but unlikely to have serious impact if it occurs; and (4) Low – risk unlikely to occur, and unlikely to have serious impact if it occurs.

7. Linkage to PEFA framework

PEFA assessment is one of the key inputs for the GRA, and all the PEFA indicators are referred to at the time of the assessment.

8. Complementarity with PEFA framework

GRA is a fiduciary risk tool that assesses risks and provides a risk mitigation plan. There is no complementarity with the PEFA framework.

Development and use

9. Development and coordination

Before adopting the Governance and Anticorruption Action Plan (GACAP) II in 2006, ADB prepared country governance assessments (CGAs) using a framework that focused on five governance areas - legal and regulatory frameworks, public administration, public financial management, the judicial system, and civil society. The CGAs raised awareness about governance issues, increased opportunities for dialogue, and identified entry points to technical assistance, but was broad in scope, less effective for long-term strategic approaches, and lacked the operational focus needed to mainstream governance in sector operations. The approval of GACAP II in July 2006 brought a new dimension to ADB's operations by introducing a risk-based approach to governance assessment.

During the development of the GRA tool, there were ADB-wide consultations involving ADB regional departments and knowledge departments. ADB used the PEFA assessment framework as a reference guide and coordinated with other development partners during GRA execution. The GRA guidelines were revised in 2014. The revised staff guidance incorporates findings of the GACAP II implementation review completed in 2013, which aimed to strengthen implementation of GACAP II in ADB's country programming and operations. The guidance also responds to the Strategy 2020 Midterm Review, which called for GRAs to be streamlined, their quality enhanced, and their implementation systematically monitored so that governance issues are more firmly anchored in ADB operations, including in sector assessments and road maps.

During the assessment, PEFA, IMF, and OECD assessment reports are referred to. Consultations are made with the institutions that undertook the assessments. After the consultation, ADB works with its developing member country through country partnership strategies to align with previous consultations.

10. Assessment management

The need for GRA has been established as part of ADB's governance operational procedure, based on the decisions of ADB's Board and management. The implementation process of a GRA includes

- desk review of existing studies and other secondary sources of information;
- primary research mainly through consultations with stakeholders and site visits;
- analysis of current and planned governance reforms in the DMC, with an assessment of the extent to which reforms are likely to affect governance risks during the CPS period;
- analysis of the use of country systems;
- conversion of governance weaknesses or problems into potential risks to development effectiveness; and
- preparation of risk mitigation plan (action plan) and mitigation of high risks.

Custodian quality assurance procedures apply. There is an ADB-wide circulation of the GRA. Quality assurance is provided by the ADB staff.

11. Uses by the government and members of the PFM community

The tool is used for ADB's internal purposes to assess governance risks. GACAP II provides an opportunity for ADB and its DMCs to work together to identify intervention points for strengthening country systems, thereby reducing the risks inherent in using country systems. GRA informs country partnership strategies (CPS) and ADB operations in priority sectors.

12. Sequencing with other tools

PEFA assessment is a principal source of information on the performance of a country's PFM system. A full range of PEFA indicators are used to inform the GRA. Also, a "D" rating in any of the PEFA indicators can trigger a risk assessment in that specific area. Other tools such as MAPS (B17) may be consulted. It may therefore be relevant to conduct a GRA after PEFA or MAPS assessments are undertaken in the country.

13. PFM capacity building

ADB, at times in coordination with other development partners, provides mitigation actions to risks highlighted in the GRA through the risk management action plan. This can include PFM capacity-building activities as needed. Regional departments should also earmark resources for implementing the risk mitigation measures identified in GRAs such as technical assistance, in line with overall country programming and operations.

14. Tracking of changes and frequency of assessments

To track the implementation of the reforms provided in the risk management action plan, there is a CPS midterm review that updates the progress of GRA reforms in the country. Previous GRA assessments are also consulted before undertaking a new assessment. GRAs are conducted every five years, across the lifecycle of ADB's CPSs with its DMCs.

15. Resource requirements

Costs are about US\$35,000. GRA can leverage on existing ADB's internal assessments such as country and sector procurement risk assessments (Co8).

The time taken to conduct a GRA is about three months. GRAs can be undertaken by ADB staff or consultants. One international and one local expert is needed to conduct a GRA.

Transparency



16. Access to methodology

GRA is an internal tool, and there is a document - [Staff Guidance for Implementing GACAP II](#) (2014) - that describes the purpose of the framework, discusses the processes for planning and preparing the governance risk assessment and for preparing the risk management plan, and presents the benchmarking system and risk categorization.

17. Access to assessment results

ADB maintains an internal repository of GRAs.