

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risks	Risk Assessment	Mitigation Measures or Risk Management Plan
A. Public Financial Management		
1. Capacity building. Weak capacity of CDG, the PMO, and implementing agencies to effectively withdraw ADB loan proceeds, resulting in disbursement and construction delays.	Low	The project will provide consulting services and training to build capacity of CDG, the PMO, and implementing agencies, including training on ADB disbursement policies and procedures.
2. Internal control. Weak financial management and internal control mechanisms.	Low	<p>The project will provide training to financial management staff of the executing and implementing agencies.</p> <p>Close monitoring will be carried out during project implementation. In addition, a separate auditor's opinion on the use of the imprest account and statement of expenditure will be part of the audit report to be submitted to ADB not later than 6 months after the end of the fiscal year throughout project implementation.</p>
B. Procurement		
1. Procurement capacity. The PMO and implementing agencies do not have sufficient capacity or experience with procurement under ADB-funded projects, resulting in poor preparation of bidding documents and poor management of the procurement process.	Low	<p>The PMO is recruiting an experienced and qualified procurement agent through competitive bidding to assist with procurement planning and management.</p> <p>The project will also provide implementation consulting support for procurement management and contract administration.</p>
2. Construction supervision. Lack of construction supervision to oversee and evaluate contractors' performance, leading to substandard operation, administration, and service	Low	<p>Consultants will provide implementation assistance to CDG, the PMO, and implementing agencies to develop construction management and supervision policies and procedures.</p> <p>The project will also develop and implement a monitoring mechanism to ensure that supervision by relevant agencies is on time.</p>
C. Corruption		
1. Corrupt practices. Corrupt practices may affect project design, procurement, and implementation.	Low	<p>The project will assist CDG, the PMO, and implementing agencies to ensure good governance, accountability, and transparency in project operations.</p> <p>The implementing agencies will introduce a dual-signing system in which the civil works contract winner also signs an anticorruption contract with the employer.</p>

Risks	Risk Assessment	Mitigation Measures or Risk Management Plan
D. Others		
1. Potential water shortage due to economic and population growth	Low	The project will help develop a water resources protection and development plan, including water conservation and reuse measures. An assurance on endorsing and implementing the plan by CDG has been included.
2. Tariff reform plan not timely or adequately implemented	Medium	CDG has committed strongly to helping CWSC realize direct billing of end users. The project will provide training and capacity development to CDG and CWSC for implementing the institutional and water tariff reforms. An assurance on water tariff reform has been included in the project.
3. Inadequate wastewater capacity as a result of increased water supply capacity	Medium	CDG endorsed its wastewater treatment plan (2013–2020) in 2013. An assurance to implement this plan with progress targets has been included in the project. In addition, during project implementation, ADB will explore opportunities to help CDG in developing public–private partnership to facilitate the implementation of the plan.
4. Loan implementation consultant. Recruitment of the loan implementation consultant is delayed, which impedes procurement progress and construction supervision; and delays the start of necessary monitoring actions.	Low	Loan implementation consulting terms of reference are well specified in the project administration manual. Advance contracting will be provided to allow the PMO to start the recruitment process before loan effectiveness.
5. A reduction in revenue or an increase in investment cost may erode the financial viability of the improved water supply infrastructure output (the only revenue-generating output).	Low	CDG is committed to carrying out (i) the planned tariff reform to ensure timely revenue generation, and (ii) advance contract action to avoid any delay in project implementation.
6. O&M sustainability. Lack of sustainable O&M for project infrastructure.	Low	With the institutional and tariff reform to be undertaken, the CWSC can recover the cost and achieve O&M sustainability of the water supply infrastructure, the major output under the project. The project will provide training to CWSC staff and necessary equipment for O&M.
Overall	Medium	

ADB = Asian Development Bank, CDG = Chaonan district government, CWSC = Chaonan Water Supply Company, O&M = operation and maintenance, PMO = project management office.

Source: Asian Development Bank.