

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

The risk assessment for the Xinjiang Altay Urban Infrastructure and Environment Improvement Project has been conducted in accordance with the Asian Development Bank's governance and anticorruption policies. The assessment considers specific risks in three key areas—public financial management, procurement, and anticorruption. The assessment analyzes related mitigation measures built into the project design and assesses risk “with” and “without mitigation”. The without-mitigation assessment assumes that none of the mitigation measures referred to is in place.

Risks	Assessment without Mitigation	Management Plan or Measures	Assessment with Mitigation
A. Public Financial Management			
1. Inherent Risks			
(i) Country-specific risks: inadequate financial management, management, and skills capacity	Low	There are sufficient resident skills, expertise, and experience in most areas for timely and successful implementation. In addition, a high-level coordinating body within government systematically and critically assesses directions and outcomes of the project.	Low
(ii) Entity-specific risks: limited understanding of roles between APG (the executing agency), implementing agencies, and other agencies	Low	A clear organizational structure of APG and implementing agencies is already established in relation to the project; separation of roles and responsibilities between parties are clear. Work plans of core activities for staff at APG and implementing agencies are well developed.	Low
(iii) Project-specific risks: complex structure of the project (26 components in 5 counties), and small institutions with inherently low capacity	Medium	(a) Technical assistance will be provided for (1) disbursement procedures of ADB, (2) project accounting, (3) strengthening of the internal audit function, and (4) budgetary control. (b) Experience and capacity that exists at APG and the regional government will be leveraged and made available.	Medium
Overall Inherent Risk	Medium		Medium
2. Control Risks			
(i) Inadequate financial management policies within the implementing agencies and poor procedures for the project	Medium	Fuhai county PIU will employ an accountant and a finance clerk. The loan consultant will provide financial management training and support.	Low–medium
(ii) Funds flow: weak interpretation of and adherence to ADB guidelines in disbursement and withdrawal of project funds by APG and implementing agencies	Medium	(a) Interagency coordination at all levels to discuss the loan disbursement performance and provide regular training on ADB's disbursement policies; (b) separate accounts to be maintained for all project components financed by ADB and the government, and to be audited by the state auditor; and (c) direct payment procedures to be generally used for large civil works, equipment contracts, and consulting service contracts	Low
(iii) Staffing: Staff have inadequate financial management skills. PIU accounting staff have limited understanding of ADB requirements.	Medium	(a) Provision of thorough training on ADB's disbursement procedures and project accounting requirements, (b) oversight of disbursement by experienced financial staff at APG, and (c) guidance and support from loan consultants.	Medium
(iv) Accounting policies and procedures: account and bank reconciliations are not	Low	Qualified and trained staff undertakes account and bank reconciliations on a periodic basis.	Low

Risks	Assessment without Mitigation	Management Plan or Measures	Assessment with Mitigation
performed in a timely manner.			
(v) Internal audit: inadequate capacity in the Internal Audit Department	Medium	Strengthening the internal audit function is to be included in the project capacity building component.	Medium
(vi) External audit: fails to undertake a thorough review of compliance with accounting regulations and financial covenants, and to provide ADB with audited annual project accounts in a timely manner.	Low	APG will appoint independent external auditors acceptable to ADB and the government to audit project accounts and compliance with financial covenants on an annual basis. Such project financial statements and audit reports will be submitted to ADB, which will retain a right to question the auditors.	Low
(vii) Reporting and monitoring: failure to produce regular financial reports that are suitable for user needs.	Low	APG is to be required to make comprehensive progress reports (including financial) to ADB on a biannual basis. Financial project reporting will need to be in compliance with the Ministry of Finance requirements. Xinjiang will oversee compliance with these requirements.	Low
(viii) Information systems are not secure enough and backup of financial data is not done on a regular and timely basis.	Low	The financial management assessment concludes that existing arrangements are adequate.	Low
Overall Control Risk	Medium		Medium
2. Procurement Risks			
(i) Procurement capacity: the local implementing agencies do not have sufficient capacity or recent experience with procurement under similar ADB-funded projects.	High	(a) The local implementing agencies will have limited involvement in procurement; APG, which has proven and recent experience, will undertake most procurement activity; (b) use of specialist tendering companies will enhance capacity; and (c) there will be training in ADB procurement procedures during project preparation and via the loan capacity building component.	Low
(ii) Lack of professionalism in the procurement function	Medium	(a) Use of specialist tendering companies to support the procurement function, (b) secondment of procurement professionals to Altay PMO and involvement of the procurement office of Altay Construction Bureau, and (c) use of accredited experts for bid evaluations	Medium
(iii) Lack of monitoring mechanisms to oversee the procurement process	Medium	(a) Effective supervisory and monitoring arrangements are already in place through the involvement of Xinjiang Uygur Autonomous Region via Xinjiang PMO and Altay Construction Bureau. (b) A sound records management system in APG and implementing agencies to be established	Low
(iv) Contract variations occur frequently because of poor quality of detailed design and bidding documentation	High	Involvement of (a) experienced design institutes and (b) loan consultants in design review and bid document reviews	Low
(v) Lack of proper procurement scheduling	Low	A detailed procurement plan has been prepared under the project preparatory TA and is subject to ADB review.	Low
(vi) Delays in the procurement process	High	Training in project management and planning: (a) competent use of advance procurement action, (b) use of standard bidding documents, and (c) advice and support of tendering companies and loan consultants	Medium
(vii) Nonperformance by contractors or suppliers	Medium	(a) Use of performance guarantees, (b) investigation and/or monitoring of past	Low–medium

Risks	Assessment without Mitigation	Management Plan or Measures	Assessment with Mitigation
		performance, and (c) advisory support from loan consultants and/or ADB PRC Resident Mission where potential problems are envisaged	
Overall Procurement Risk	Medium		Low–medium
3. Governance and Corruption Risks			
(i) Corruption in the procurement process	High	As defined under procurement risks (see above), (a) involvement and inspections of local supervision and anticorruption departments within APG and the regional government; (b) use of ADB procurement guidelines and procedures; (c) increased transparency in the procurement process (see [vii] below); (d) procurement review by ADB/COSO to assess effective implementation by APG, at the midpoint of project implementation; and (e) establishment of a sound records management system at APG and implementing agencies	Low–medium
(ii) Lack of clarity about responsibility for anticorruption measures	Medium	(a) While overlaps undoubtedly exist, the national focus to identify and address corruption is unlikely to result in possible corruption not being investigated. (b) ADB contracts will contain clauses to make contractor responsibilities clear, as well as consequences. (c) The PAM will include anticorruption responsibilities, measures, and procedures.	Low
(iii) Failure to enforce anticorruption measures	Medium	(a) The government has introduced a new integrity program that targets prevention and punishment. (b) Loan capacity building program will include the strengthening of governance mechanisms.	Low–medium
(iv) Numerous standards for the behavior of public officials and complex language of regulations	Medium	(a) ADB guidelines and loan documents will stipulate what constitutes unacceptable behavior. (b) Anticorruption training is defined as a capacity building need under the loan.	Low
(v) Constrained capacity to conduct effective audit of ADB-financed projects	Medium	(a) Scope of project audit and audit certification to include compliance with loan conditions (b) ADB to receive and review annual audit reports (including any appropriate follow-up)	Low
(vi) Existence of conflicts of interest	Medium	Institutional due diligence has been performed under the project preparatory TA and no apparent conflicts have been identified. Local government regulations require officials to declare conflicts of interest.	Low–medium
(vii) Lack of transparency	Medium	Loan conditions to promote greater transparency and public availability of information, including the project procurement plan and contracts awards	Low
Overall Governance and Corruption Risk	Medium		Low–medium
Overall Project Risk	Medium		Low–medium

ADB = Asian Development Bank, APG = Altay Prefecture Government, COSO = Central Operations Services Office, PAM = project administration manual, PIU = project implementation unit, PMO = project management office, PRC = People's Republic of China, TA = technical assistance,
Source: Asian Development Bank.