

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

1. The implementation of infrastructure subprojects in Bangladesh is challenging but sufficient risk mitigations measures have been introduced to the project design to justify financing by the Asian Development Bank (ADB). Major risks and mitigating measures are summarized in the table below.

2. The project builds on the efforts and lessons learned from the first Public–Private Infrastructure Development Facility (PPIDF I) and is implemented by Infrastructure Development Company Limited (IDCOL), which is familiar with ADB’s procedures and has a proven record. Therefore, the preparation risk has been rated as moderate. IDCOL is a professionally-managed company with a limited mandate and functional responsibility. The operations of IDCOL are governed by the Companies Act (Bangladesh), 1994 and by the central bank regulations for nonbanking financing institutions. The segregation of policy-making, implementation, and functional responsibilities, and the absence of loan origination within the organization indicates IDCOL’s corporate governance structure operates using international best practices.

3. The corporate governance structure of IDCOL is also subject to review by the two domestic credit rating agencies. Noncompliance would have an immediate and adverse impact on IDCOL’s funding program.

4. With respect to project implementation, key risks are related to IDOCL capacity (due to scaling up of activities) and project complexity (as a result of the number of components). An institutional assessment was undertaken that recommended capacity enhancements to meet the needs of the growing infrastructure finance and renewable energy portfolio. These enhancements are currently being implemented. For instance, IDCOL’s Board has recently approved the hiring of 31 experts to complement the existing staff of 51. With respect to project complexity, the components proposed under the project are independent, so delays in one component will not affect implementation of the other component.

Risks	Assessment without Mitigation	Management Plan or Measures
Governance		
Public financial management. The risk that the project will not achieve its intended purposes.	Low	The implementing agency is a financial institution supervised by the Bangladesh Bank (central bank). Credit rating agencies have given IDCOL the highest rating of any domestic financial institution.
Procurement. The ADB funds, in particular from the OCR loan, will be used for purposes other than stated in the legal agreements.	High	There are serious concerns regarding the procurement procedures applied by the government in awarding infrastructure subprojects. An ADB procurement specialist assigned to ADB’s South Asia Department will be consulted with respect to the appropriateness of the procurement process before ADB management approves a subproject to be financed through the proposed project. There is ongoing communication between the project team and other development partners to share and exchange information on subprojects and contract awards.
Corruption. Bangladesh’s economy is widely regarded to suffer from weak governance. Despite good progress with respect to many social	High	There are serious concerns regarding corruption in the contract award process. Mitigation measures are detailed under procurement risk (above). Public procurement procedures that are universally

Risks	Assessment without Mitigation	Management Plan or Measures
indicators, perceived corruption adds to the costs of doing business and reduces the nation's attractiveness for foreign direct investment.		associated with high levels of corruption are addressed in a major reform program supported by ADB, the World Bank, and other development partners. The Parliament passed the Public Procurement Act in 2006, and the government recently demonstrated its strong commitment to pursuing critical governance reforms, with a focus on combating corruption, ensuring the effectiveness and independence of the judiciary, and depoliticizing the civil service. It has reconstituted the anticorruption commission, framed new laws to tackle corruption, taken tough legal and prosecutorial actions, and ratified the United Nations convention against corruption.
Political risks. General elections will be held in late 2013 and/or early 2014. Changes in government may adversely affect the support for specific infrastructure subprojects. <i>Hartals</i> (strikes initiated by the opposition) will most likely occur more frequently as the elections approach and may deter investors.	Low	In anticipation of possible government changes, the project design intentionally did not place restrictions on the sectors or types of infrastructure subprojects that can be supported, if they are in accordance with ADB and national safeguards policies. Furthermore, both parties in Bangladesh emphasize the need for infrastructure development and IDCOL is a well-respected organization.
Subproject structuring. Inadequate infrastructure subproject structuring can prevent financial closure of subprojects. Because Bangladesh has limited experience in structuring infrastructure subprojects.	Medium	The project builds on synergies with the ongoing PPP Program Operationalization TA ¹ , which provides capacity building for enhanced development and structuring of infrastructure subprojects. There is also a relatively robust pipeline of bankable subprojects.
Capacity of IDCOL deteriorates through frequent key staff turnover, including the CEO position.	Low	IDCOL has recently recruited a new CEO, restructured the organization, and revised the pay packages of the CEO and other staff to make them more competitive with market-based salaries. Generally, IDCOL staff members are motivated and share the IDCOL's goals. Most key staff other than the CEO has been with the company since its founding.
World prices for SHS components increase	Low	It is difficult to hedge against changes in world market prices, but IDCOL is supporting domestic manufacture of certain components of the SHS and solar panel assembly lines to reduce exposure to fluctuations in global prices. The SHS program includes a grant element that provides beneficiaries some shelter from price fluctuations.
Insufficient demand for renewable energy applications	Low	IDCOL will conduct awareness raising campaigns to increase the outreach of the renewable energy application program.
Overall	Medium	

ADB= Asian Development Bank, CEO = chief executive officer, IDCOL= Infrastructure Development Company Limited, OCR = ordinary capital resources, PPP = public-private partnership, SHS= solar home system, TA = technical assistance.

Source: Asian Development Bank.

¹ <http://www.adb.org/projects/44316-012/main>