

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
Country and Subnational Risk		
<p>Macroeconomic risks</p> <p>The PRC's large reserves of foreign exchange, access to international credit markets, and strong government control over foreign borrowing minimize this risk.</p>	Low	Continuous monitoring by ADB of macroeconomic conditions and assessment of impacts of external shocks.
<p>Governance</p> <p>The PRC's well-established procurement, anticorruption, and financial management framework means that governance issues are not a risk to development outcomes and goals</p>	Low	Risk assessment updated under 2012 ADB-PRC CPS.
Sector Policies, Institutions, and Governance		
<p>Insufficient financing for subproject road maintenance</p> <p>The PRC and Yunnan have a weak track record for maintaining non-tolled roads, although fuel tax reform undertaken in 2009 should gradually increase maintenance resources.</p>	Medium	The project will seek to improve the sustainability of the trunk road maintenance sector, increase maintenance resources, and improve planning capacity. The EA has committed to increase resources and improve sustainability under a sector roadmap and through specific assurances to ADB. The EA will send a yearly performance and assessment report for the monitoring of progress on these commitments.
<p>Fraud and corruption</p> <p>Sector has an established system of internal controls and anticorruption mechanisms. However, corruption and collusion cases have been reported, as well as cases of local protectionism.</p>	Low	ADB's Anticorruption Policy was explained in detail and the provisions of fraud and corruption in the procurement guidelines were highlighted during loan processing. Before procurement begins, the EA will hire and maintain an external procurement agency to handle all bidding.
<p>Institutional capacity and governance</p> <p>The EA has very strong capacity, with experience in successfully implementing 6 ADB projects. The IA is a traditional road agency, with strong capacity in implementing its investment program. However, the IA has limited familiarity with modern approaches to road maintenance.</p>	Medium	The IA will set up an ADB project office to coordinate project implementation. The project operational 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 100 person-months of international training and 500 person-months of domestic training.
Project-Specific Risks		
<p>Counterpart fund availability</p> <p>Counterpart funding comes from the fuel tax revenues allocated to the IA by the EA. The track record of the EA in providing adequate counterpart financing is excellent.</p>	Low	Annual loan administration mission by ADB. Quarterly progress reporting by EA
<p>Implementation capacity</p> <p>Rehabilitation works are technically simple, and the IA is very familiar</p>	Medium	The project will finance a project management consultant and provide 100 person-months of international training and 500 person-months of

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with them. The IA has less familiarity with new approaches to be introduced by the project.		domestic training.
Capacity to select and appraise new subprojects	Medium	All subprojects will be subject to prior-approval by ADB on an annual basis. An operational manual will set the criteria and processes to be followed in selecting, designing, and implementing the subprojects. A project management consultant will assist in selection and appraisal of subprojects. An annual loan administration mission by ADB will review new subproject proposals.
While the IA is familiar with implementing road rehabilitation programs, it is has moderate capacity in planning rehabilitation works using economic criteria, in using performance-based maintenance contracts, in designing road safety features for rehabilitation works, and in managing environment and social safeguards.		
Ability to handle ADB's safeguard requirements	Low	The EA will implement the project's EARF, EMP, RF, RP, and SDAP. Specific clauses on safeguards management will be included in contractor and supervision consultant contracts. The EA will set up an environmental, safety, and social unit. The project management consulting firm will include environment, safety, and social specialists. The EA will provide quarterly monitoring and reporting in progress reports to ADB. Training will be carried out for PMO staff.
The project is classified as B for resettlement and environment, and C for indigenous peoples. The IA has no established processes for dealing with environmental impacts. The EA has robust processes for dealing with resettlement and environmental impacts, but not with other social risks.		
The EA may lack the ability to handle procurement properly.	Low	The EA has hired and will maintain an external procurement agency to handle all bidding. Training in ADB procedures will be provided by an ADB procurement specialist during loan preparation and during implementation. Prior review will be applied to all ADB-financed contracts. Annual financial audit.
The EA has reasonable procurement capacity and good track record with ADB projects. The IA has very limited experience in contracting out rehabilitation works.		
The private sector may lack the capacity to deliver on performance-based pilot contracts.	Low	Support during contract implementation will be provided by the PMC. Consultations with the market will be held to familiarize participants with the new contracting form.
Private sector interest in the rehabilitation and maintenance contract under output 2 may be low initially because the approach is new to Yunnan. Recent procurement initiatives on the Yunnan integrated road development project indicate very healthy competition in the road construction sector. Many potentially qualified companies exist in province but their experience is in performance-based expressway maintenance.		
Financial management may be weak.	Low	The IA will receive training in ADB's financial management and procurement procedures. Annual financial audit.
The EA has strong financial management mechanisms and a good track record with ADB. The IA meets ADB's financial management requirements.		

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<p>Improvement of roads under the project may raise new road safety issues.</p> <p>Improved pavement condition will lead to higher speeds, and current safety engineering of roads is often basic. This could lead to an increase in accidents.</p>	Medium	<p>The safety of the roads will be assessed before design. For roads with higher safety risks, greater safety features will be applied to reduce safety risks to a moderate level. During the first-year works, 10% of costs will be for road safety measures on average. Road safety audits will be performed at the design and completion stages for all roads. After the road works, a road safety awareness program will be carried out in the villages on subproject roads.</p>
Overall	Medium	

Source: Asian Development Bank.