

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
Country and Subnational Risks		
Macroeconomic risk	Low	ADB will continuously assess and monitor changing macroeconomic conditions and the impacts of external shocks.
Governance	Low	The risk assessment was updated under the 2011–2015 ADB-PRC CPS.
Sector Policies, Institutions, and Governance		
Fraud and corruption	Low	ADB's Anticorruption Policy (1998, as amended to date) was explained in detail to the IA, and the provisions of fraud and corruption in the procurement guidelines were highlighted during loan processing. The EA hired and will retain an external procurement agency to handle all bidding.
Institutional capacity and governance	Medium	The EA has experience in the sector with other financial institutions but has limited exposure to ADB processes. The IA set up a dedicated ADB project management office to coordinate project implementation. ADB will provide procurement training at loan inception. The project will finance a project management consultant and provide \$400,000 for domestic and international training.
Inexperience in meeting ADB safeguards requirements	Medium	The project is classified as category A for environment, involuntary resettlement, and indigenous peoples. The project management consultant and external monitors will be engaged early, and training for EA, IA, and PMO staff will be conducted at loan inception.
Project-Specific Risks		
Implementation delay	Medium to Low	The PMO's inexperience with ADB procurement processes (particularly consultant recruitment) may cause initial project delays. ADB will help develop the initial RFP documents for the project management consultant.
Counterpart fund availability	Medium to Low	The Loan Agreement includes an assurance that counterpart funding will be made available in a timely manner. Conduct biannual loan administration missions and keep track of counterpart fund availability through the quarterly progress reports prepared by the EA.
Implementation capacity	Low	The ADB project team, together with assistance from PRCM, will provide training workshops on ADB's disbursement procedures and project accounting requirements for the PMO and IA staff at inception.
Lack of coordination among relevant agencies	Medium	Implementation will involve the coordination of multiple agencies and various county bureaus and will require dedicated resources for the project duration. The PMO is established in a dedicated office independent of the IA office. The IA will staff the PMO with appropriately qualified staff, continually update the implementation program, and frequently distribute it to the involved government agencies. The PMO will establish a project reporting system that identifies delays early and prompts appropriate interventions.
Monitoring mechanisms	Low	The PMO is inexperienced in preparing the required ADB financial reports and establishing institutional monitoring mechanisms. A separate auditor's opinion on the use of the imprest account

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Ability to handle ADB's safeguard requirements	Medium	<p>and statement of expenditure will be part of the audit reports. The IA's annual audited financial statements and audited project financial statements will be submitted to ADB no later than 6 months after the end of the fiscal year throughout the implementation period.</p> <p>The project management consultant will provide capacity-building support to strengthen the institutional monitoring capacity, including the internal auditing system.</p> <p>The project is classified as category A for resettlement, environment, and indigenous peoples. The IA has no established processes for dealing with environmental impacts. The EA has adequate processes for dealing with environmental and resettlement impacts, but not with other social risks, including trafficking.</p> <p>The EA through a dedicated PMO is to implement the project's EMP, RF, RP, EMDP, and GAP. Specific clauses on safeguards management will be included in contractors' and supervision consultant's contracts. The project management consultant will include environment, safety and social specialists. The EA will undertake quarterly monitoring and report to ADB. Training will be provided to PMO staff.</p>
Ability to handle procurement	Low	<p>The EA has reasonable procurement capacity and experience with foreign-funded projects. The IA has limited capacity. The EA hired an external procurement agency to handle all bidding. All regional roads procurement will be under ADB processes, and the project management consultant will ensure consistency in management reporting. Training in ADB procedures is required during implementation. Prior review will be applied to all ADB-financed contracts to be procured through ICB. Annual financial audits will monitor the integrity of the financial management systems.</p>
Financial management	Moderate	<p>The EA has financial management mechanisms. The IA meets ADB's financial management requirements. The IA will receive training in ADB's financial management and procurement procedures. Annual financial audits will monitor the integrity of the financial management systems.</p>
Road safety	Low	<p>Improvements in pavement condition under the project will lead to higher speeds on project roads, which may lead to an increase in accidents. Road safety audits were performed on the preliminary designs, and a 3 star ChinaRAP rating is required under a loan covenant. On project completion, a road safety awareness program will be carried out in nearby villages. ChinaRAP has been appointed to facilitate the regional and rural road design and safety audit processes.</p>
Overall	Medium	

ADB = Asian Development Bank, CPS = country partnership strategy, EA = executing agency, EARF = environmental assessment review framework, EMDP = ethnic minority development plan, EMP = environmental management plan, FM = financial management, GAP = gender action plan, IA = implementing agency, ICB = international competitive bidding, PMO = project management office, PRC = People's Republic of China, PRCM = People's Republic of China Resident Mission, RF = resettlement framework, RFP = request for proposal, RP = resettlement plan, SDAP = social development action plan.

Sources: Asian Development Bank; ADB. 2014. *Yunnan Pu'er Regional Integrated Road Network Development PPTA*. Consultant's report. Manila (TA 8149-PRC); project management office.