

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
A. Project Implementation		
1. Implementation capacity. HPMO and HUCIC lack experience in implementing ADB-financed projects, resulting in delay in procurement, disbursement, and construction.	High	Start-up consultants will be engaged to provide technical support for land acquisition and resettlement, procurement, contract management, disbursement, and financial management. PIC will provide training on ADB guidelines and procedures.
2. Cost escalation. Cost escalation and delay during implementation result from contract variations and/or labor shortages due to high local construction activity.	Medium	HMG provided assurance on adequate and timely provision of counterpart funds. Detailed review of cost estimates was conducted during project preparation.
3. Construction supervision. Lack of construction supervision to oversee and evaluate contractor performance leads to substandard operation, administration, and services.	Medium	PIC will help HPMO and HUCIC with detailed design and technical specification review and advise on site supervisory and record systems. The project will engage professionally accredited construction supervision companies.
4. Associated projects. Upgrade of Hongqi pumping station or construction of Nanhu drainage pumping station is delayed.	Medium	HMG provided assurances on timely implementation of these works, which are necessary complementary investments planned by HMG using domestic funds.
5. Operation and maintenance. Unsustainable O&M of infrastructure components is due to the lack of capacity and budget.	Medium	PIC will provide capacity building and institutional strengthening support for O&M agencies, especially on wetland management. HMG provided assurances on O&M budget provision.
6. Land acquisition and resettlement. Land acquisition approvals and implementation are delayed.	Medium	Detailed design and measurement surveys will be promptly implemented, and the resettlement plan finalized. Compensation funds will be made available to affected people early, and compliance with the resettlement plan will be strict. Consulting support is provided at all stages.
B. Financial Management		
1. Counterpart funding. The provision of counterpart funding is delayed.	Medium	HMFB and the domestic bank have issued commitment letters. HMG provided assurances on timely provision of counterpart funding. A backup source of funding will be discussed during implementation.
2. Funds flow.	Low	HMFB will settle the ADB part of contractor claims. HMFB ensures a separation between the review and payment functions.
3. Experience in capital investment. While HMFB has experience with World Bank loan disbursement	Low for HMFB, medium for	Training, ideally on-the-job guidance, will be provided on ADB loan disbursement, project accounting, and financial reporting.

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and HUCIC has experience with capital investment on lake and river enhancement, neither have experience with ADB loan disbursement procedures.	HUCIC	HPFD, which has experience with ADB loan procedures, will provide supervisory oversight and guidance.
4. Staffing. Accounting staff do not have adequate understanding of ADB requirements.	Low for HMFB, medium for HUCIC	<p>HMFB has adequate and experienced financial staff for capital investment and will follow the requirements and guidelines issued by HPFD for the ADB loan.</p> <p>HUCIC has adequate and experienced financial staff for current needs but one additional employee is considered necessary for project implementation. All staff will need training on ADB project requirements and procedures.</p> <p>Start-up consultants will be engaged to train and assist with project readiness activities and PIC to provide ongoing training during project implementation.</p>
5. Accounting policies and procedures	Low	<p>HUCIC will prepare project accounts. HMFB has primarily a treasury and financial management supervisory role, it will not prepare project accounts.</p> <p>The accounting policies and procedures for ADB projects in the PRC, issued by the Ministry of Finance, are similar to those used by HUCIC for its current portfolios.</p> <p>HUCIC financial staff will be provided with the necessary training prior to loan effectiveness.</p>
6. Internal audit. Capacity of the internal audit department is not adequate.	Low for HMFB, medium for HUCIC	<p>HMFB has a separate internal audit unit, whose scope of work will include project financial transactions.</p> <p>Given the size of HUCIC, having its own internal audit staff to retain independence is difficult to justify. The planned approach is to intensify the government audit to recognize this control weakness and train HUCIC management to identify control weakness.</p>
7. External audit	Low	The China National Audit Office will audit accounts and financial records for the ADB loan annually.
8. Financial reporting and monitoring	Low	<p>The project financial reports will comply with the reporting requirements issued by the PRC's Ministry of Finance.</p> <p>HUCIC financial staff will be provided with the necessary training, HMFB has no responsibility for financial reporting for the project.</p>
9. Information systems for financial management.	Low for HMFB, medium for HUCIC	<p>HMFB utilizes financial information systems and control that comply with the PRC's Ministry of Finance standards.</p> <p>HUCIC will use its existing accounting software for financial reporting for the project.</p>

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C. Procurement		
1. Procurement capacity. HPMO and HUCIC lack experience in ADB procurement.	Medium	A procurement agent will be engaged to support HPMO and HUCIC, and meet ADB requirements. Training will be provided on ADB procurement procedures through the capacity-building component.
2. Procurement delays. Low procurement capacity leads to mistakes or delays.	High	PIC and procurement agent will provide support and training in project management and planning. Advance procurement action will be used appropriately. Standard bidding documents will be used.
3. Nonperformance of contractors or suppliers.	Low	Performance guarantees will be used. The past performance of contractors or suppliers will be investigated and/or monitored. ADB and PIC will provide advice when potential problems are identified.
4. Lack of monitoring mechanisms to oversee procurement process.	Low	Effective monitoring mechanisms for domestic procurement will be replicated under the project.
5. Contract variations occur frequently.	High	PIC will provide rigorous training for procurement staff. Experienced design institutes, tendering, and construction supervision companies will be engaged with ADB and PIC oversight.
D. Corruption		
1. Corruption in the procurement process.	Medium	HMG supervision and anticorruption departments will be involved and inspected. ADB procurement guidelines and procedures will be used. The project agreement requires increased transparency in the procurement process.
2. Conflict of interest.	Medium	Institutional due diligence was performed during project preparation and no apparent conflicts were identified. HPMO and HUCIC officials are required to declare any conflict of interest.
3. Anticorruption measures. Limited enforcement of anticorruption measures.	Medium	The PRC Government has introduced an integrity program that targets prevention and punishment. The project's capacity-building program will include the strengthening of governance mechanisms.
Overall Risk Assessment	Medium	

ADB = Asian Development Bank, HMFB = Huanggang Municipal Finance Bureau, HMG = Huanggang municipal government, HPFD = Huanggang Provincial Finance Department, HPMO = Huanggang project management office, HUCIC = Huanggang Urban Construction Investment Company, O&M = operation and maintenance, PIC = project implementation consultant, PRC = People's Republic of China.

Source: Asian Development Bank estimates.