

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN<sup>1</sup>

Risks	Assessment without Mitigation	Management Plan	Assessment with Mitigation
<b>Technical Design Risk</b>			
1. The effects of climate change could damage implemented infrastructure if designs are inadequate.	<b>Medium</b>	The project will mitigate this risk, given the close location of proposed infrastructure to the coastline and potential increased rainfall over the design life, by requiring conservative design assumptions regarding sea-level rise and hydrology, and will require use of quality materials to international standards.	<b>Low</b>
2. Underestimation of infrastructure requirements might cause delays and increase costs during implementation.	<b>Medium</b>	The project design mitigates these risks by (i) incorporating specific provisions in tender documents; (ii) requiring minimum provision of physical plant at mobilization, detailed quantification of engineering risks, and adequate contingencies; (iii) using preliminary subproject designs and associated expected costs that generally follow the experience of ongoing implementation of projects in the country; and (iv) holding community consultations in advance on subproject selection within each project component and access to resources, especially as pertaining to long-term maintenance needs.	<b>Low</b>
3. Ability to properly prepare subprojects (including documentation required under the Environment Act 1998 and Environment Regulations 2008 and receipt of development consents and DEPC approvals) and implement subprojects	<b>Medium</b>	While the project includes appropriate safeguard frameworks, mitigation of this risk is dependent on attention being paid in staffing the MIPU to prepare and implement safeguard requirements during implementation of the investments. The government is expected to appoint permanent staff in key positions at MIPU to ensure that infrastructure investments are implemented and maintained. The sustainability of investments is dependent on compliance monitoring during construction and operation.	<b>Low</b>
<b>Financial Risks of Civil Works</b>			
Budgetary allocations for the project could be inadequate as a result of underestimated costs or the potential cost of defending claims lodged by contractors.	<b>Low</b>	During the project preparatory phase, costs have been estimated based on ongoing projects and realized costs. To further mitigate these risks, the VPMU will (i) continue to estimate costs based on realized costs, (ii) prepare subprojects for bundling and/or concurrent implementation, (iii) identify subprojects in advance, (iv) use strict and effective contract conditions to mitigate slow contractor performance, (v) require a guarantee by the contractor for 1 year following civil works to ensure construction quality, and (vi) continue to introduce increased competition through private sector participation.	<b>Low</b>

<sup>1</sup> The Risk Assessment and Management Plan was prepared for the Ministry of Infrastructure and Public Utilities, including the Public Works Department, as it will be the implementing agency for the infrastructure investment and considering that its capacity to undertake large development projects is low.

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<p><b>Institutional Reforms and Sector Restructuring Risks</b></p> <p>Development of an effective MIPU depends on successful capacity development under the project and adequate government staff and funding. Government commitment to the reform process could wane or be restricted by other government agency guidance. Further risks include the government not progressing with timely policy and institutional reforms, and resource shortages within MIPU.</p>	<b>Medium</b>	<p>The project design mitigates these risks through close collaboration and cooperation via a component that involves consultations with the government. ADB project and TA review missions, as well as country consultation missions, will engage in regular dialogue to maintain support and commitment. ADB will continue to work closely with development partners such as AusAID to promote sector governance improvements.</p> <p>The government will establish the VPMU in the MFEM as a dedicated unit for managing large and nationally significant projects with allocation of budget and core staff. Institutional and structural reform of the PWD is also being provided by AusAID's assistance under the Vanuatu Transport Sector Support Program Phase 1.</p>	<b>Low</b>
<p><b>Project Management Capability</b></p> <p>Although the government has been involved with ADB in the past and other ongoing development partner projects, these projects have typically been managed through separate PMUs staffed by international consultants. Consequently, agencies such as MIPU do not have the required capacity to manage projects on their own and thus may be unable to accommodate ADB demands.</p>	<b>High</b>	<p>A VPMU will be established within the MFEM for day-to-day project implementation. The VPMU will be managed by a project manager, who will ensure that a sound financial management system is instituted and is linked to key implementing agencies such as the PWD and the DEPC, and that proficient and skilled staff will be engaged for the project. A key task of the project focuses on institutional restructuring and capacity development. A key outcome of the project is for the VPMU to be self-sufficient and able to ensure that the more rigorous requirements of ADB and other partners are capably met by relevant agencies.</p>	<b>Low</b>
<p><b>Ability to Restructure MIPU</b></p> <p>Professionally qualified and skilled staff are lacking in key financial, technical, and managerial positions within government agencies due to a lack of resources. Additionally, MIPU has had a recent problem in appointing staff to plan, design, and implement projects funded by development partners.</p>	<b>High</b>	<p>The project will undertake a significant training needs assessment and prepare a capacity building and institutional strengthening action plan based on an agreed upon organizational structure and required resources. The government is expected to appoint permanent staff in key positions at MIPU and PWD to ensure that the infrastructure investments are implemented and maintained. Institutional and structural reform of the PWD is also being provided with AusAID assistance under the Vanuatu Transport Sector Support Program Phase 1.</p>	<b>Medium</b>
<p><b>Availability of MIPU Funds and Staff Resources</b></p> <p>The government is widely recognized as having limited resources, such as the ability to hire staff and provide timely financial support.</p>	<b>High</b>	<p>The agreed upon amount of government funds in the form of personnel, office space, and equipment will be described in detail, documented, and set aside based on the proposed implementation schedule.</p>	<b>Low</b>
<p><b>Governance (Public Financial Management)</b></p> <p>The institutional capacity of</p>	<b>High</b>	<p>The project includes funding for institutional</p>	<b>Low</b>

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MIPU to manage finances, especially in terms of project disbursements, is low; it has no effective internal controls and lacks recent audits.		reform and capacity development. Development partners will contribute to the project through the MFEM, which needs to be closely scrutinized during initial implementation.	
Cost and time overruns of subprojects could result from disbursement delays and low capacity of other stakeholders.	<b>Medium</b>	Early development of an M&E system during implementation will ensure that disbursements from the MFEM to consultants and contractors are timely.	<b>Low</b>
The OAG may not be able to conduct an independent audit of the project in a timely manner.	<b>Substantial</b>	An independent external auditor will be engaged to audit the project account.	<b>Low</b>
<b>Governance (Procurement)</b> The newly established VPMU is unlikely to have significant experience with ADB procurement policies and procedures.	<b>Medium</b>	Project implementation staff will be required to attend ADB's procurement and project implementation training. Training needs to be provided in the early stages of preconstruction activities.	<b>Low</b>
Potential implementation delays due to slow engagement of consultants	<b>Medium</b>	Request ADB Management approval for advance action to begin the engagement of consulting services.	<b>Low</b>
General lack of procurement capacity in Vanuatu and in MIPU (see supplementary document 17 in Appendix 2 of the RRP)	<b>Medium</b>	Staff the VPMU with capable personnel, supported by international and national consultants, particularly in key procurement areas. Differentiate works, goods, and services clearly in the borrower's guidelines for procurement of goods and services.	<b>Low</b>
<b>Governance (Corruption)</b> MIPU and associated agencies do not have an effective anticorruption strategy or action plan.	<b>Medium</b>	The VPMU will prepare an anticorruption strategy and action plan for agencies involved in the tender evaluation and contractor selection processes.	<b>Low</b>
Given cultural issues, bribes and corruption could be accepted as standard practice, particularly among members of the same island group.	<b>High</b>	Relevant agencies together with the VPMU will support anticorruption efforts and transparency through wide consultation on major project decisions regarding reforms, and subproject selection and implementation.	<b>Low</b>
Neither the government nor the Ombudsman Office has a specialized mechanism in place to review procurement-related complaints.	<b>Medium</b>	The VPMU will establish a complaints mechanism.	<b>Low</b>
<b>Overall</b>	<b>Medium</b>		<b>Low</b>

ADB = Asian Development Bank, AusAID = Australian Agency for International Development, DEPC = Department of Environmental Protection and Conservation, M&E = monitoring and evaluation, MFEM = Ministry of Finance and Economic Management, MIPU = Ministry of Infrastructure and Public Utilities, OAG = Office of the Auditor-General, PWD = Public Works Department, TA = technical assistance, VPMU = Vanuatu Project Management Unit.