

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
<p><b>Political economy</b></p> <p>Prolonged political transition may affect formulation of the National Reconstruction Authority</p>	<p style="text-align: center;">High</p>	<p>Development partners continue the dialogue with the government and key stakeholders to support the rehabilitation and reconstruction program under the ongoing political processes. The National Reconstruction Authority is expected to be established and provided with adequate financial and approval authority to allow it to execute the rehabilitation and reconstruction program successfully.</p>
<p>Weak interagency coordination may undermine effective implementation of the rehabilitation and reconstruction program</p>	<p style="text-align: center;">Medium</p>	<p>The Government of Nepal is to set up the National Reconstruction Authority to steer the rehabilitation and reconstruction program. It will (i) act as a policy-making body; (ii) provide advice and guidance on reconstruction programs; and (iii) coordinate with line agencies to formulate, implement, and monitor the programs. Until the National Reconstruction Authority is established, the Ministry of Finance will be the executing agency.</p>
<p><b>Implementation capacity</b></p> <p>Low implementing capacity of the government may curtail fast-track project implementation</p>	<p style="text-align: center;">High</p>	<p>To fast-track implementation, the project will (i) support the executing agency with project management consultants to help manage, monitor, evaluate, and report on project progress; and (ii) establish ministerial PIUs to provide technical, financial, and institutional support. PIUs will be reinforced with consultants to assist the implementing agencies with design, construction supervision, safeguard application, procurement, financial management, and reporting.</p> <p>For the microcredit component, the implementing agency, SFDB, has a record of successfully implementing microfinance activities in remote areas under ADB projects in Nepal. The component's implementation will be supported by a national project coordination specialist, who has extensive ADB project implementation experiences.</p>
<p>Weak capacity of implementing agencies for procurement and contract management</p>	<p style="text-align: center;">Medium</p>	<p>Adequate consulting support will be provided to overcome the capacity constraints of the executing and implementing agencies. The executing agency will periodically review and monitor the progress of procurement and ongoing contracts to ensure the timely completion of works.</p>
<p>Low implementing capacity of contractors may delay delivery of large-scale emergency</p>	<p style="text-align: center;">High</p>	<p>The qualification requirements will be reduced since the works are simple and repetitive, and skilled labor is in short supply. Contractors will receive training. To help support contractors' cash flow, an advance of 20% can be provided against a reputable bank's guarantee.</p>

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reconstruction and rehabilitation works		
<p><b>Financial management</b></p> <p>Compliance with the financial management system may not be fully satisfactory</p>	High	<p>The executing agency will set up a unified web-based project monitoring and management information system in the PMU, PIUs, and district counterparts to monitor implementation, fund flows, accounting, and audit and reporting functions within one year of the project's start date. The attached technical assistance to the Earthquake Emergency Assistance Project will also provide support for operationalizing an electronic tracking system of expenditures and outputs.</p> <p>For the microcredit component, SFDB, the implementing agency, is a class D financial institution (microfinance institution) licensed and supervised by the Central Bank of Nepal. As a regulated financial institution, SFDB is subject to on-site and off-site supervision by the Central Bank of Nepal, and needs to comply with financial reporting, auditing, and other regulations and directives.</p>
<p><b>Anticorruption measures</b></p> <p>Corruption-related issues may arise covering all aspects of project-financed activities</p>	Medium	<p>The rehabilitation and reconstruction program has a monitoring and reporting mechanism that will promote better transparency. Disclosure of information about the use of funds will be required of the executing and implementing agencies.</p> <p>SFDB onlends the grant proceeds from the project imprest account. As a lending institution, SFDB has a centralized information management system that can collect the information on borrowers.</p>
Collusion to overprice bids	Medium	PMU and PIUs will carry out technical audits of randomly selected subprojects twice a year. The reports will be shared with the Ministry of Finance and ADB on a confidential basis. Contractors will be required to display basic contract information at each construction site.
<p><b>Other risks</b></p> <p>Delay in execution of works because of a limited working season and unpredictable and harsh weather conditions</p>	High	Project construction activities will be scheduled in such a way that the available working season is efficiently utilized. Only those works that can realistically be completed in the given timeframe are included. Financial and human resources will be allocated to the project areas for certain periods contingent on when and to what extent extreme weather conditions could restrict works.
Lack of sufficient construction materials and	Medium	To the extent possible, the project will source locally available (climate and earthquake resilient) materials and equipment for rebuilding. Where or when necessary, the executing agency will

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equipment may lead to delays in construction		facilitate required statutory clearances to ensure adequate availability of construction materials for civil works under the project.
Lack of sustainability of infrastructure and physical assets rebuilt under the project	High	The assets will be transferred to the respective line ministry and the communities to promote utilization and maintenance. Line ministries will be encouraged to provide special operation and maintenance allocations in their annual budgets to ensure long-term sustainability.
Risk of further natural disasters and their adverse impact on regional economies	Medium	The underlying principle of the government's rehabilitation and reconstruction policy is to "build back better." The rehabilitation and reconstruction program will incorporate higher building standards to withstand earthquakes as well as climate proofing of existing infrastructure, including schools. While this will improve some infrastructure in the rebuilt parts of the project area, the country will remain at risk, and other unprotected areas will remain at high risk.
The government may announce grant or loan waiver schemes that might deter people's demand for the project's livelihood restoration microcredit	Medium	The government announced relief packages on 29 April 2015, including (i) a NRs150,000 cash grant for emergency shelters, (ii) a NRs2,000,000 grant for house reconstruction, and (iii) loan waivers for loans up to NRs50,000 for vulnerable affected borrowers. Except for the NRs150,000 grant, the government has not yet finalized the implementation plan. The implementing agency will closely coordinate with the government to make adjustments to the microcredit operations as necessary to capitalize the government's relief packages along with the proposed microcredit so that benefits to affected households can be maximized. Beneficiaries will also be informed of the microcredit funding sources and their repayment obligations under the project.
The earthquake impacted borrowers' livelihood and income-generating capacity, so the livelihood restoration microcredit component may experience higher delinquency rates	Medium	The affected people's income-generating capacity has been significantly reduced due to loss of livestock, loss of agricultural inputs, damages to land and soil, landslides, and damage to production bases. Without assistance to restore their livelihood, they cannot resume their income-generating activities. However, due to the constrained income-generating ability, they cannot obtain commercial sources of finance. The project's microcredit component will restore the affected people's ability to generate income and increase their self-reliance. Target beneficiaries are members of small farmers' cooperatives with good credit history. The project's microcredit comprises concessional loans with extended maturities to match affected borrowers' repayment capacity. For new members, SFDB will conduct credit risk assessment and client due diligence.
<b>Overall</b>	<b>High</b>	This is a high-risk environment, but the Government of Nepal, with the support of ADB and other development partners, is taking credible measures to manage the risks.

ADB = Asian Development Bank, PIU = project implementation unit, PMU = project management unit, SFDB = Small Farmers Development Bank.

Source: Asian Development Bank.