

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

1. The project design is based on strong government commitment to enforce the phase-out of the polluting FCKs. The technical design specification for improved zigzag kiln is being finalized. ADB plans to provide capacity building to Bangladesh Bank and PFIs to monitor and manage sub-borrowers' compliances with required environmental and social management system, ADB and International Labour Organization's core labor standards, gender action plan, and procurement practices acceptable to ADB. This will also reduce ADB's reputational risk working in the brick sector in Bangladesh. More detailed risk and mitigating measures are provided below.

Risks	Assessment without Mitigation	Management Plan or Measures	Assessment with Mitigation
Policy			
Government's inability to uphold its directive to phase out the fixed chimney kilns (FCKs).	Medium	ADB has obtained strong government commitment to maintain its policy direction. The government has committed not to repeal, suspend or substantially amend the relevant government directive without ADB approval.	With Mitigating Measures
Commercial			
Low technical and commercial viabilities from vertical shaft brick kiln (VSBK), hybrid Hoffman kiln (HHK), and tunnel kiln pilot projects.	Medium	The World Bank is developing the technical (design) standard for improved zigzag kiln. A subproject for upgrading to improved zigzag kiln is eligible for financing only after DOE has approved and published such general design standard and certified that the proposed subproject meets the published design standard. If DOE is unable to approve and publish general design standards for VSBK, HHK, or tunnel kiln, these types of subprojects are eligible for financing only after DOE has certified that the subproject design meets international best practices.	With Mitigating Measures
Lack of local capacities to support the construction, maintenance, and operation of the advance brick kilns.	High	The proposed capacity development (TA) will provide capacity building including twining arrangement for the local brickfields to provide technical backstopping. Additional TAs are also being provided by the World Bank and United Nations Development Programme.	Medium
Technical			
Production from the advanced brick kilns cannot reach full capacity.	Medium	Some existing HHKs and tunnel kilns cannot reach full capacity due to various management, logistics, and other operational issues. This could be resolved through improvement of the operational learning curve overtime and continued knowledge sharing of operational experiences, as promoted by development partners.	Medium

Lack of standard design specifications in improved zigzag kiln, VSBK, HHK, and tunnel kiln in Bangladesh to achieve the desired environmental benefits.	Medium	Similar to the commercial risk mitigating measures above, ADB is coordinating with the World Bank, which is implementing a TA to standardize the improved zigzag kiln design, which is expected to become available in 2012. The technical design standards for VSBK, HHK, and tunnel kiln are not available in Bangladesh. However, international benchmarks for all types of brick kiln technologies are widely available. In the case that the technical standards for improved zigzag kiln, VSBK, HHK, and tunnel kiln are not available during the project implementation period, the proposed capacity development TA will provide support to DOE to verify all the design standards on a case-by-case basis to meet international best practices.	With Mitigating Measures
Financial management PFI's are not interested in channeling the ADB funds to sub-borrowers because of the lack of incentives (e.g. cumbersome procedures, small fund size, and unattractive interest margin).	Medium	ADB has carefully examined the lessons learned from existing Bangladesh Bank HHK credit facility. ¹ They include (i) the lack of awareness of the credit facility, (ii) PFI's capped 4% profit margin that is the same as the general lending spread (therefore does not make this credit facility particularly attractive), (iii) perceived trouble in taking additional procedures to apply the funds from Bangladesh Bank for only \$250,000 and (iv) the limited amount available (\$250,000) for each subproject that can only apply to equipment costs (not for land, building, labor, and material). These lessons learned will be factored into the design of the ADB project	With Mitigating Measures
Procurement Noncompliance to the established private sector or commercial practices acceptable to ADB.	Medium	The proposed capacity development TA will (i) support the preparation of a procurement manual to be adopted by PFI's and sub-borrowers and (ii) review the ongoing procurement process whether it is acceptable to ADB. Any noncompliance could lead to disqualification of any PFI and the immediate repayment of the ADB funds.	With Mitigating Measures
Corruption Brickfields use the funds from PFI's for purposes other than stated in the loan agreements.	Medium	ADB will require quarterly monitoring reports from Bangladesh Bank on the utilization of the funds. Bangladesh Bank will in turn demand the corresponding monitoring reports from the PFI's, which are required to conduct the same quarterly review on the sub-borrowers. If irregularities are identified, PFI's must demand the immediate full repayment of the borrowed funds.	With Mitigating Measures

¹ Sector Assessment (Summary): Brick (accessible from No. 3 of the linked documents in Appendix 2).

Overall	Medium	With Mitigating Measures
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Source: Asian Development Bank

2. ADB also faces a potential reputational risk of brick sector's inability to fully comply with the safeguard and other standards. The mitigating measures are (i) incorporations of the safeguard and other compliance requirements in Bangladesh Bank's participation agreements with PFIs to ensure sub-borrowers' compliance and (ii) Bangladesh Bank's regular monitoring of the compliance conditions at PFIs and sub-borrowers. In addition, PFIs' compliance systems will need to be in place, and satisfactory to ADB, prior to Bangladesh Bank's first disbursement. Furthermore, ADB will design commercial incentives, such as carbon credit, to reward sub-borrowers who demonstrated satisfactory compliance records. Finally, the project is designed to finance creditworthy, larger, model brickfields that could demonstrate exemplary compliances in environmental, social, labor, and gender standards, thereby minimizing ADB's reputational risk.