

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Summary of Risks and Mitigation Measures

Risk Description	Risk Assessment	Mitigating Measures or Risk Management Plan
1. Financial Management		
(i) AMG and APMO lack experience in withdrawing ADB loan proceeds, which could result in delays in disbursements and construction early on.	Medium	<p>AMG and APMO will set up clear institutional arrangements, recruit qualified staff, and build capacity through training sessions provided by the loan implementation consultants and the PRCM.</p> <p>The loan implementation consultants will include a financial specialist to provide start-up support to AMG and APMO. The specialist will conduct training on ADB's disbursement procedures and project accounting requirements.</p> <p>XPMO will ensure that APMO and implementing agencies with experience from other ADB projects in XUAR share their knowledge.</p>
(ii) High debt levels of AMG may threaten the financial sustainability of the project components and result in late provision of counterpart funding.	Medium	AMG will provide covenanted assurances for timely provision of counterpart funding. Direct coordination with the Xinjiang Finance Department and Akesu Prefecture Financial Bureau.
(iii) AMG may encounter problems due to a lack of familiarity with handling foreign exchange and associated interest rate risks.	Medium	<p>Loan implementation consultants will provide capacity-building support to strengthen management of foreign exchange and interest rate risks.</p> <p>XPMO will provide support and ensure knowledge sharing with other implementing agencies and PMOs.</p>
(iv) Internal audit function is inadequate.	Medium	Several forms of government audit will be applied under the overall oversight of XUAR Audit Bureau.
(v) Funds flow: inadequate ability to interpret and adhere to ADB guidelines for disbursement and withdrawal of project funds by executing and implementing agencies	Medium	<p>Executing and implementing agencies will liaise regularly with ADB to ensure that ADB guidelines are followed.</p> <p>Loan disbursement performance will be monitored through multi-level interagency coordination.</p> <p>Regular training on ADB's disbursement policies will be provided. Separate accounts for all project components financed by ADB and the government will be maintained and audited.</p> <p>Direct payment procedures will generally be used for large civil works, equipment contracts, and consulting service contracts.</p>
(vi) Failure to provide regular financial reports	Medium	<p>The executing agency will be required to submit comprehensive progress reports (including financial statements) to ADB twice a year.</p> <p>Project financial reporting will have to comply with PRC Ministry of Finance requirements. Xinjiang will oversee compliance.</p> <p>Loan implementation consultants will support the preparation of financial management reports.</p>
2. Procurement		
(i) Akesu lacks experience with	Medium	A tendering company with ADB and World Bank

Risk Description	Risk Assessment	Mitigating Measures or Risk Management Plan
procurement under ADB-funded projects.		<p>experience has been engaged to assist the APMO in all procurement activities.</p> <p>Accredited experts will be used for bid evaluations.</p> <p>Training in ADB procurement procedures will be provided during project preparation and via the loan capacity-building component.</p>
(ii) Lack of monitoring mechanism to oversee the procurement process	Low	Effective supervisory and monitoring arrangements are already in place through the involvement of XPMO.
(iii) Contract variations may occur frequently during project implementation if detailed designs and bills of quantities have been poorly prepared.	Medium	<p>AMG will engage experienced design institutes for preliminary engineering designs and detailed engineering designs of the component parts.</p> <p>APMO will engage (i) loan implementation consultants through advance contracting and (ii) adequate support from local design institutes.</p>
(iv) Nonperformance by contractors or suppliers	Medium	Performance guarantees will be used, and past performance will be investigated and/or monitored. Loan consultants and/or PRCM will provide advisory support when potential problems are identified.
3. Governance and Corruption Risks		
(i) Political interference, conflicts of interest, and nepotism may affect project design, procurement, and implementation, leading to poor-quality components.	Medium	<p>ADB procurement guidelines and procedures will be used.</p> <p>Local supervision and anticorruption departments at city and Xinjiang level will be involved.</p> <p>XPMO will exercise adequate supervision.</p> <p>Transparency in the procurement process will be increased by proactive information disclosure and grievance redress mechanism.</p>
(ii) Advanced contracting is delayed, and the civil works and goods involved are changed to domestic funding to meet the scheduled timeline	Medium	<p>Request for approval of advanced contracting prior to management review meeting.</p> <p>Assurance from APMO on the readiness of detailed design documents and domestic approvals for the procurement of the advanced contracting packages by May 2015.</p> <p>Prepare alternative replacement for the advanced contracting packages.</p>
(iii) Lack of clarity in responsibility for anticorruption measures	Medium	While overlaps undoubtedly exist, the national focus on identifying and addressing corruption is likely to result in an investigation of any possible corruption. ADB contracts will contain clauses to clarify the responsibilities of and consequences for contractors in case of corruption.
(iv) Failure to enforce anticorruption measures	Medium	<p>The government has introduced an integrity program that targets prevention and punishment.</p> <p>The loan capacity-building program will include the strengthening of governance mechanisms.</p>
(v) Lack of transparency	Medium	<p>Loan conditions will promote greater transparency.</p> <p>Government officials in the PRC are required to declare personal and family wealth.</p>

Risk Description	Risk Assessment	Mitigating Measures or Risk Management Plan
4. Project Management and Operation Capacity		
(i) Inadequate staffing for APMO	Medium	AMG will provide assurance for providing adequate financial and human resources to APMO.
(ii) Lack of project coordination between agencies	Medium	XPMO will receive project monitoring support from loan implementation consultant.
(iii) Construction of the Zheneng Thermal Combined Heat and Power Plant is delayed, so the plant cannot supply hot water to the newly developed district heating network.	Medium	ADB will closely monitor the power plant construction. Existing Xukuang Thermal Combined Heat and Power Plant with total capacity of 2x200 megawatt could meet expected heat demand until 2020.
(iv) Delays in project implementation caused by land acquisition procedures and challenges	Medium	Results from a detailed measurement survey will be updated if the design changes. Affected persons' compensation funding will be made available early. Resettlement plans will be strictly complied with. The development of resettlement sites and replacement housing and shops will be expedited. External resettlement monitoring will be engaged through advance contracting. Resettlement specialist in the loan implementation consultancy will provide training and support.
(v) Unsustainable operations and maintenance of physical components due to lack of capacity or budget, and delay in tariff increase	Medium	Support for management improvement, such as road maintenance, traffic management, and wetland management Capacity building and institutional strengthening support for prudent operational practices and trainings Assurances on staff resources, operation, and maintenance budget provisions Detailed financial sustainability assessment has been undertaken.
(vi) Failure by the public to change behavior	Medium	Community-based campaigns on road-safety and environmentally friendly behavior will be conducted.
(vii) Difficulties in complying with ADB procedures	Medium	Early mobilization of tendering agent and implementation consultants to provide technical support, combined with ongoing training
Overall	Medium	

ADB = Asian Development Bank, AMG = Akesu Municipal Government, APMO = Akesu project management office, PMO = project management office, PRC = People's Republic of China, PRCM = PRC Resident Mission (of ADB), XPMO = Xinjiang project management office, XUAR = Xinjiang Uygur Autonomous Region.

Source: Asian Development Bank.