

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
<p>Coordination Weak interagency and development partner coordination may undermine effective implementation of the NRESP.</p>	L	<p>The government (through the COM) has established the PRC to guide the NRESP. It acts as the policy-making and project approval body and provides guidance to line agencies on NRESP reconstruction. It will coordinate with line agencies to formulate, implement, and monitor the project.</p> <p>The PRC has had little involvement in the project to date. MIPU is implementing the project, with regular reporting to the Prime Minister’s Office, through normal government processes.</p>	PRC, MIPU
<p>Technical design The effects of climate change and disaster could damage new and reconstructed infrastructure if designs are not resilient to disaster and climate.</p>	M	Sea level rise has accounted for a 50-year design horizon, and climate change effects were factored into the hydrology assessments. This has been determinative in producing the engineering designs of the original project and the scope under additional financing.	MIPU, DSCs
<p>Project management and implementation capacity Weak project management and low implementation capacity of MIPU could delay the project, including the timely completion of due diligence required for subprojects.</p>	H	To expedite implementation, MIPU is supported by international and national DSCs to undertake project management, feasibility studies, climate change adaptation and disaster risk management, engineering design, procurement, financial management, safeguards, construction supervision, monitoring and evaluation, and reporting. The DSCs have been integrated into MIPU's engineering unit to support the capacity building of MIPU staff. The DSCs have achieved all assigned deliverables on time to date. They have also worked with MIPU to establish an internal infrastructure working group to advise the DSC.	MIPU, DSCs
MIPU has low procurement and contract management capacity	M	The project has provided DSCs support to MIPU in procurement and contract management, and is assisting in the monitoring of progress, including resolving contractual and technical issues to ensure their timely completion following specified standards and specifications. Under ongoing projects, four engineers from MIPU attended the FIDIC workshop for 4 days in Suva, Fiji to familiarize themselves with the conditions of civil works contracts. ^a	MIPU, DSCs
Low implementation capacity of national contractors may delay large-scale civil works within the scheduled period.	H	DSCs conducted a national contractor capacity assessment, which confirmed that national contractors do not have the capacity to implement large-scale contracts in Vanuatu, but could operate successfully as subcontractors under the supervision of the main (international) contractor. This will facilitate capacity building of the national contractors in international best practices.	MIPU, DSCs, Civil works contractor
Extreme weather event during reconstruction results in delays.	H	The construction period has been determined with due consideration of weather events that can reasonably be assessed based on historical meteorological data and records. However extreme weather events will have negative impact on the construction works and will lead for delays in completion.	MIPU, DSCs, Civil works contractor
Governance (Public Financial Management)		The DSCs have consulted OAG and are working with PWD accounts and the Ministry of Finance and Economic Management (MFEM) to ensure the	MIPU, MFEM, OAG, DSCs

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Compliance with the financial management system may not be satisfactory.	H	2016 audit is undertaken in accordance with ADB financial requirements. The OAG proposes to undertake the audit and is familiar with the requirements.	
Governance (Procurement) MIPU staff lacks significant experience with ADB procurement policies and procedures.	M	The DSCs have undertaken the preparation of bidding documents, in consultation with MIPU and ADB, to ensure that all ADB policies and procedures are followed.	MIPU, DSCs, ADB
Corruption (Governance) MIPU lacks an effective anticorruption strategy or action plan.	M	The DSCs operate under an anticorruption policy, and all actions related to bidding follow both the government and ADB's procurement policies. DSCs advise MIPU and the government appropriately.	MIPU, MFEM, DSCs
Given cultural issues, bribes and corruption could be accepted as standard practice, particularly among members of the same island group.	M	MIPU and the project management unit (PMU) will support anticorruption efforts and transparency through wide consultation on major decisions regarding subproject selection and implementation.	MIPU, PMU, DSCs
Corruption-related issues may arise covering all aspects of project-financed activities.	M	Under the oversight of MIPU and the PRC, the DSCs strictly adhere to their own (firm's) transparency requirements. The MFEM and MIPU will require disclosure on the use of project funds. The DSCs will oversee and report on compliance with the social, technical, and legal aspects of project activities, including redress of grievances.	MIPU, MFEM, PRC, DSCs
Neither MIPU nor the Ombudsman Office has a mechanism in place to review procurement-related complaints.	M	The DSCs assist MIPU and the PRC to respond to any complaints that arise, in accordance with MIPU and ADB policy.	MIPU, PRC, DSCs
Other risks			
Lack of suitable construction materials may lead to delays in construction.	M	Vanuatu lacks hard aggregates for concrete and sealing. The contractor will source locally available and import materials from neighboring countries for civil works as needed.	Civil works contractor, DSCs, MIPU
Transport infrastructure lacks sustainability.	M	The assets completed under the project will remain the responsibility of MIPU. The DSCs have prepared a 5-year routine and periodic maintenance plan for the new assets on the Efate ring road to assist with government budgeting. MIPU has community-based labor-intensive contracts in place for the Efate ring road.	MIPU, PWD
Further natural disasters impact adversely impact on Vanuatu's economy.	M	The underlying principle of the government's NRESP is to restore the damaged transport infrastructure to a better-than-original condition. The NRESP will provide assets to Vanuatu design standards (or international standards, as agreed) to improve earthquake resistance and flood immunity. While this will improve some infrastructure in the reconstructed parts of the ring road, the other parts of the ring road will continue to be at high risk, and prone to damage.	MIPU, PWD
The project might face cost overruns because of potential exchange rate fluctuations against special drawing rights on project loans.	M	The exchange rate fluctuation loss on the original project is estimated to be \$194,000. ^c The additional financing will also include a loan component, and the potential currency fluctuation loss is estimated at \$209,000. These losses (total of \$403,000) have been accounted for in the price	MIPU, DSCs, ADB

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		contingency category of the financing plan and will be reserved until the end of the project. Any savings will be released at the end of the project. The DSCs will periodically review the impact of the currency fluctuation losses and will request ADB for any increase of this reserve, to avoid any over-commitment in the contract awards.	
Overall	M	This is a medium-risk environment, with mitigation plans to be put in place to manage the risks.	MFEM, MIPU, PWD, DSCs, ADB

H = high, M = moderate, L = low.

ADB = Asian Development Bank, COM = council of ministers, DSCs = design and supervision consultants, FIDIC = *Fédération Internationale des Ingénieurs Conseils* (International Federation of Consulting Engineers), MIPU = Ministry of Infrastructure and Public Utilities, MFEM=Ministry of Finance and Economic Management, NRESP = national recovery and economic strengthening program, OAG = Office of the Auditor General, PMU=Project Management Unit, PRC = program recovery committee, PWD = Public Works Department.

^a ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan, Administration of Grant, and Technical Assistance to the Republic of Vanuatu for the Interisland Shipping Support Project*. Manila; and ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grants to the Republic of Vanuatu for the Port Vila Urban Development Project*. Manila.

^b This practice is in place for the ongoing projects in footnote a.

^c ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loans, Grants, and Administration of Grants to the Republic of Vanuatu for the Cyclone Pam Road Reconstruction Project*. Manila.

Source: Asian Development Bank.