

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
<b>Country and Subnational Risks</b>		
<p><b>Interprovincial coordination.</b> The Jiangsu portion of the Shuiyang River channel needs to be upgraded by Jiangsu Province for the full benefits of the IWT components of the project to be achieved.</p>	Medium	During loan processing, the APDOT engaged Jiangsu Province inland waterway authorities to coordinate on this issue, and an agreement was formalized under which Jiangsu Province has agreed to carry out the work of upgrading the portion of the river within its boundaries.
<b>Sector Policies, Institutions, and Governance Risks</b>		
<p><b>Fraud and corruption.</b> Transport Sector has an established system of internal controls and anticorruption mechanisms.</p>	Low	ADB's Anticorruption Policy was explained in detail, and provisions regarding fraud and corruption in the procurement guidelines were highlighted during loan processing. The EA will hire and maintain an external procurement agency to handle all bidding before procurement begins.
<p><b>Institutional capacity and governance.</b> The EA has very strong capacity, and with experience in successfully implementing a number of IFI-funded projects. The five county-based IAs have limited capacity, and their management strength is acknowledged as weak by the APDOT.</p>	Low	The APDOT will set up an ADB project office to coordinate project implementation. The project administration manual sets the processes to be followed to implement the new approaches supported by the project. The project will finance a project management consultant and provide international training and domestic training to address the capacity requirements, based on a documented training needs analysis.
<b>Project-Specific Risks</b>		
<p><b>Financial management.</b> The EA has strong financial management mechanisms and good track record with a number of IFI. The APDOT meets ADB's financial management requirements. The capacity of county-based IAs has been assessed and has been found to be adequate.</p> <p>The financial projections of APPSCIG indicate risks associated with rapid expansion and limited profitability.</p>	Low	<p>The IAs will receive training in ADB's financial management and procurement procedures. Early communication of the requirements of annual financial audit will serve to clarify financial management expectations.</p> <p>The risk will be mitigated by requiring APG to provide adequate financial support to APPSCIG to ensure that it has adequate cash flows and that it discharges its debt service obligations.</p>
<p><b>Procurement.</b> The EA has reasonable procurement capacity and is experienced in procurement for IFI projects.</p>	Medium	The EA will hire and maintain an external procurement agency to handle all bidding. Training in ADB procedures was provided by an ADB procurement specialist during loan preparation and further training is planned during implementation. Prior review will be conducted for first-year ADB-financed contracts, and post-review for subsequent contracts.

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<p><b>Counterpart fund availability.</b> Counterpart funding will come from the Ministry of Transport, the provincial government, and commercial bank borrowings.</p>	Medium	Covenanted assurances are included in the loan and project agreement for timely provision of counterpart funding.
<p><b>Foreign exchange and interest rate.</b> Foreign currency is depreciating against the PRC's currency, which may cause a shortfall in the project budget and require more counterpart funds. Adverse changes in the floating interest rate for the loan may increase financing charges.</p>	Low	The government and the IA will pursue the early completion of project preparation, including the assessment of these risks and the implementation of measures to avoid or mitigate them.
<p><b>Implementation capacity.</b> Road works will be undertaken by an experienced resource base with a sophisticated design and construction capacity. The county-based IAs lack experience and are not familiar with ADB project reporting requirements. Inland waterway development initiatives are in their infancy in the PRC. The project poses health risks and environment risks that require close monitoring, but the county-based IAs lack the necessary experience and are not familiar with ADB project reporting requirements.</p>	Low	The project will finance project management training for the county-based IAs. The project will also finance international and domestic training.
<p><b>Safeguards.</b> The IAs may not be able to implement safeguards, including resettlement plans, properly.</p>	Low	The EA is highly experienced in ADB safeguards procedures and is currently executing another ADB transport project. Since resettlement is implemented by county-level agencies, the EA will oversee resettlement implementation and, from early on in project implementation, the IAs and relevant local agencies will receive training in ADB safeguard procedures.
<b>Overall</b>	<b>Low</b>	

ADB = Asian Development Bank, APDOT = Anhui Provincial Department of Transport, APG = Anhui Provincial Government, EA = executing agency, IA = implementing agency, APPSCIG = Anhui Port & Shipping Construction Investment Company Ltd., IFI = international financial institution, IWT = inland waterway transport, PRC = People's Republic of China.

Source: Asian Development Bank.