

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

The risk assessment for the proposed Guangxi Nanning Vocational Education Development Project has been conducted in accordance with the governance and anticorruption policy of the Asian Development Bank to identify the main risks associated with implementation of the proposed project. The assessment identifies related mitigation measures built into the project design and assesses the residual risk with the mitigation measures included in the project design in place.

| Risks | Risk Assessment | Mitigation Measures or Risk Management Plan |
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| Inadequate financial management, management, and skills capacity. | Low | (i) There are sufficient resident skills, expertise, and experience in most areas for timely and successful implementation. In addition, there is a high-level government coordinating body to systematically and critically assess the project direction and outcomes. (ii) Training will be given to the PMO and local financial staff to familiarize them with ADB requirements. |
| Inadequate understanding of the roles of the executing, implementing, and other agencies. | Low | (i) A clear organizational structure for the project executing agency and/or implementing agencies is already established, and the separation of roles and responsibilities between parties is clear. (ii) Core activity work plans for executing and/or implementing agency personnel are well-developed. |
| (i) Implementing agencies lack experience with ADB projects. (ii) Some capacity building components will be partly managed by individual project TVET schools. | Medium Medium | (i) Consulting support and training is to be provided, including in the following areas: a. ADB disbursement procedures, and b. project accounting requirements. (ii) Detailed procedural guidance is to be put in place in advance of loan effectiveness. (iii) NPMO will oversee local project activities by requiring that it approves implementing agency plans and cost estimates. |
| Implementing entity's financial management policies and procedures for the project are inadequate. | Medium | Written financial procedures will be developed for the project and reviewed by suitably experienced GZAR officials. |
| Weak adherence to ADB guidelines as concerns to disbursement and withdrawal of project funds by the executing agency and implementing agencies. | Low | (i) The executing agency will liaise regularly with ADB to ensure that ADB guidelines are followed. (ii) Inter-agency coordination will occur at all levels to discuss the loan disbursement performance. (iii) Separate accounts are to be maintained for all project components financed by ADB and the government. |
| (i) High staff turnover and inadequate financial management skills. (ii) Implementing agency accounting staff lacks adequate understanding of ADB requirements. | Low | (i) Thorough training will be provided on ADB's disbursement procedures and project accounting requirements. (ii) Oversight of disbursement will be provided by experienced financial staff at the executing agency and GZAR level. (iii) Guidance and support will be provided by the management support consultant. |
| Account and bank reconciliations are not performed in a timely | Low | Qualified and trained staff will undertake account and bank reconciliations on a periodic basis. Minor |

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| manner. | | weaknesses identified in the FMA will be addressed prior to the project commencing. |
| Inadequate capacity in the internal audit department. | Medium | All implementing agencies' financial activities are routinely subject to internal audit coverage but there is scope to enhance capacity by modernizing auditing methods. |
| External auditors do not perform their functions adequately. | Low | Independent external auditors acceptable to ADB will be appointed by the executing agency to audit project accounts and compliance with financial covenants on an annual basis. |
| Regular financial reports suitable for user needs are not prepared. | Low | (i) The executing agency will prepare comprehensive semiannual progress reports (including financial reports) for ADB. (ii) The project consultants will advise on needed improvements to financial management reporting. |
| Procurement | | |
| Procurement capacity is low, leading to irregularities. | Medium | (i) Use of a specialist tendering company and a start-up consultant will enhance capacity. (ii) Training will be provided on ADB procurement procedures during project preparations and via the project management component. |
| Lack of monitoring mechanisms to oversee the procurement process. | Low | Effective supervisory and monitoring arrangements are already in place through the involvement of specialist procurement supervision offices of the executing agency. |
| Delays in the procurement process. | Medium | Mitigation measures will comprise: (i) training in project management and planning; (ii) use of standard bidding documents and an ADB advance contracting facility; and (iii) advice, support, and timely hiring of tendering company and consultants. |
| Non-performance by contractors or suppliers. | Low | Mitigation measures will comprise: (i) use of performance guarantees, and (ii) investigation and/or monitoring of past performance. |
| Other Project Implementation Risks | | |
| Poor social perception of TVET limits interest of potential trainees. | Medium | The central government is strongly supportive of TVET development, the need to improve TVET quality, and to enhance the value and social status of TVET education as a facilitator of economic growth and successful urbanization. |
| The commitment of TVET institutions to implementing change in teaching and learning methods is not sustained. | Medium | TVET improvement strategies have been developed through a consultative process that indicated a strong recognition of the need for improvement, and strategies were individually reviewed and finalized in consultation with the schools. |
| Insufficient interest by NMG and GZARG in integrating the pilot innovations. | Medium | NMG is willing to give a loan assurance that they will actively disseminate the pilot results and seek to make them models of best practice. There will also be ongoing policy dialogue on the pilot activities with relevant departments of NMG and GZARG. |
| Delays in counterpart funding. | Low | (i) Covenanted assurances have been received from NMG for timely provision of counterpart funding, together with NMG's strong and improving fiscal capacity. |

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| | | (ii) The PMO will directly coordinate with NFB. |
| Governance and Corruption Risks | | |
| Corruption in the procurement process. | Low | Mitigation measures will comprise: (i) as identified under procurement risks (above), (ii) involvement and inspections of local supervision and anticorruption departments at the city and provincial level, and (iii) increased transparency in the procurement process. |
| Lack of clarity regarding responsibility for anticorruption measures. | Low | (i) ADB contracts will contain clauses to make contractor responsibilities and consequences clear. (ii) The PAM includes anticorruption responsibilities, measures, and procedures. |
| Failure to enforce anticorruption measures. | Medium | (i) The government has introduced an integrity program that targets prevention and punishment. (ii) The project capacity-building program will include the strengthening of governance mechanisms. |
| Numerous standards for the behavior of public officials and complex language of regulations. | Low | (i) ADB guidelines and loan and contract documents will stipulate what constitutes unacceptable behavior. (ii) Anticorruption training is identified as a capacity building need under the loan. |
| Constrained capacity to conduct effective audit of ADB-financed projects. | Low | (i) The scope of project audit and audit certification will include compliance with loan conditions. (ii) ADB will receive and review annual audit reports (including any appropriate follow up). |
| Existence of conflicts of interest. | Medium | (i) No apparent institutional conflicts of interest have been identified during the project preparations. (ii) Local government regulations require officials to declare conflicts of interest. |
| Lack of transparency. | Low | (i) Loan conditions promote greater transparency and public availability of information, including the project procurement plan and contracts awards. (ii) Government officials in the PRC are being progressively required to declare personal and family wealth. |
| Overall Implementation Risk | Medium | |

ADB = Asian Development Bank, FMA = financial management assessment, GZAR = Guangxi Zhuang Autonomous Region, GZARG = Guangxi Zhuang Autonomous Region government, NFB = Nanning Finance Bureau, NMG = Nanning Municipal Government, NPMO = Nanning Education Project Management Office, PAM = project administration manual, PMO = project management office, TVET = technical and vocational education and training.

Source: Asian Development Bank.