

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
Financial Management		
MMDE does not prepare full sets of financial statements to the Treasury.	Medium	Treasury is conducting a detailed study, with the view of implementing new guidelines.
MMDE has implemented externally financed projects, but it lacks recent experience in implementing ADB-funded projects.	Medium	PMU and PIU staff will be provided training on ADB's policies and guidelines, and a specific investment program financial management handbook will be utilized.
Treasury has a tendency to re-prioritize project financing, resulting in delays in counterpart funding and project implementation.	High	The investment program's undertakings and loan covenants commit Treasury to release to MMDE capital funds required for the investment program without any undue delays and to prioritize the investment program for fund disbursements.
MMDE's five-year corporate plans are not comprehensive and are not updated frequently, resulting in underspending of capital budgets	Medium	MMDE should improve its five-year corporate plans following ADB best practices, and update them annually. This will be done as a capacity building exercise during implementation of the investment program.
MMDE's reporting and monitoring function does not include a comprehensive set of key performance indicators, and does not have the ability to track physical progress of projects and link them to financials.	Medium	The investment program will establish a monitoring and evaluation system to track physical progress of projects and link to financials as well as to introduce key performance indicators in monthly reports.
Procurement		
Inexperience of national contractors	Medium	Raising the capacity of inexperienced Sri Lankan contractors will be encouraged by the investment program through (i) forming joint ventures; (ii) relaxing the qualifying criteria to the lower range, as suggested in ADB guidelines for simple and repetitive works; and (iii) allowing road sector contractors to bid for simple canal construction packages.
Low interest in competitive bidding	High	The procurement plan for the investment program limits the number of midsize contracts to \$10 million–\$40 million since few contractors in Sri Lanka are qualified and foreign entities may be less interested.
Contract administration capacity of PMU and PIU officers	Medium	The investment program will strengthen contract administration and management skills—focusing on contract variations, settlement of claims and disputes, adjudication, and arbitration—through regular on-the-job training by involving expertise from project consultants (such as the PMDSC) in these activities.
Procurement selection delays caused by interference from unsuccessful bidders	Low	All contract documents state that “The NPA procedure for appeals is not applicable” since it seems to have caused confusion in ADB-financed contracts previously.
Corruption		
Contract cost escalation during implementation	Low	The investment program's undertakings commit to MMDE ensuring that anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to any project under the investment program. The PMDSC will also be acting as the engineer for all civil works contracts, and will be responsible for measuring and certifying payment certificates, and advising on contract variations.

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Implementation Phase		
Delayed commencement of civil works, resulting in implementation delays	Low	The PMU and PIU have been established prior to Board approval, and advance actions on three civil works procurement packages, and a major consulting package, have been initiated for the first tranche.
Risks associated with construction of dams and tunnels	Medium	Comprehensive ground investigations have been conducted during the design phase. A tunnel boring machine will be used to construct the 26 kilometer tunnel, which will help expedite implementation and minimize construction risks. The contracts for tunnel construction may also include performance and penalty clauses. During implementation, a systematic risk management program will be used to identify risks and advise on mitigation actions. MMDE will engage a panel of independent experts to review designs and contract documents, and provide advice to MMDE and ADB during implementation.
Benefits of the investment program will be reduced if water management is not improved and if the government does not complete NCPCP Phase 2	Medium	The investment program will support MMDE to improve water management in the investment program areas. MMDE assures that recommendations from pilot studies financed by the investment program are up-scaled for the entire Mahaweli system. The government has expressed commitment to completing NCPCP Phase 2. The PMDSC will support preparation of the remaining NCPCP components, and will prepare due diligence reports (technical, economic, financial, safeguards) and documentation for possible ADB financing.
PMU and PIUs unable to attract and retain suitably qualified staff	Medium	Government has committed to recruit contractual staff at competitive market rates. In addition, the PMDSC will act as engineer, and will be responsible for contract management and construction supervision. Several international and national consultants will also be recruited to (i) assist the PMU and PIUs to set up operational systems; and (ii) provide hands-on training to the PMU and PIU staff.
Cofinancing for the second tranche not secured on time	Low	Implementation schedule for the second tranche includes conservative tunnel advance rates; delayed commencement of works should not affect completion date. Cofinancing options will continue being assessed.
Overall Risks	High	

ADB = Asian Development Bank; MMDE = Ministry of Mahaweli Development and Environment; NCPCP = North Central Province Canal Program; NPA = National Procurement Authority; PIU = project implementation unit; PMDSC = program management, design and supervision consultants; PMU = program management unit.

Source: Asian Development Bank estimates.