

## **E. RISK ASSESSMENT & MITIGATION**

### ***E.1 The Risk Management Process***

Given the innovativeness of the DFGG project, the multiple IAs involved, and the sensitive topic of governance that it is focusing on, the project carries with it several risks that could adversely affect its implementation and the achievement of its development objectives. Senior Management of each IA and the PCO, therefore, have to remain very cognizant and vigilant about the key risks that they are likely to encounter and devise mechanisms to mitigate these as early as possible.

Given this, risk management is defined as the systematic identification of potential events that prevent or obstruct attainment of an entity objectives and taking measures to minimize the impact of those events. A disciplined approach to risk management, with the involvement of all high level project managers, will enable DFGG project managers to (a) deal effectively with potential future effect that creates uncertainty and (b) respond in a manner that reduces negative outcomes on project implementation.

The risk management process involves the following six steps:

- (i) ***Event identification*** requires that the management considers the risks identified at project preparation and further reviews any other incidents that may affect successful project implementation.
- (ii) ***Risk assessment*** involves reviewing the identified events from the perspectives of likelihood of the event occurring and the impact of the event on achieving project objectives. This process should assist managers to understand those events that may have the most adverse impact on project implementation
- (iii) ***Risk response*** is a process by which the management evaluate and adopt mitigation measures. This should also involve assessment of costs versus benefits of the proposed measures and degree to which the response will reduce impact and/or likelihood of risk events.
- (iv) ***Control activities*** are the policies and procedures in place to ensure that risk mitigation measures agreed are implemented.
- (v) ***Information & communication*** activities ensure that all staff are familiar with risks identified and mitigation measures and plans. This helps in successful implementation of risk responses.
- (vi) ***Monitoring*** helps determine the effectiveness of the processes, technologies and personnel executing risk management. To the extent, monitoring should be in-built to on-going monitoring activities, operational, procurement and financial. Where required, separate evaluations of the risk management process could be carried out to address any special identified problems.

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**E.2 Risk Management Matrix for the Overall Project**

For the DFGG project risks are identified at **two levels**: the sub-component level and at the project level. Therefore a separate risk assessment has been carried out for the overall project, and for each IA for their respective component/subcomponent. These are summarized in a series of ‘risk management matrices’ (see attachment 1 to this sub-section for the template).

Reproduced below is the risk management matrix for the overall project, which summarizes the project level risks identified during project preparation and proposed risk mitigation measures. The risk management matrices for the IAs are given in individual project proposals, which are included in PIM Volume 2.

**Overall Risk Management Matrix for the Project**

Risks	Risk Mitigation Measures	Risk Rating	Implementation Guidelines
<b>To project development objective</b>			
1. Political will to support the project will not be sustained.	By engaging with existing institutions and scaling up their on-going programs the project has ensured that there is a degree of ownership for the program from the start. It has been endorsed by the Prime Minister and the ranking Deputy Prime Minister. It fits Government policies described in the RS and the NSDP. The risk that current political will may waver due to change in champions and/or subversion by public officials who resist enhanced accountability cannot be eliminated. However, the project includes several measures to mitigate this risk: (i) Emphasis on constructive engagement across state and non-state actors, and on partnerships and networks, will generate support and likely pressure for continued implementation of DFGG approaches from multiple sources -- within Government and civil society. (ii) Champions in the Government and civil society (including leadership of the IAs and members of the PCG and GMC) will be encouraged to advocate for DFGG and the benefits it can bring Cambodia. (iii) Special attention will be paid to building the capacity and confidence of mid-level bureaucrats so that they continue to implement DFGG programs, even if there are changes at the top. (iv) Support for the MBPI and PMG systems will provide a salary incentive for government staff to sustain implementation. Additional incentives will be explored through the judicious use of study tours, overseas training and other carefully designed measures. (v) The communication program, which will disseminate results and showcase performance, will provide reputational incentives for the state institutions and actors to stay engaged. (vi) A consistent donor message, generated through the coordination process, will be shared with the Government on the importance of demand-side approaches to governance. (vii) Finally, the project team will continue to carry out the informal political economy assessment that it has undertaken regularly during project preparation to anticipate and address political uncertainties.	S	Vigilant identification of any adverse publicity and counter through communications and dissemination program.  Wide dissemination of good practices among politicians, civil society, donors and GG practitioners. Staff training and capacity building of mid-level staff.
2. Complexity in project	The complexity is inherent in the ambitious development objectives proposed and in the strategy to include both state and	S	Annual Implementation

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<p>design and multiplicity of actors involved will lead to poor management, implementation and coordination.</p>	<p>non-state institutions. Risks are being mitigated by: (i) Selecting existing institutions and ongoing programs with some degree of proven capacity and experience to deliver project activities; (ii) Having them take a leading role in the intense and high-quality project preparation, with support from external consultants and the Bank where needed, to build ownership and understanding. (iii) Promoting learning by and capacity building of the SIs through a PPF Advance which supports pre-implementation activities. (iv) Simplifying the design of individual subcomponent programs to match IA capacities, by dropping activities and/or phasing and sequencing implementation. (v) Simplifying the design of the overall project by dropping entire subcomponents (vi) Allocating significant project funds to institutional strengthening and capacity building. (vii) Preparing time-bound implementation and procurement plans for the first 18 months for each component and subcomponent, with clear benchmarks and responsibilities. (viii) Building in regular monitoring and oversight, through the PCO and PCG and in each component and subcomponent, to ensure that management and progress of IA programs is on track. (ix) Using a flexible and gradual implementation approach that allows progressive adjustments to design based on lessons of implementation. (x) Adopting a modular project structure, so that each IA has independence to move ahead with their programs even if others are falling behind. (xi) Finally, a much greater than normal supervision effort on the part of the Bank is proposed to track progress and advise on adjustments in a timely manner.</p>		<p>Progress workshops to review performance on each component/sub-component and identify risks and propose actions. Focus group discussions and M&amp;E surveys to provide feedback. Mid-term review to evaluate project design and propose actions</p>
<p>3. Project life of four years is too short to achieve desired results.</p>	<p>As all SI subcomponents build on existing programs or activities, so the majority of project-supported activities are ongoing for some time. In the case of Component 2, as many of the grants will be for short-term initiatives, results are expected within the project implementation period. There is also scope for repeater grants. Further, the two-year project preparation process includes an eleven-month period of activities funded through a PPF Advance that gives a head-start to the work that would have been done in the first year of implementation. Taking this into account, the project implementation period can be considered to be effectively about five years. Finally, it is accepted upfront that the project's intended outcomes will be delivered over a longer horizon, and there is a commitment from the Bank to support DFGG approaches as a long-term strategy. It is expected that important lessons can be learned about supporting DFGG during the implementation period of the project that can feed into future initiatives.</p>	<p>M</p>	<p>Ensure project implementation according to plans through control activities and monitoring activities to be undertaken by Project Directors and PCG</p>
<p>4. Partnerships and initiatives supported by the project will not be sustained and will not create the envisaged 'ripple effect' on other agencies and</p>	<p>In Cambodia, a culture of SIs and NSAs working together, and the kinds of innovations being tried in the project are not the norm. The risk of these partnerships breaking down and initiatives being dropped after the project closes are substantial. Risk mitigation measures are as follows: (i) The emphasis on a strong coordination, learning, and communication program that is included in each component (and is the prime objective of Component 3B) is expected to generate strong momentum for continuation of DFGG initiatives beyond the project implementation period. (ii) Component 3 is also expected to showcase the supported IAs and their programs thus "inspiring"</p>	<p>M</p>	<p>Information and communication activities to support addressing identified risks. A local partner research and training organization to assist project</p>

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reformers.	others to replicate DFGG activities. (iii) Component 2 and PECSA explicitly support networking and coalition building of NSAs. (iv) The project design stresses capacity building of SIs and NSAs aimed at longer-term institutional change and partnerships. (v) Finally, the project recognizes, rewards and links ‘good people doing good things’ on DFGG in Cambodia, who would be expected to keep these activities and partnerships going after the project.		learning and dissemination.
<b>To component results</b>			
1. Capacity of state institutions is too weak to deliver on planned programs.	Since most of the IAs selected in the project are building on their existing programs, there is already in place some degree of proven capacity and experience to deliver on the project activities. Key challenges lie however in scaling up programs. In addition, except the MOI, the other IAs have not implemented a Bank-financed project before. Risk mitigation measures are as follows: (i) A strong TA and capacity building program has been built into the project design. (ii) The pre-implementation period is being used to help prepare and train the IAs, and put in place systems, aiming to ensure a smooth and rapid transition to implementation after project effectiveness. (iii) During implementation, Annual Work Plans, with clear benchmarks, will be prepared, and a heavy investment will be made in M&E and learning lessons to make implementation more effective. (iv) An active communication campaign and a number of consultation mechanisms will assist IAs to listen and learn from different stakeholders and to enhance capacity based on feedback. (v) Finally, the modular structure of the project will allow scope for reallocating funds if performance of a specific institution falls short.	M	Identification of risks through staff surveys, training needs assessments, and training seminars and workshops. Staff performance appraisal process allows managers to be involved in developing mitigation strategies and action plans
2. Limited capacity of the MOI to coordinate IAs and lead the learning program.	Although the MOI has previous experience in implementing Bank-financed projects, cross-institutional coordination, involving various ministries and in close partnership with NSAs, will be a challenge. In addition, the learning program, critical to the creation of a “ripple effect” and to the ultimate success of the project, is a new area of engagement for the MOI. To address the risks posed by these challenges, the following measures have been taken: (i) Strategic use of the authority of the Minister of the MOI, who is also the ranking Deputy Prime Minister, to ensure that the IAs deliver on their promises and performance and the MOI can effectively play its coordination role. (ii) Simplification of project design, avoiding dispersion and focusing the scope on activities that can be shown to add value. (iii) Adoption of a gradual approach to implementation of the learning program, with a strong M&E element and a thorough mid-term review built in, as the basis for adjusting design of Component 3B as needed. (iv) Outsourcing the delivery of a significant set of activities to the RTO while ensuring capacity building for MOI staff and retaining the necessary responsibility for implementation with the PCO. (v) Capacity building for the MOI team during the project preparation period through the PPF Advance. (vi) Finally, the modular structure of the project in part avoids the danger of the whole project becoming hostage to capacity constraints within the MOI. While this is true for Component 3B, it represents a greater risk in the case of Component 3A, where the MOI has mandatory responsibilities as the project’s EA.	S	Performance standards established for MOI in key project coordination and monitoring areas. PMT through quarterly progress reports control and monitor risks.
3. Corruption	The systemic nature of corruption and the culture of patronage		Implementation of

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<p>and/or use of project resources for patronage purposes.</p>	<p>that exists in Cambodia is an obvious risk to project components. While the project will benefit from the Bank’s portfolio-wide activities for strengthening anti-corruption efforts, several risk mitigation measures are being specifically highlighted in the project: (i) The project has prepared a ‘<i>Good Governance Framework</i>’ with comprehensive and detailed measures to promote transparency and anti-corruption for each of its components and subcomponents (see Section V.C above). The framework outlines several actions – such as, disclosure of key project documents and budgets, establishment of an independent grievance redress mechanism, citizen feedback, third-party monitoring, formal audits, and targeted communication and outreach. (ii) An <i>International Procurement Agent</i> (IPA) has been deployed by the Government to handle procurement of all Bank projects and this will be the mechanism used for this project as well. Use of the IPA will eliminate a great deal of potential for corruption and leakage of project funds. (iii) To avoid patronage in deployment of project staff, the MBPI manual being developed has clear and objective guidelines on recruitment, award of incentives and evaluation of performance. (iv) All staff working on the project, as well as the higher leadership of the IAs, will sign a <i>Code of Ethical Conduct</i> prior to effectiveness of the project. (v) All staff and senior leadership working on the project will be provided training and capacity building programs on Ethics and Good Governance. (vi) Controls on “soft” (mainly SOE-based) expenditures will be sharpened; (vii) Experience from other projects in EAP suggests that significant risks can be mitigated if the designs include a modular implementation structure which minimizes interdependence of components and subcomponents. This allows the project to stop working with specific institutions and programs where there are problems of capture and mismanagement, without unfairly punishing others. (viii) Specific legal safeguards will be designed into the overall legal agreement for the project and the project agreements with each IA to ensure proper use of project funds. (ix) Finally, aggressive monitoring and supervision are proposed in the project to ensure the mitigation measures are implemented in a quality manner.</p>		<p>GGF and TGGPs. Involvement of civil society through seminars and workshops. Annual Good Governance Forum Project Directors review performance of staff in understanding ethical code of conduct and abiding. Effective use of complaints handling system to identify risks and propose mitigation measures. Internal Audit Unit’s workplan to include evaluation of risk identification and control measures</p>
<p>4. Capture or subversion of the grant – making process to NSAs by political elites and powerful interests.</p>	<p>The credibility and integrity of the grant-making process in Component 2 is critical to its success. However, since this is the first time the Government will be sponsoring this kind of NSA-managed initiative focused exclusively on DFGG issues, there is a high risk of attempts towards political subversion of the process. Risk mitigation measures are as follows: (i) TAF, which is the IA for this component, has a strong track record of professionalism and integrity in grant-making in Cambodia and elsewhere in Asia. It is well-respected by the Government and is expected to maintain close contact with key officials to anticipate and address concerns. (ii) Grant-making will be undertaken based on clear and rigorous criteria and procedures. The Government is helping to craft these criteria and procedures and has agreed to abide by the rules of the game. There is high-level MOI commitment to ensure independence and integrity of the grant-making process, and, as the EA, it will be expected to mediate if there is undue pressure from other SIs. (iii) Grant-making will emphasize the</p>	<p>S</p>	<p>PCG to ensure independence and integrity of GMC. Public disclosure of all grant approvals and completed results to be carried out. Full report to Annual Good Governance Forum.</p>

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	<p>principle of “constructive engagement” between the SIs and the grantees, so this will help reduce the need for the Government to intervene in the process; (iv) A transparently and carefully chosen multi-stakeholder GMC will make grant selection, based on clear and rigorous criteria and procedures. The GMC members will sign a <i>Code of Conduct</i> to ensure independence and integrity. They will be required to avoid any situation of potential conflict of interest in their capacity of reviewing grant applicants. (v) A strong communication and outreach campaign will accompany the grant-making including the DM-like competition (which itself will be a public event). The transparency of the process is expected to reduce interference and capture. (vi) There will be active involvement of third party NSAs in oversight and reporting results, which will help identify capture or subversion of the grant-making process. (vii) An independent grievance redress mechanism will be established in Component 3A (Coordination) to receive and act on any complaints of wrong doing. (viii) Finally, the Bank will closely supervise the grant-making and will intervene, as appropriate, to ensure integrity of the process.</p>		
<p>5. Politically sensitive activities get funded through Component 2 grants, creating controversy and conflict with Government.</p>	<p>As the NSA grants will be ‘demand-driven’, there is substantial risk that the activities supported could be politically sensitive or motivated. To minimize this, the principle of ‘<i>constructive engagement</i>’ is central to Component 2. This will be defined in a transparent manner in the grant application guidelines and criteria, which are being prepared with inputs from the Government. The partnership grants are also expected to create precedents for NSAs and SIs collaboration, which will build trust. A negative list of items that cannot be funded (e.g., civil works or environmentally hazardous goods) will be included. Additionally, the GMC and TAF will conduct a due diligence of potential grantees prior to being awarded grants, in order to assess, <i>inter alia</i>, the sensitivity and motivations behind their proposals. Where required, TAF, helped by carefully chosen local interlocutors, will undertake sensitization and diplomacy exercises with both NSAs and SIs to avoid potential conflicts arising from the initiatives funded through the component. Finally, the Bank will continue to support an enabling environment for constructive engagement between the state sector and civil society by brokering forums for Government-civil society dialogue on governance issues and complementary work through other planned and ongoing initiatives (see para 14).</p>	<p>M</p>	<p>PCG reviews grant eligibility criteria annually  Information and communications programs to showcase constructive engagement of CSO/government partnership.  A separate risk management exercise undertaken for Component 2 with independent third party participation (see Component 2 Project Proposal)</p>

Rating: N- Negligible Risk, L-Low Risk, M- Medium Risk, S-Substantial Risk, and H-High Risk

***E.3 Implementation arrangements and update of Risk Management Matrices***

The project level risk management is the responsibility of the Project Coordinator assisted by the Project Management Team and PCO. The Project Directors of IAs are responsible for managing risks at the sub-component level. In order that the risk management process is uniformly followed throughout the DFGG project, each IA shall appoint either the Project Director or the Project Manager as the coordinator for risk management. In addition, all key managers need to participate in the risk management exercise.

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The monitoring, review, and update of the risk management matrix will be done **semi-annually**. Each IA under the direction of the Project Director shall carry out a review and update of risks facing the project in these semi-annual reviews. These reviews shall focus on the occurrence of previously identified risks and the effectiveness of mitigation measures.

The key output of the review should be an **updated risk management matrix** in which:

- a) the list of potential risks has been updated (risks no longer relevant should be reviewed and the new risks that have emerged should be added);
- b) the risk scores for each risk have been updated to reflect their current impact and probability of occurrence;
- c) the set of mitigation measures being adopted for each of these risks has been updated or revised based on implementation; and
- d) the monitoring indicators and deadlines have been updated (and any delays have been factored in).

The IA Project Director, at his/her discretion, may also request the DFGG Internal Auditor carry out a review of the process and its effectiveness if required.

At the PCO level, the whole of the PCG will be involved in a *risk management workshop* to be conducted semi-annually. The semi-annual review at the end of each project year, will involve the participation of PMT, senior managers of IAs, and CSO partners associated with individual IAs and the Project.

In between these reviews, the PCO shall organize *training workshops* to train managers and key staff on risk management principles. During the course of these workshops, each IA shall review and update their risk profiles and proposed mitigation measures.

At the *mid-term review* of the project, a workshop should be organized with all DFGG managers, principal stakeholders including the World Bank to review project risks and evaluate risk mitigation measures undertaken and their effectiveness. A special review shall be undertaken as part of the mid-term review to assess any damages to the Project reputation as well as successful mitigation of risks faced. The mid-term review shall also specifically evaluate the main risks identified during the project preparation and listed above with a view to re-designing the project implementation.

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**Attachment 1 to Section V.E:**

**RISK: Template for Risk Management Matrix to be completed by each IA**

*This Risk Management Matrix is a management tool to be used by the senior managers of the organizations to discuss key areas of concerns (especially where the Risk Magnitude is rated High or Moderate) during project preparation and at the start of project implementation. Due to the changing circumstances, the risk plan and matrix need to be updated every 6 months.*

*Formula for Risk Score: Magnitude = Impact x Likelihood<sup>35</sup>.*

*Consequence: 5=very serious, 4=serious, 3=moderate, 2=minor, 1=insignificant*

*Likelihood: 5=very high, 4=high, 3=medium, 2=low, 1=very low*

*Magnitude Rating: 6 or less is low risk (L), 8 – 12 is moderate risk (M) and 14 – 20 is high risk (H), and any score above 20 is a top risk (T) requiring immediate attention.*

<b>Risk Description</b>	<b>Risk Impact</b>	<b>Risk Magnitude</b>	<b>Mitigation Strategy</b>	<b>Action Agents</b>	<b>Progress Status (Give details of tasks completed)</b>	<b>Remaining Action (Give resource requirements and timelines)</b>
		Impact: Likelihood: Magnitude:				
		Impact: Likelihood: Magnitude:				
		Impact: Likelihood: Magnitude:				

<sup>35</sup> In Column 3 of the Risk Management Matrix, the rating of the Risk is by a simple formula: Magnitude = Impact x Likelihood. Impact and Likelihood are rated on a scale of 1 to 5. For instance, if the Impact is assessed to be 5 and the Likelihood is rated 3, then the Risk Score is 3 x 5 = 15.