

### RISK ASSESSMENT AND RISK MANAGEMENT PLAN

<b>Risk Description</b>	<b>Risk Assessment</b>	<b>Risk Management Plan</b>
<p><b>Political economy and stability</b> The COM has approved the NRESP, but following the 2012 elections, there have been five unsuccessful and two successful motions of a vote of no confidence in the government.</p>	Medium	<p>The latest vote of no confidence was in May 2015, which led to change in the government. A second vote of no confidence in the same month was defeated by the new government, which appears to have a good majority and is likely to provide some political stability. However, there are bribery charges pending against 16 of the new government's members of Parliament. The new minister for MIPU has suspended the director general indefinitely. Development partners will continue dialogue with the PRC established by the COM, which is the ultimate decision-making body of the NRESP.</p>
<p><b>Coordination</b> Weak interagency and development partner coordination may undermine effective implementation of the NRESP.</p>	Medium	<p>The government (through the COM) has established the PRC to guide the NRESP. It will act as the policy-making and project approval body and provide guidance to line agencies on NRESP reconstruction, and will coordinate with line agencies to formulate, implement and monitor the program.</p>
<p><b>Technical design</b> The effects of climate change and disaster could damage new and reconstructed infrastructure if designs are not resilient to disaster and climate.</p>	Medium	<p>Given the damage caused by storm surge and flood flows, the project will mitigate this risk by requiring conservative design assumptions regarding sea level rise and hydrology, and will require the use of quality materials and international construction standards. Disaster-resilient and climate-proof features will be included in the detailed engineering designs.</p>
<p><b>Project management and implementation capacity</b> Weak project management and low implementation capacity of MIPU will delay the project, including timely completion of due diligence required for subprojects.</p>	High	<p>To expedite implementation, the project will support MIPU with international and national DSCs to undertake project management, feasibility studies, climate change adaptation and disaster risk management, engineering design, procurement, financial management, safeguards, construction supervision, monitoring and evaluation and reporting. The DSCs will be integrated into MIPU's engineering unit and will build capacity of MIPU staff. The PMU will assist MIPU in the establishment of CAC to redress grievances. ADB will assist MFEM and MIPU in procurement, disbursement, financial management and safeguards policies and procedures.</p>
<p>Low procurement and contract management capacity of MIPU.</p>	Medium	<p>The project will provide adequate consulting support to MIPU in procurement and contract management, and assist in the monitoring of progress, including resolving contractual and technical issues under the ongoing contracts to ensure their timely completion to specified standards and specifications. Under ongoing projects,<sup>a</sup> four engineers from MIPU attended Modules 1 and FIDIC workshop for 4 days in Suva, Fiji to familiarize themselves with conditions of contract for civil works contracts.</p>
<b>Risk Description</b>	<b>Risk Assessment</b>	<b>Risk Management Plan</b>
<p>Low implementation capacity of national contractors may delay large-scale civil works within the scheduled period</p>	High	<p>Given the new approach of engaging the private sector in road maintenance and rehabilitation, the DSCs will conduct a national contractor capacity assessment to determine whether national contractors have the capacity to implement large-scale contracts for Efate ring road.</p>

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		Pending the outcome, national contractors will receive training on preparation and submission of compliant and responsive bids. They will also receive training on conditions of contract, particularly orders (variation orders, additional work orders, repeat orders, and orders for additional delivery or modifications); time extensions; liquidated damages; bonuses; and contract amendments. An advance of 20%–25% will be provided to contractors (against a reputable bank's guarantee) to assist contractor cash flows.
<p><b>Governance (Public Financial Management)</b> Compliance with the financial management system may not be satisfactory.</p>	High	In the past, financial management and accounting systems of various externally funded projects implemented by MIPU have been managed by DSCs through PMUs. The DSCs will include a qualified accountant and an experienced team leader and implementation specialist who will set up a financial monitoring and management information system in the PMU to monitor project implementation, fund flows, accounting, audit and reporting functions. MFEM's internal audit will ensure that effective internal controls are in place for PMU-managed project accounts. Independent audits of the project accounts and financial statements will be undertaken each year using reputable and qualified external auditors under the supervision and oversight of the Office of the Auditor General. <sup>b</sup>
<p><b>Governance (Procurement)</b> MIPU staff lacks significant experience with ADB procurement policies and procedures.</p>	Medium	MIPU's engineering staff will be required to attend ADB procurement implementation training (to be conducted during the inception mission). The PMU procurement specialist will provide on-the-job training to MIPU staff.
<p>Potential project implementation delays due to slow engagement of DSCs.</p>	Medium	ADB Management will be requested to approve advance action to recruit the DSCs.
<p><b>Corruption (Governance)</b> MIPU lacks an effective anticorruption strategy or action plan.</p>	Medium	The PMU DSCs will prepare an anticorruption strategy and action plan for agencies involved in the tender evaluation and contractor selection processes.
<p>Given cultural issues, bribes and corruption could be accepted as standard practice, particularly among members of the same island group.</p>	Medium	MIPU and the PMU will support anticorruption efforts and transparency through wide consultation on major decisions regarding subproject selection and implementation.
<p>Corruption-related issues may arise covering all aspects of project project-financed activities.</p>	Medium	Under the oversight of MIPU and the PRC, the PMU will have a monitoring and reporting mechanism to promote transparency. Disclosure on the use of project funds will be required by MFEM and MIPU. The PMU (headed by an implementation specialist and supported by the accountant and other DSCs) will oversee and report on compliance with social, technical and legal aspects of project activities, including redress for grievances. As applied to ongoing projects (footnote a), a technical evaluation committee comprising staff from MIPU, MFEM and the PMU will be established to evaluate tenders for consideration by the PRC prior to approval by national tenders board.
<p>Neither MIPU nor the Ombudsman Office has a mechanism in place to review procurement-related complaints.</p>	Medium	PMU will assist MIPU and PRC to establish a complaints mechanism.

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<b>Other risks</b>		
Lack of suitable construction materials may lead to delays in construction.	Medium	Vanuatu lacks good aggregates for concrete and sealing. The project will source locally available climate and disaster-resilient materials for reconstruction, but will also import materials from neighboring countries for civil works as needed.
Lack of sustainability of transport infrastructure.	Medium	The assets completed under the project will remain the responsibility of MIPU. The DSCs will prepare a 5-year routine and periodic maintenance plan for Efate ring road to enable budgeting. MIPU currently has in place community-based labor-intensive contracts for the Efate ring road.
Further natural disasters and the adverse impact on Vanuatu's economy.	Medium	The underlying principle of the government's NRESP is to restore the damaged transport infrastructure to a better-than-original condition. The NRESP will incorporate higher standards to withstand earthquake and flood flows. The reconstructed infrastructure will be disaster resilient and climate proofed. While this will improve some infrastructure in the reconstructed parts of ring road, the other parts of the ring road will continue to be at high risk, and prone to damage.
<b>Overall</b>	<b>Medium</b>	This is a medium-risk environment with mitigation plans to be put in place to manage the risks.

ADB = Asian Development Bank, CAC = community advisory committee, COM = council of ministers, DSC = design and supervision consultant, FIDIC = *Fédération Internationale des Ingénieurs Conseils* or International Federation of Consulting Engineers, MFEM = Ministry of Finance and Economic Management, MIPU = Ministry of Infrastructure and Public Utilities, NRESP = national recovery and economic strengthening program, PMU = project management unit, PRC = program recovery committee.

<sup>a</sup> ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grant to the Republic of Vanuatu for the Interisland Shipping Project*. Manila; and ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grant to the Republic of Vanuatu for the Port Vila Urban Development Project*. Manila.

<sup>b</sup> This practice is in place for the ongoing projects in footnote a.

Source: Asian Development Bank.