

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
1. Public Financial Management		
1.1 Capacity building.		
The CPG, the implementing agencies, and the PIUs lack experience in withdrawing ADB loan proceeds, which could result in delays of disbursements and construction at the initial stage.	Medium	<p>The CPG ensured that implementing agencies and PIUs will set up clear institutional arrangements, recruit qualified staff and build capacity through a training session organized by the PMC and the PRCM.</p> <p>The PMC will have a financial specialist to provide start-up support to the CPG, the implementing agencies, and the PIUs. The specialist will conduct training on ADB's disbursement procedures and project accounting requirements.</p> <p>The YPG will ensure that implementing agencies and PIUs with experience from other ADB projects in Yunnan Province share knowledge with those with weaker capacity.</p>
1.2 Areas of responsibility.		
The roles and responsibilities for financial management may be unclear, especially within PIUs and stakeholders at various levels.	Low	<p>The CPG and implementing agencies will strengthen the coordination mechanism between stakeholders through day-to-day communication.</p> <p>The CPG and implementing agencies will set up a clear institutional framework and provide training in project management system for various stakeholders to clarify their responsibilities.</p>
1.3 Counterpart funding.		
The high debt levels of implementing agencies may threaten the financial sustainability of the project components and result in late provision of counterpart funding.	Medium	<p>The CPG and the PMC will conduct public financial management training and workshops to ensure sound financial management.</p> <p>The PMC will provide financial training to staff of the agencies and the PIUs to avoid delays in the disbursement process.</p>
Late appropriation of domestic bank loans may delay counterpart funding.	Low	<p>The CPG and the implementing agencies agreed with their local banks to issue the commitment letters of the domestic bank loans for counterpart funds.</p> <p>The CPG and the PMC will conduct public financial management training and workshops to strengthen the creditworthiness of the project municipal and county governments to enable them to find alternative financing options.</p>
1.4 Foreign currency risk.		
Implementing agencies could encounter problems due to a lack of familiarity with handling foreign exchange and associated interest rate risks.	Medium	<p>The PMC will provide capacity-building support to strengthen management of foreign exchange and interest rate risks.</p>
1.5 Monitoring.		
Monitoring could be inadequate because institutional monitoring mechanisms are incomplete and internal audit mechanisms are inadequate or often nonexistent in the PIUs.	Medium	<p>The PMC will provide capacity-building support to strengthen the capacity of the PIUs' internal auditing systems.</p>

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
2. Procurement		
2.1 Capacity.		
The CPG, implementing agencies, and the PIUs lack experience in civil works and in goods procurement in ADB-funded projects.	High	<p>Start-up consultants and the PMC will have a procurement specialist to provide continuous assistance to the CPG, implementing agencies, and the PIUs.</p> <p>The CPG will engage an experienced tendering company to provide hands-on training to staff of the implementing agencies and PIUs.</p> <p>The PMC will provide training on ADB procurement procedures through the loan capacity-building component.</p> <p>The YPG will help ensure that implementing agencies and PIUs with experience from other ADB projects in Yunnan Province share knowledge with the project implementing agencies and PIUs.</p>
2.2 Procurement.		
Procurement could be delayed due to poor preparation of bidding documents and/or an overlong approval process.	Low	<p>The CPG will ensure that the implementing agencies and PIUs use standard PRC and ADB bidding documents.</p> <p>The CPG, the implementing agencies, and the PIUs will ensure early engagement of tendering companies and the PMC.</p>
2.3 Bidding documents.		
Contract variations could occur frequently during project implementation if detailed designs and bills of quantities have been poorly prepared.	Medium	<p>The CPG will ensure that the implementing agencies and PIUs engage experienced design institutes for preliminary engineering designs and detailed engineering designs of the subprojects.</p> <p>The CPG will engage (i) a procurement specialist as a start-up consultant for 6 person-months, and (ii) 3 qualified engineers and a procurement specialist as a part of the PMC for a total of 55 person-months for bid document review.</p>
3. Governance and Corruption Risks		
3.1 Patronage and nepotism.		
Political interference, conflicts of interest, and nepotism could affect project design, procurement, and implementation, leading to poor-quality subprojects.	Low	<p>The CPG and implementing agencies will conduct social awareness programs against corruption.</p> <p>The CPG will check performance and remind relevant agencies during day-to-day operations and communications of loan covenants against corruption.</p>
3.2 Institutional capacity.		
The lack of an effective anticorruption strategy or action plans in the PIUs could weaken anticorruption efforts.	Medium	<p>The PMC will organize seminars on ethical values and provide assistance to establish a public complaint system.</p> <p>The CPG will check performance and remind relevant agencies during day-to-day operations and communications of loan covenants against corruption.</p>

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4. Others		
4.1 Official and staff continuity. Changes in key personnel within the CPG and the implementing agencies could affect progress and continuity in project implementation.	Low	ADB will hold regular consultations and dialogue with officials from the PRC government, the CPG, and the implementing agencies, as well as the local beneficiaries to ensure their continuous support for the project. The CPG and implementing agencies will keep detailed project records to maintain good institutional documentation.
4.2 Land acquisition. Delays in approval and implementation of land acquisition in the project cities could put implementation behind schedule.	Medium	ADB and the CPG will monitor the implementing agencies to ensure that compensation funds are provided to the affected persons and that land is made available to contractors at an early stage of project implementation. The implementing agencies will appropriate counterpart funds on time to pay for the land acquisition and resettlement costs. The YPG will help ensure that implementing agencies and PIUs with experience from other ADB projects in Yunnan Province share knowledge with the project implementing agencies and PIUs.
4.3 Operation and maintenance. Implementing agencies may lack the funds and skills needed to efficiently operate and maintain the project facilities.	Low	The implementing agencies have assured ADB that they will appropriate enough financial and human resources for O&M. The PMC will conduct capacity-building training to provide the responsible government bureaus the latest knowledge and skills for long-term O&M of the urban road, flood dike, storm water retention pond, and solid waste management equipment assets.
4.4 Domestically funded project. Delays in completion of the project funded by Water Resource Bureau in city of Lufeng County could affect project implementation progress.	Low	The YPG and the Lufeng county government will coordinate with the Water Resource Bureau to implement and complete the project on-time.
Overall	Medium	

ADB = Asian Development Bank, CPG = Chuxiong Yi autonomous prefecture government, PIU = project implementation unit, O&M = operation and maintenance, PMC = project management consultant, PRC = People's Republic of China, PRCM = ADB Resident Mission in the People's Republic of China, YPG = Yunnan provincial government.

Source: Asian Development Bank estimates.