Annex 1

Operational Risk Assessment Framework (ORAF)
Pakistan: Punjab Skills Development (P130193)
Stage: Appraisal

Risks

1. Project Stakeholder Risks

1.1 Stakeholder Risk	Rating	High

Risk Description:

Reform resistance: There may be resistance to project activities and outcomes by status-quo proponents to reforms that aim at changing institutional structures and improving transparency and accountability in the system.

In addition, attempts by the public sector at strengthening linkages with industry may be met with disinterest or mistrust. The public sector may also not have the requisite flexibility to be responsive to private sector training requirements.

Risk Management:

- Ongoing regular, formal consultations with internal and external stakeholders during the design phase to build ownership and facilitate implementation; planned regular, formal consultations with stakeholders during the piloting/ implementation phase to gather feedback for refining/adapting design/implementation.
- Proposed reforms would be implemented in a phased manner to generate quick wins in the short term where possible to build ownership and gather stakeholder support and commitment.
- The Project will support the testing of various partnership models between public training providers and industry with the intention to disseminate good (and bad) practices to gradually build knowledge and confidence among potential implementation partners to promote increased numbers and effectiveness of partnerships through results (higher numbers employed in relevant trades).

Resp:	Status:	Stage:	Recurrent:	Due Date:	Frequency:
Both	In Progress	Both	✓		CONTINUOUS

2. Operating Environment Risks

2.1 Country	Rating	High

Risk Description:

Economic Management: The country’s fiscal situation remains highly vulnerable, particularly in light of expansionary spending linked to security and the 2010 and 2011 flood disasters. The fiscal deficit remains large and progress on revenue mobilization, power reforms, and SOEs restructuring is slow. Relations with the IMF are limited to Article IV.

Security Constraints: The security situation remains volatile in the western border regions and in Karachi metropolitan region and can deteriorate unexpectedly, especially with build-up toward elections in 2013. This may pose a risk to Bank operations, e.g. periodic office closings and restrictions on staff travel.

Fiduciary Management: Efficiency and effectiveness of public expenditure are low and the government lacks efficient cash management. There is weak oversight of fiscal risks related to public and state-owned enterprises.

Political Change/policy reversal: Pakistan’s political landscape is subject to the potential for sudden change. There is therefore a risk of shifts in priorities due to political instability. In the run up to the upcoming elections there may be less appetite for economic policy reforms.

Country Governance: Governance is a considerable concern for growth and development in Pakistan. Institutions of accountability have not provided a strong framework for holding the executive or service delivery agents accountable for results. The 18th amendment bill which handed over control of key public sector services to the provinces is generally viewed positively but there is concern over implementation capacity in some provinces.

Systemic Corruption: Perception of corruption has increased in recent years. Pakistan ranks 134 on Transparency International 2011 corruption ranking (182 countries were surveyed).

Risk Management:

• Remain engaged in an active, high level dialogue on macro, tax collection, subsidy and debt trends under a well-coordinated response with IMF and other donors
• Work together with government and donors to sustain momentum for key reforms (e.g. tax policy and administration, power sector, etc.)
• Provide analytical work to support Govt. economic team in implementing its New Framework for Growth Strategy (NFGS) and related stabilization and growth recovery policies, while preserving well targeted pro-poor expenditures.

Risk Management (Security Constraints):
• Continue to be vigilant with regards to security readiness and adjustment of operational posture to minimize risks to staff. Review and update security measures.
• Have flexible implementation arrangements that take into account access and movement restrictions and can quickly adapt to changing circumstances on the ground.
• Explore use of innovative ICT tools and 3rd party monitoring as part of project supervision.

Risk Management (Fiduciary Management):
• Increase our involvement on PFM core reforms—budgeting, accounting, procurement, debt management-cash management

Risk Management (Political Change/policy reversal):
• Continue strong dialogue and AAA with all levels of Government and political parties to make the case for priority reforms and to position the Bank to engage with different players, especially at the provincial/sub-provincial levels.
• Make disbursements for a significant part of the priority program contingent on results, which may help mitigate the risk impact of policy reversal.

Risk Management (Country Governance):
• Undertake operational risk assessment in sectors, and improve governance risk profiling in sectors and projects; provide continued support for governance reforms through project lending.
• Carry out analytic work to assess the impact of devolution; PEFA to be undertaken at provincial (Punjab) and federal level.
• Incorporate capacity building efforts into project design

Risk Management (Systemic Corruption):
• Support strengthening of public accounting and auditing systems, reform of land records administration and tax administration.
• Provide support to sectors more susceptible to corruption, such as power, highways, and social protection, with a strong focus on transparency.
• Broaden/strengthen policy dialogue with government on greater transparency and public accountability in government transactions.

Resp:	Status:	Stage:	Recurrent:	Due Date:	Frequency:
Both	In Progress	Both	✓		CONTINUOUS

2.2 Sector and Multi-Sector	Rating	**Substantial**

Risk Description:

The state and outlook for the country has deteriorated considerably on a number of fronts. These poor conditions and prospects can depress household and government investments in education.

There is a lack of policy stability and predictability. The consequences of this include the inability to plan properly and the poor attitude, interest, and effort by officials, contributing, in turn, to poor and/or variable implementation progress and performance.

Public technical and vocational training delivery requires significant governance-related reforms to effect change. These reforms are likely to be resisted by powerful insider groups and other special interest groups, as the proposed reforms would erode their capture over the system.

Lack of leadership and sector fragmentation: No skills policy exists at the provincial level, and public skills providers are fragmented with no clear strategic leadership. Shared objectives may be difficult to achieve with this high degree of fragmentation in the skills sector. While the current government has placed an emphasis on education and skills development, any changes in political leadership may impact the progress in the sector.

Risk Management:

- The use of DLIs to promote institutional reforms would encourage the government's agenda of making important structural changes to the institutional framework in the sector, and protect the continuity of desirable reforms and activities. In addition, the use of a competitive mechanism (through PSDF) to increase numbers trained would generate accountability amongst public sector stakeholders, and demonstrate quick wins.

- Sound, responsive preparation and implementation aids reform longevity and success: technical expertise would be brought from outside where needed to build capacity and provide a strong technical basis for the design and implementation of reforms. In addition, third parties would be brought in to undertake implementation reviews and provide field-level monitoring where needed to provide the information base for government decision making in order to adjust implementation as needed. On the Bank team's part, extensive consultations and strong implementation support and dialogue with government would also be part and parcel of the implementation period.
- External conditions and shocks that have a bearing on sector performance and outcomes and risk management are discussed in Section 2.1 of the ORAF.

- Measures to manage the risk of resistance by status-quo proponents are discussed in Section 1 of the ORAF.

Risk Management (Fragmentation):
- Project objectives and activities are strongly aligned with the Punjab Growth Strategy to ensure contribution to provincial targets of economic growth.
- The Government has identified the DoICI as the main implementing agency for the Project, thus reducing the complexity of reaching out to several stakeholders simultaneously. To reach out to private sector training providers, the Project will make use of already established mechanisms such as PSDF. The Project will also facilitate the formation of a skills coordination council (being spearheaded by other development partners such as DfID) to improve sector coordination.
- The Bank would leverage the long standing relationship it has forged with the Punjab Government in the past decade through a series of results-based Projects for policy dialogue and consultations.

Resp:	Status:	Stage:	Recurrent:	Due Date:	Frequency:
Both	In Progress	Both	✓		CONTINUOUS

3. Implementing Agency (IA) Risks (including Fiduciary Risks)

3.1 Capacity | Rating | **High**

Risk Description:

Planning, implementation, and monitoring capacity is very weak across public stakeholders at the provincial level, and various lower level administrative levels. Staff changes at the managerial level are frequent, and recruitment of qualified persons to fill vacancies at leadership levels is very slow. Because of this, a select few individuals hold several portfolios, thus reducing their effectiveness. This can cause delays in Project preparation and implementation.

Risk Management:

- The main counterpart for the Project is the Planning and Development Board, GoPunjab, as is the case for all Bank-funded Projects in the province. This is the same government institution responsible for the development and implementation of the Punjab Growth Strategy, in which skills development is an important area of reform. It is expected that the Board would maintain an adequate level of focus on Project activities as part of its larger provincial strategy. The Chairman, P&D Board, will also serve as the Chair of a Project Steering Committee to be set up for the Project. This Committee will provide oversight and strategic guidance to the DoICI and other implementing agencies under the Project.

- In addition, the main implementing agency identified for the Project is the DoICI, which is the parent department for bodies such as the Punjab Technical Education and Vocational Training Authority (PTEVTA), the largest public skills training body, and the Punjab Board of Technical Education (PBTE), the largest and most prominent certification agency. The DoICI would provide a formal platform to interact with key implementing agencies in the sector, as well as the private sector. In order to perform the substantial additional tasks associated with the implementation and coordination of the proposed Project, the DoICI will establish a Project Implementation Unit (PIU). This PIU will augment the capacity of the DoICI to coordinate and monitor activities supported under the Project.

- TA would be made available through the Project to facilitate capacity building and provide the necessary external technical assistance to support implementation.

Resp:	Status:	Stage:	Recurrent:	Due Date:	Frequency:
Both	In Progress	Both	✓		CONTINUOUS

3.2 Governance	Rating	High				
Risk Description: The main governance risks pertain to overlapping or unclear roles of key stakeholders in the skills sector. PTEVTA was originally meant to be the regulatory authority for skills provision in the province, but this role has to be reviewed since the establishment of NAVTTC as the national regulatory body for skills. In addition, PTEVTA serves not only regulatory and registering functions but also is the largest provider of skills training, a direct conflict of interest. The main testing agency, PBTE, is not independent as it reports to PTEVTA and is frequently staffed with serving PTEVTA staff during its own staff shortages. Also, PTEVTA inherited three streams of staff when it was formed as a result of the merger of three government departments. It has yet to sort out complex human resource issues and streamline processes for recruitment and termination, performance evaluation, etc.	Risk Management: There is a TVET policy under development at the national level which, once finalized, is expected to clarify the roles of provincial and national skills bodies. This policy is being developed with technical assistance from GIZ, and in consultation with the provinces. Successful implementation of the proposed Project is expected to also contribute to improving governance of the skills sector. There is also a mandate from the current government to implement key reform in the skills and training sector. Particular activities under the Project that are expected to promote good governance include: • The competitive allocation of funds to both public and private training institutions providing demonstrable high quality training in priority sectors through PSDF; • A DLI-based component focused on institutional and quality reforms which would encourage a separation of training provision from regulation, and independent certification of skills graduates; and • Component 2 would fund the necessary technical staff and expertise to support the implementation of challenging reforms in the sector.					
	Resp: Both	Status: Not Yet Due	Stage: Implementation	Recurrent: ✓	Due Date:	Frequency: CONTINUOUS
Fraud and Corruption	Rating	**Substantial**				
Risk Description: Whereas governance issues exist across Pakistan, these issues within the major skills stakeholders are not considered to pose disproportional risks to project design and implementation. Project implementation itself is expected to reduce fraud and corruption risks within the overall education sector.	Risk Management: Regular fiduciary supervision and implementation support by Bank team.					
	Resp: Both	Status: In Progress	Stage: Both	Recurrent: ✓	Due Date:	Frequency: CONTINUOUS
4. Project Risks						
4.1 Design	Rating	**Substantial**				
Risk Description: The Bank has not supported the skills sector for the last two decades, and the client may be unfamiliar with certain components of the Project, i.e. using Disbursement Linked Indicators (DLIs).	Risk Management: • The Bank has a successful history of working with the Government of Punjab on DLI-based projects in the education sector, and this experience is expected to facilitate preparation and implementation of the Project. The Bank would provide intensive technical support through the task team and TA to ensure that the necessary technical expertise is available to implement the competitive grants mechanism. • Where relevant lessons learned from similar programs in the Region (most recently the Sri Lanka Skills Development Project for example) and the country were incorporated in Project design.					
	Resp: Both	Status: In Progress	Stage: Preparation	Recurrent: ✓	Due Date:	Frequency: CONTINUOUS
4.2 Social and Environmental	Rating	**Low**				
Risk Description: There are no important social or environmental safeguard issues.	Risk Management: none					
	Resp:	Status:	Stage:	Recurrent:	Due Date:	Frequency:
4.3 Program and Donor	Rating	**Low**				
Risk Description: The main DPs working in the skills sector in Punjab, namely GIZ and the International Labor Organization (ILO), have a long relationship with the government and ongoing projects in the sector. DfID plans to continue its support to PSDF in the coming year, and expand its program to support institutional reform in the sector. Given the high						

level of consultation and coordination amongst the DPs, no donor risks are anticipated, especially since there is no co-financing anticipated.	Risk Management: The task team would continue to engage regularly with other DPs working in the skills sector. The Bank team has also been part of cross donor and government discussions having to do with the setting up for a skills coordination council.					
	Resp: Bank	Status: In Progress	Stage: Both	Recurrent: ✓	Due Date:	Frequency: CONTINUOUS
4.4 Delivery Monitoring and Sustainability	**Rating**	**Substantial**				
Risk Description: Monitoring arrangements and capacity are weak across the skills sector. Sustainability may be undermined by resistance from insider groups and other special interest groups (see also Stakeholder Risk above).	Risk Management: Proposed project activities are to a large extent at setting up systems in the skills sector to allow long-term developments and improvements well after the life of the Project. The institutional reform component of the Project aims to do this. Monitoring of project implementation is expected to be facilitated by Component 2 where necessary. The PIU to be established under the Project will be staffed with the requisite skills mix to allow strong monitoring of Project activities and outcomes. Where possible, the Project uses existing systems/mechanisms in the province. For instance, the merger of existing certification agencies is proposed as opposed to the establishment of a new agency; and PSDF (which has been in operation since 2010) will be used to administer the competitive allocation of funds to the public and private sectors to deliver trainees in priority sectors. This will increase the probability of sustaining Project outcomes well after the life of the Project, and ensure their ownership by sector stakeholders.					
	Resp: Both	Status: In Progress	Stage: Both	Recurrent: ✓	Due Date:	Frequency: CONTINUOUS
4.5 Other (Optional)	**Rating**					
Risk Description:	Risk Management:					
	Resp:	Status:	Stage:	Recurrent:	Due Date:	Frequency:
4.6 Other (Optional)	**Rating**					
Risk Description:	Risk Management:					
	Resp:	Status:	Stage:	Recurrent:	Due Date:	Frequency:

5. Project Team Proposed Rating Before Review

Preparation Risk Rating: **Substantial**	Implementation Risk Rating: **Substantial**
Risk Description: The overall preparation risk rating is Substantial to reflect stakeholder and capacity related risks. Despite strong government ownership and support of the proposed Project, high staff turnover, especially of key management staff, low capacity of overall staff, and expected resistance to institutional reform pose risks to timely preparation. The Bank task team has been working with stakeholders for close to three years and intends to continue to provide intensive technical input and expertise during preparation to support the GoPunjab's preparation of the Project. Moreover, the main counterpart for the Project is the Planning and Development Board, GoPunjab. This is the same government institution responsible for the development and implementation of the Punjab Growth Strategy in which, as mentioned, skills development is a critical area of reform. It is expected that the Board would maintain an adequate level of focus on Project activities as part of its larger provincial strategy. Ongoing regular, formal consultations with internal and external stakeholders have been be held during the design phase to build ownership and facilitate implementation. This will be continued to ensure Project implementation readiness and ownership as the Project transitions into effectiveness and implementation.	Risk Description: The main implementation risks for the Project are: (i) skills sector fragmentation; (ii) weak planning, implementation, and monitoring capacity across public stakeholders; (iii) high staff turnover in public sector institutions; (iv) overlapping or unclear roles of key players in the skills sector; and (v) potential resistance to sector reform both during the Project's life and afterwards, endangering sustainability. These risks are expected to be addressed through the provision of required expertise and inputs funded by Component 2. This would ensure that adequate capacity is available for implementation and that reforms undertaken have strong analytical and technical underpinnings. Regular, formal consultations with internal and external stakeholders during early stages of implementation would be held to gather feedback for refining implementation. Reforms supported under the Project would be implemented in a phased manner to generate quick wins in the short term, where possible, and build stakeholder ownership and commitment.

6. Overall Risk

Preparation Risk Rating: **Substantial**	Implementation Risk Rating: **Substantial**
Risk Description: The overall preparation risk rating is Substantial to reflect stakeholder and capacity related risks related to reforms. The Bank task team has been working with stakeholders on a reform dialogue which culminates into three years at appraisal stage. The main counterpart for the Project, Planning and Development Board (P&D) is the same government institution responsible for the development and implementation of the Punjab Growth Strategy in which, as mentioned, skills development is a critical area of reform. It is expected that the P&D Board would maintain an adequate level of focus on Project activities as part of its larger provincial Strategy and ensure timely releases of funds based on results. Ongoing regular, formal consultations with internal and external stakeholders have been be held during the design phase to build ownership and facilitate implementation. This will be continued to ensure Project implementation readiness and ownership as the Project transitions into the implementation phase.	Risk Description: The main implementation risks for the Project are: (i) skills sector fragmentation; (ii) weak planning, implementation, and monitoring capacity across public stakeholders; (iii) high staff turnover in public sector institutions; (iv) overlapping or unclear roles of key players in the skills sector; and (v) potential resistance to sector reform both during the Project's life and afterwards, endangering sustainability. These risks are expected to be addressed through the provision of required expertise and inputs funded by technical assistance which would include a strong communication campaign and mitigation measures geared at governance issues before they may arise. This would ensure that adequate capacity is available for implementationand that reforms undertaken have strong analytical and technical underpinnings. Regular, formal consultations with internal and external stakeholders during early stages of implementation would be held to gather feedback for refining implementation. Reforms supported under the Project would be implemented in a phased manner to generate sufficient ownership and stakeholder buy-in.

Nondisclosable Information for Management Attention (Optional)

Risk Description:

None