

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

<b>Risk Description</b>	<b>Risk Assessment</b>	<b>Mitigation Measures or Risk Management Plan</b>
LWUA and participating water districts will not have sufficient capacity to fully utilize funds available during implementation; high turnover rate of trained staff.	<b>Medium</b>	<p>The project will fund a review of LWUA's corporate planning and asset management. LWUA is working with the Commission on Audit (COA) to address the audit issues raised by COA.</p> <p>LWUA has provided a long list of water and sanitation subprojects. Most have low technical complexity.</p> <p>Preparation of more complex subprojects can be outsourced, if necessary, to a large pool of external consultants and experts available.</p>
Water districts may be reluctant to borrow, especially for sanitation.	<b>Medium</b>	<p>A TA grant will provide funding for capacity development and training for participating water districts to boost the sustainability of their water supply operations (focusing on business planning, project implementation and management, and technical or operational aspects, e.g., nonrevenue water reduction, improved MIS).</p> <p>The TA will also provide funds for information, education, and communication programs of the host LGUs, for water districts that are investing in septage management facilities through the sector loan.</p> <p>The TA grant will also fund capacity building to encourage sanitation investments. Participating water districts will be offered a 20% investment grant for sanitation subprojects.</p>
Water districts have limited capacity for financial management and procurement of ODA-funded projects, and for managing foreign exchange risk.	<b>Medium</b>	<p>Project management support and capacity building will strengthen the financial management capacity of LWUA and the implementing agencies.</p> <p>LWUA will ensure that water districts mitigate the foreign currency risk to achieve sustainability and financial viability.</p> <p>Workshops on safeguards and gender-responsive planning, and compliance with gender action plans and safeguards action plans (RPs, IPPs, and EMPs) will also be conducted.</p>
Operation of new infrastructure is not sustainable because of low tariffs, poor collection, inefficient operations, and/or limited human resources; fragmented regulation may affect the financial viability of water districts.	<b>Medium</b>	<p>LGUs and consumers are increasingly aware of the importance of access to safe drinking water and also show increasing willingness to pay for clean water. To minimize resistance to cost-recovery tariffs, extensive stakeholder consultations will be encouraged.</p> <p>Increased service coverage and lower nonrevenue water levels are expected to enhance the sustainability of participating water districts, which will help keep cost-recovery tariffs more affordable. The TA will fund several initiatives such as training water districts in business planning.</p> <p>Executive Order 62 (October 2011) appointed the DPWH secretary to rationalize government oversight of the water and sanitation sector, and a phased restructuring is expected. The National Economic and Development Authority, and DPWH have been publicly urging the creation of a central agency to manage the country's water resources. Discussions continue in government about an apex body for the sector and tackle fragmentation and weak regulation.</p>
Potential integrity risks at LWUA.	<b>Medium</b>	<p>Executive Order 62 (October 2011) ordered the transfer of LWUA from the Department of Health to DPWH for "a concerted and well-coordinated effort in formulating policies as well as planning and implementing programs and projects for the water sector," with DPWH authorized to exercise administrative supervision over LWUA. Department of Finance and DPWH representatives currently sit on LWUA's Board of Trustees, to sharpen LWUA's strategic direction and to manage public financial management, procurement, and corruption</p>

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Market conditions may make LWUA irrelevant, as water districts have alternatives to tap for financing and technical advice; LWUA's revenue base shrinks affecting its financial viability.	<b>Low</b>	<p>risks.</p> <p>Based on the IDD undertaken, the government addressed several past issues. Loan covenants include: (i) LWUA will meet all obligations set by Governance Commission for GOCCs; and (ii) any employees convicted or under criminal or other investigation are not involved in the project.</p> <p>ADB will review the first five subprojects and all subprojects of \$2 million or more.</p>
		<p>The government reiterated the need for LWUA's specialized lending and technical support for less-established and smaller water districts, and requested ADB to increase the loan amount from the initial \$50 million to \$60 million. LWUA is working closely with the DPWH to be the preferred partner for grants to the sector, to be able to offer loan-grant water financing.</p> <p>The project will provide funding, through a TA grant, for corporate planning for LWUA by water specialists (e.g., corporate planning, collection efficiency, finance, MIS) to update LWUA's business plan to reflect current market conditions, and to clearly demonstrate how LWUA can rebuild its revenue base and achieve sustainable operations. A comprehensive time-bound action plan on improving LWUA's collection rate will improve liquidity.</p> <p>Capacity development TA will include corporate planning for LWUA to identify key areas to strengthen, and to develop a business plan relevant to the sector's current needs. A dynamic long-term strategic planning process needs to be developed within LWUA and will need sustained commitment from LWUA's management. The process can be supported through the use of integrated business planning models, which will allow scenario building and analysis.</p> <p>Strong project management consulting support will ensure proper links with pertinent departments in LWUA (e.g., Operations, Loans, Finance) to ensure that critical project implementation activities (e.g., water district loan approvals, loan disbursements, tariff approvals, bidding and awards) are not delayed.</p>
Connection rates lower than projected	<b>Low</b>	<p>Water districts will encourage the target beneficiaries to get connected by offering them incentives (e.g., paying the connection fees in installments). To encourage inclusiveness, participating water districts must have initiatives for affordable access targeted at the poor (e.g., socialized or installment payment of connection fees).</p>
<b>Overall</b>	<b>Medium</b>	

ADB = Asian Development Bank, DPWH = Department of Public Works and Highways, LGU = local government unit, LWUA = Local Water Utilities Administration, MIS = management information system, TA = technical assistance.  
Source: Asian Development Bank.