RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
Governance		
Lack of enabling environment. The government's weak capacity in developing PPPs could lead to a lack of bankable subprojects for financing or subprojects that are designed inadequately and poorly priced. The government's Seventh Five-Year Plan for FY2016–FY2020[a] acknowledged that its PPP initiatives had not taken off as expected due to weakness in the abilities of line ministries to develop bankable PPPs.	High	This risk is mitigated by the fact that PPIDF 3 will build on the experience gained under PPIDF 1 and PPIDF 2 and working previously with IDCOL, as well as on synergies with the government's ongoing PPP program. The TA under PPIDF 3 will continue to provide capacity building for the enhanced development and structuring of infrastructure subprojects. The TA under PPIDF 3 will complement the ongoing efforts of ADB's OPPP, which has been providing transaction advisory services to the government's PPP Authority to help develop bankable PPP[b] deals. The authority has a pipeline of more than 40 PPP subprojects at different stages of development. IDCOL has also developed almost 30 PPP subprojects that it intends to finance under the PPIDF 3.
Corruption. Corruption is a major concern throughout the public sector, and it could adversely affect the contract award processes of PPP subprojects.	Medium	ADB's Anticorruption Policy has been explained to and discussed in detail with the government and IDCOL. ADB will reserve the right to investigate, directly, or through its agents, any violations of the anticorruption policy relating to the project. To support these efforts, relevant provisions of ADB's Anticorruption Policy will be included in the legal documents pertaining to the facility. Government procurement is a major source of risk leading to corruption, and PPIDF 3 will not finance any government-led procurement. ADB has the right to review the first 3 subprojects funded by ADB's loans, regardless of the subproject size, to review IDCOL's capacity to manage the subproject review and disbursement process. ADB has the right to take appropriate steps in case of controversial and inappropriate practices.
Economic slowdown in Bangladesh. Bangladesh's economy slows down which results in a reduction of GDP spending on infrastructure development.	Medium	The economy of Bangladesh has experienced rapid expansion over the last 5 years recording strong, steady average annual gross domestic product (GDP) growth of 6.3% since 2011. The country's GDP is expected to grow even faster with an average annual growth rate of 7.4% over the next 5 years. The government recognizes the importance of infrastructure development and has assigned it the highest priority in its recent budgets. This trend is expected to continue.

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
Lack of bankable projects. Not enough bankable infrastructure and renewable energy projects are available to encourage private sector participation.	Medium	The government is recently placing much more emphasis on infrastructure development and facilitating the mobilization of long-term capital. This is evidenced by the fact that IDCOL has a solid pipeline of prospective transactions to be funded under tranche 1 of PPIDF 3. Total IDCOL investment demand for these pipeline deals overall is about $583.8 million, i.e. well in excess of the $260.0 million PPIDF 3 tranche 1.
Lack of loans for take-out financing. No well-performing infrastructure loans are available from other financial institutions for take-out financing by IDCOL.	Low	Given the fact that the infrastructure finance market in Bangladesh is rapidly developing, it is expected that some of the domestic banks and finance companies will reach their exposure limits to the infrastructure sector. This will encourage them to “off-load” some of their loan exposure to this sector to IDCOL and thereby freeing up capital for fresh investments to the greenfield projects.
IDCOL-related Risks		
Capacity for structuring large infrastructure projects. IDCOL may lack the ability to effectively carry out large infrastructure subprojects to be financed under the facility in several different sectors. State-owned financial institutions in Bangladesh tend to be dysfunctional. Although IDCOL is one of the few that have so far successfully met their objectives and is able to adequately conduct its current operations, it is not equipped to cope with additional and more complex activities and demands. IDCOL’s governance and management structure need to be improved significantly for the facility’s intended results to be achieved.	High	The TA associated with PPIDF 3 will build IDCOL’s institutional capacity for risk management, subproject assessment, pricing, treasury operations, and environmental and social impact assessments. The TA will help the company expand its balance sheet in a prudent, risk-measured manner. IDCOL will explore the possibility of establishing a strategic partnership between the company and a reputable global infrastructure financing company to allow it to gain governance, managerial, and technical expertise.
Pressure on the balance sheet of Infrastructure Development Company Limited. Weakness in IDCOL’s flagship SHS business could adversely affect its financial viability. The SHS program has received positive global attention, but the market for SHSs has started to show signs of saturation. In addition, collection efficiency for IDCOL’s SHS portfolio has decreased significantly. This portfolio comprised almost 70% of IDCOL’s asset portfolio in FY2015, and any significant write-off would pose a threat to its financial viability.	High	IDCOL has been quick to identify the SHS portfolio collection problems and is taking corrective measures. In January 2016, it established a CEIP to help the organizations participating in its SHS program improve the efficiency of their collections in areas where the rates are poor. The program aims to ensure that the organizations make regular customer visits to provide after-sales service, and increase collections from overdue customers. It is also meant to improve coordination between IDCOL inspection team and the organization’s participating organizations’ field staff.[c] PPIDF 3 will not finance SHS installations.

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
Nonperforming loans and loan rescheduling. Rising rates of NPLs and loan restructuring also pose a risk to the quality of the financial intermediary's asset portfolio. Although IDCOL's gross NPL ratio of 1.6% and net NPL ratio of 0.2% are lower than those of most banks and industry peers, they have been increasing. Gross NPLs jumped from Tk198.8 million in FY2014 to Tk568.5 million in FY2015. Adding to these concerns, the volume of IDCOL's rescheduled loans, comprising 5 accounts, stood at Tk5,268 million in June 2016.	High	IDCOL has adopted measures to mitigate these risks. For example, it has been pursuing defaulting debtors through legal proceedings, increasing its debt recovery efforts, and preparing detailed plans to restructure NPLs. To step up these efforts, IDCOL will establish a loan recovery unit by hiring a senior staff member who will report to the head of IDCOL's credit management department as one of the conditions to be complied with prior to effectiveness of PPIDF 3 tranche 1. IDCOL will also strengthen its internal control and risk management process and capacity to ensure that sound financial management practices are in place. To do so, it will appoint a senior manager with background in risk management as the head of credit management. This manager will be a voting member on IDCOL's credit risk management committee.
Human resources related risks. Key staff in IDCOL leaves because IDCOL's Board and management lack the necessary commitment to execute and sustain the activities under the institutional building plan.	Low	IDCOL has hired Deloitte (India) to carry out a comprehensive strategic review of IDCOL's operations—including its human resources policies. The recommendations from this review will be supported through output 5 of the TA "Developing Human Resources and Training."
Overall	**Medium**	

ADB= Asian Development Bank, CEIP = collection efficiency improvement program, IDCOL = Infrastructure Development Company Limited, NPL = nonperforming loan, OPPP = Office of Public–Private Partnership, PPIDF 1 = Public–Private Infrastructure Development Facility, PPIDF 2 = Second Public–Private Infrastructure Development Facility, PPIDF 3 = Third Public–Private Infrastructure Development Facility, PPP = public–private partnership, SHS = solar home system, TA = technical assistance.

[a] Government of Bangladesh, Planning Commission. 2015. *Seventh Five Year Plan FY2016–FY2020: Accelerating Growth, Empowering Citizens*. Dhaka.

[b] ADB's Office of Public–Private Partnership was mandated by the government's PPP authority in June 2016 to provide transaction advisory service for a PPP road project planned by the Roads and Highways Department of the Ministry of Road Transport and Bridges.

[c] IDCOL has also instituted the following measures: (i) the appointment of a consultant financed by the World Bank to support participating organizations that are facing difficulty in installment collection; (ii) the appointment of program managers for poor performing participating organizations; (iii) the organization of district-level conferences in areas with poor collection performance; (iv) the involvement of the participating organizations in the safety-net programs of the government; (v) the introduction of the pay-as-you-go technology; (vi) the establishment of a national standard for SHSs; (vii) the arrangement of a nationwide awareness campaign for IDCOL's SHS program to increase the awareness of potential customers about the need to buy quality SHS products; and (viii) coordination with the Rural Electrification Board on its plan for grid expansion.

Source: Asian Development Bank.