

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
Climatic conditions: Adverse climatic effects on production	S	Diversification of crops and livelihood options, and adoption of climate-smart agriculture practices including use of flood- and drought-tolerant rice varieties	Ministry of Agriculture, Forestry and Fisheries (MAFF) with special service providers' (SSP) support
Technical: The quality of construction of small-scale infrastructure is frequently poor and subsequently poorly maintained.	S	Ministry of Economy and Finance (MEF) has made commitments to release funds to support operation and maintenance (O&M) of irrigation schemes to the Ministry of Water Resources and Meteorology. The project will have a design and construction supervision consultant team (DSC) to ensure high quality construction, and there will be a 10% O&M budget. The provincial support teams (PSTs) will ensure irrigation is registered on the Cambodian Irrigation System Information System and that the roads are included on the Ministry of Rural Development inventory to ensure eligibility for any government O&M funding.	Project implementation consultants (PICs), DSC, National Committee for Sub-National Democratic Secretariat (NCDDS), and project management unit (PMU)
Technical: Market does not respond well to climate-resilient rice varieties	L	The project will test the market demand for four different varieties of climate-resilient rice before promoting the production of the rice seeds.	MAFF PMU
Economic and Financial			
Delayed completion of civil works could reduce overall project rate of return (source: economic and financial analysis)	M	Advance and simplify approval process of the project and subproject. Design and supervision support is provided through a consultant's contract to ensure quality and timely delivery.	PIC, DSC, and NCDDS PMU
The sensitivity analysis indicates that a 20% decrease in benefits can significantly reduce overall project economic benefit (source: economic and financial analysis)	M	Promote strong linkages in agricultural livelihood development following the value-chain approach. Use disaster risk reduction (DRR) design and materials for infrastructure and ensure O&M (i.e., road and irrigation system) to increase life expectancy	PIC, NCDDS, and MAFF PMUs
Governance comprising financial management, procurement, anticorruption, capacity, and institutional			
Weak internal control systems (source: financial management assessment [FMA] report)	M	Follow the financial management manual and standard operating procedures for externally financed	PIC, NCDDS, and MAFF PMUs

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		projects, and financial procedures in the project administration manual.	
<p>Staff capacity Weak staff capacity in financial management</p> <p>Over-reliance on national consultants. Government staff would not be able to complete all tasks if the consultant post was vacant (source: FMA report)</p>	M	<p>A national financial management and procurement consultant at MAFF and a finance advisor at NCDDDS will be contracted to ensure there is sufficient capacity to comply with all accounting and reporting requirements. A finance advisor will also be recruited for each project province.</p> <p>The above consultants should also conduct further training of government staff in financial management and accounting software.</p>	NCDDDS, MAFF PMUs, finance consultants, and PSTs
<p>Annual financial reporting Weaknesses in the quality and timeliness of annual financial reporting.</p> <p>Annual project financial statements and audit reports have been completed and submitted to Asian Development Bank (ADB) after the 6-month deadline each year. This does not comply with covenants in the financing agreement, and gives rise to risks that ADB could apply measures including suspension of funding (source: FMA report)</p>	S	<p>MEF has instructed auditors to complete their work on time, with draft audit reports to be prepared in the fourth week of fieldwork.</p> <p>In addition, the project should (i) prepare draft financial statements before the audit fieldwork starts, (ii) prepare the list of requested documents from auditors before the audit fieldwork starts, (iii) respond promptly to queries from auditors, and (iv) report to MEF if audit fieldwork or draft reports are behind schedule.</p>	NCDDDS and MAFF PMUs
<p>Internal audit Weak internal audit departments. No internal audits have been performed for the project. The ministries' internal audit units may have insufficient capacity to audit externally funded projects.</p>	S	The project will ensure that internal audits are conducted every year by the internal audit departments of MAFF and NCDDDS or by external auditors appointed by the project, and internal audit reports are submitted to ADB annually.	NCDDDS and MAFF
<p>Executing agency The executing agencies have project management experience, but needed a consulting firm to provide support in project management and coordination.</p>	M	Continue to use consultants to provide technical and managerial support.	PIC, MAFF, and NCDDDS PMUs
<p>Funds flow External audit reports have noted some control weaknesses in the management of livelihood improvement group (LIG) funds.</p>	M	Reinforce the procedures in the project's LIG guidelines. Conduct further training, including updating of cashbooks and performing reconciliations.	MAFF and NCDDDS PMUs, and SSP for LIG support

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<p>Accounting policies and procedures</p> <p>Only NCDDDS has a project finance manual, and this is relatively short and does not include some important elements. As a result, some incorrect or inappropriate procedures could be used. There is no documentation of the delegation of authority, and substitute signatures are sometimes used. As a result, transactions may be authorized inappropriately. MAFF does not maintain a contract register to monitor the contract value against invoices paid. This increases the risk of overpayments against contracts. There are three unresolved tax issues in the current project as follows: (i) contractors for block grants have not been charging and paying value added taxes, (ii) the project has not applied salary tax to staff who are paid over the tax threshold, and (iii) the project has not deducted withholding tax from individual consultant invoices. The project does not have official tax exemption for these. There is therefore a risk of tax penalties being applied.</p>	M	<p>The project will prepare a more comprehensive project finance manual to explain project-specific financial procedures to be followed by all executing agencies, including (i) delegated authorities and approval levels, (ii) controls established for project activities, and (iii) funding to and reporting from subnational levels.</p> <p>A list of approval authorities should be prepared and included in the project finance manual. This should explain in what circumstances someone else can sign on behalf of the substantive officer.</p> <p>All executing agencies will use contract registers that show full details for each contract, including contract value, invoices paid, and contract balance.</p> <p>The government will cover taxes and duties for equipment, goods, and services through exemption, while ADB will cover taxes for works. The project will apply the Cambodian tax law on all costs which are not covered by exemptions.</p>	PIC, MAFF and NCDDDS PMUs, finance consultants, PSTs, and district support team
<p>Reporting and monitoring</p> <p>There have been material variances against the annual budget. There is a risk that variances will continue without more proactive budget management (source: FMA report)</p>	M	<p>Improve the variance monitoring and analysis throughout the year through producing more frequent finance reports for internal project use, highlighting the major variances, and discussing with project management, so that any corrective actions can be taken or budget revisions proposed.</p>	PIC, MAFF and NCDDDS PMUs
Procurement			
<p>The capacity of MAFF PMU in procurement can be a weakness when considering the volume of procurement and its monitoring requirement (source: procurement risk assessment)</p>	M	<p>The MAFF PMU will be able to utilize consultants that have the capacity to provide support in reviewing design, elaborating tender documents, and managing contractors. Furthermore, consultants have been designated to not only assist SSP management and tendering but also to support O&M activities, with resultant</p>	PIC and MAFF PMU

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		transfer of responsibilities to the concerned stakeholders. Furthermore, training will be provided to the PMU staff on procurement, contracting and monitoring subproject investments by PIC consultants.	
NCDDS has devoted staff required for procurement operations, who are supervised by the procurement committee.	M	The procurement staff has adequate technical skills to undertake the procurement of goods, works, and consultancy services. They have also access to various procurement training programs.	NCDDS PMU, PIC, and procurement consultants
PMUs include staff responsible for procurement.	M	The PMUs have used some of the standard procurement documents which have been approved by ADB. There are also established arrangements for handling the various stages of procurement. Checking and control of procurement processes are also in place and will continue to be used.	MAFF and NCDDS PMUs, PIC, and procurement consultants
Information management MAFF and NCDDS maintain a record of respective procurement proceedings along with all associated documentation for a minimum of 5 years.	L	MAFF and NCDDS will require designated human resources for document control and record keeping, and regularly post and update information pertaining to tenders, evaluation, and contract awards on its website for public access.	MAFF and NCDDS PMUs
Accountability measures	L	Detailed provisions on conflict of interest leading to ineligibility are clearly mentioned in regulations, which are fully complied with during the entire procurement process.	MAFF and NCDDS PMUs
Anticorruption			
Collusion in issuing tenders and the potential for corrupt practices	M	Experienced and impartial officials will be selected in the tender for evaluation committees and the project steering committee will have oversight on major contracts. Bidding evaluation and selection will be monitored fully, including reviews by PIC and DSC. Potential contractors will be issued with strict instructions on the bidding process in line with ADB procurement procedures.	MAFF and NCDDS
Implementation of subproject investments			
Lack of interagency coordination	M	The project will address interagency coordination issues by ensuring support from main technical agencies at provincial level, e.g., Provincial Department of Water	PSTs and NCDDS PMU

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		Resources and Meteorology and Provincial Department of Rural Development who will liaise with the PSTs under the provincial governors.	
The agencies in the provinces have limited capacity to oversee and monitor the infrastructure subprojects, SSPs, capacity building, and reporting.	M	The mobilization of the PIC and the use of MAFF and NCDDDS technical focal points will address that issue. The PSTs, through formal and on-the-job training provided by the PIC and PMU staff, will have the capability to overcome weakness in subproject monitoring and progress reporting.	PIC, NCDDDS and MAFF PMUs, and PSTs
Poverty, social, and gender			
The effects of climate change may damage project investments.	L	The infrastructure supported by the project takes into account climate resilience and has adaptation measures incorporated in the design. The project implementation consultants will review the designs at the start of the project prior to calling for proposals and tenders	DSC, PIC environmental safeguard consultants, and NCDDDS PMU
Environmental risks including construction risks and damage from fertilizer and pesticide residues	L	Adequate resources have been allocated for environmental safeguards preparation, implementation, monitoring, and reporting. All subprojects will be screened for climate risks and incorporate risk reduction measures. Integrated pesticide management training will be undertaken by MAFF.	DSC, MAFF and NCDDDS PMUs, PIC, and SSP for agriculture value chain
Involuntary resettlement on subprojects Possibility that small land areas required for road construction or canal construction may not be donated voluntarily	L	Design alternatives will be assessed to minimize the need for land acquisition. The resettlement framework will be used to screen and select subprojects during implementation, and to guide the preparation of land acquisition and resettlement plans where required, and to conduct and report the due diligence required to establish voluntary land donation bona fides. Sufficient resources are placed in contingency to cover any involuntary resettlement.	DSC, MAFF and NCDDDS PMUs, and PIC social safeguard consultant
Impact on indigenous peoples	L	Small population of indigenous peoples in nine out of 271 communes. An indigenous peoples development framework has been prepared and agreed.	PIC social safeguard consultant and MAFF and NCDDDS PMUs

S = substantial, M = moderate, L = low.

Source: Asian Development Bank.